

# Outsourcing Empire: International Monetary Power in the Age of Offshore Finance

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Offshore finance allows foreign banks to create US dollars under the laws of an offshore jurisdiction. How and why does this affect international monetary power? Conceptually, I argue that offshore finance bifurcates across borders the shared power of the state and banks to create money, combining the US dollar with mostly English law. Empirically, I demonstrate that more US dollars are created offshore outside US jurisdiction than onshore within it. Offshore finance increases liquidity, at higher risk, and leads to a cross-border entanglement of issuing country, offshore financial centers, borrowers, and global banks. In short, offshore finance changes the power inherent in money. Consequently, international monetary power has become the ability to get access to offshore dollars in combination with the capacity to determine international liquidity and to set, select, or circumvent the related rules. It is constrained by the hierarchically organized social credit relations that money consists of. The international monetary power of the United States has become an instance of indirect rule with global banks having been delegated the prerogative of US dollar creation. As is common with indirect rule, it entails a difficult balancing act between geographical reach and centralization of power.

Las finanzas en el extranjero permiten a los bancos extranjeros crear dólares estadounidenses bajo las leyes de una jurisdicción extranjera. ¿Cómo y por qué afecta esto al poder monetario internacional? De manera conceptual, argumentamos que las finanzas en el extranjero dividen el poder compartido del Estado y los bancos a través de las fronteras para crear dinero, combinando el dólar estadounidense con, principalmente, la ley inglesa. Demostramos, de manera empírica, que se crean más dólares estadounidenses en el extranjero fuera de la jurisdicción de los Estados Unidos que a nivel nacional dentro de ella. Las finanzas en el extranjero aumentan la liquidez, con mayor riesgo, y provocan un solapamiento transfronterizo entre el país emisor, los centros financieros extranjeros, los prestatarios y los bancos mundiales. En resumen, las finanzas en el extranjero cambian el poder inherente al dinero. En consecuencia, el poder monetario internacional se ha transformado en la capacidad de obtener acceso a dólares en el extranjero en combinación con la capacidad de determinar la liquidez internacional y de establecer, seleccionar o eludir las reglas relacionadas y está limitado por las relaciones de crédito social organizadas jerárquicamente en las que consiste el dinero. El poder monetario internacional de los Estados Unidos se ha convertido en un ejemplo de gobierno indirecto ya que se ha delegado en los bancos globales la prerrogativa de la creación de dólares estadounidenses. Como es común en los casos de gobierno indirecto, esto implica un difícil acto de equilibrio entre el alcance geográfico y la centralización del poder.

La finance offshore permet aux banques étrangères de créer des dollars américains en vertu des lois d'une juridiction étrangère. Comment et pourquoi cela affecte-t-il le pouvoir monétaire international ? Sur le plan conceptuel, j'affirme que la finance offshore divise le pouvoir de création monétaire partagé par les États et les banques en passant les frontières et en combinant le dollar américain au droit anglais, majoritairement. Sur le plan empirique, je démontre que plus de dollars américains sont créés sur des îles, en dehors de la juridiction américaine, que sur le continent, à l'intérieur de celle-ci. La finance offshore accroît la liquidité, à un taux de risque plus élevé, et aboutit sur un enchevêtrement transfrontalier de pays émetteurs, de centres financiers offshore, d'emprunteurs et de banques mondiales. En bref, la finance offshore modifie le pouvoir inhérent de l'argent. Par conséquent, le pouvoir monétaire international est devenu la capacité à accéder à des dollars offshore, combinée à la capacité de déterminer la liquidité internationale et de définir, sélectionner ou contourner les règles s'y afférents. Il se trouve limité par les relations de crédit social hiérarchisées que l'argent suppose. Le pouvoir monétaire international des États-Unis est devenu un exemple d'Indirect Rule, les banques mondiales s'étant vues déléguer la prérogative de création de dollars américains. Comme souvent avec ce mode d'administration, cela implique la mise en place d'un équilibre délicat entre portée géographique et centralisation du pouvoir.

## Introduction

Global banking has gone through fundamental changes in past decades. One of the driving forces behind that transformation has been offshore finance. It allows foreign banks to create another state's currency (Mehrling 2011; Murau, Rini, and Haas 2020). For instance, Deutsche Bank in the City of London can give a US-dollar-denominated loan to a Brazilian firm. The jurisdictional mismatch involved in the transaction allows avoiding the regulation of any one state (Sharman 2010; Binder 2023, 12–42). Theoretically, any national currency can be created offshore. In practice, it is mostly the US dollar. Given the US dollar's international

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I borrow the notion of outsourcing empire from Phillips and Sharman (2020).

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dominance, the question arises how and why its offshore creation affects international monetary power.

The article argues that offshore finance alters money, thereby affecting the *nature* and *distribution* of international monetary power. In the age of offshore finance, the international monetary power of the United States has become an instance of indirect rule with offshore financial centres (OFCs) and global banks having been delegated the prerogative of money creation. As is common for indirect rule, it entails the difficult balancing act between geographical reach and centralization of authority. These changes are so fundamental that we must revisit the notion of international monetary power.

I develop the argument as follows. In the “Theory of International Monetary Power: A Critique” section, I engage with Benjamin Cohen’s (2006, 2013, 2015, 2017) work, the most prominent theorist of international monetary power. Two points of critique stand out—one conceptual, the other empirical. Conceptually, the theory of international monetary power is rooted in a *functional* understanding of money as a means of exchange, unit of account, and store of value. With a functional lens, however, money’s innate political qualities are invisible. To grasp the changes in global banking, we must instead move to an *ontological* notion of money (Lawson 1994). Understanding money<sup>1</sup> by what it is—a hierarchically organized social credit relationship—uncovers the power inherent in money and the structures that constrain it. Empirically, the theory of international monetary power simply ignores offshore finance.

Addressing the conceptual challenge, the “Money in the Age of Offshore Finance” section approaches money from the perspective of credit-money theory (Innes 1913; Keynes 1930; Ingham 1998; Minsky [1986] 2008). I argue that money’s ontological status is determined by two central characteristics: its nature as credit and as hierarchical social relationship. Closely related to its ontological status are money’s two inherent sources of power. These are, first, the ability to overcome resource constraints and, second, the power to create money. I also discuss the notion of offshore finance, as different meanings have emerged in recent scholarship.

In the “Empirics: Scope and Substance” section, the paper turns to the empirics.<sup>2</sup> A quantitative sample analysis assesses the scope of offshore money creation, while a qualitative case study of Brazil illustrates the effects of the cross-border hierarchical credit relationships it forges. Brazil is one of the largest users of offshore dollars (McCauley, McGuire, and Sushko 2015, 32–3), and thus aptly complements the perspective of the United States in the system. The empirical analyses are respectively based on data from the Bank for International Settlements’ (BIS) locational banking statistics (LBS), and participant interviews conducted during field research. The sample analysis reveals that more US dollars are created offshore, outside the regulatory purview of the United States, than onshore within it.

Combining the conceptual considerations and empirical observations, the “Offshore Money Power” section analyzes how the advent of offshore finance has modulated money’s ontological status and intrinsic power sources. Combining the unit of account of the United States with foreign laws and offshore jurisdiction, offshore finance bifurcates credit

relations and the public–private power to create money across borders. Enduring hierarchical structures of connectivity, coupled with a growing variety of roles and rules, characterize the underlying social credit relationships. Offshore money triggered a multidirectional move away from the alignment of nation and currency (see also Murau/van’t Klooster 2022), thereby denationalizing the US dollar. Consequently, relative to onshore credit relations, offshore dollars are based more on trust than on the enforceability of claims. Furthermore, offshore dollars produce more liquidity at higher risks and introduce a new element of money power: the ability to determine who gets to avoid the rules. That is, it affords OFCs and global banks rule-setting power. Finally, offshore money provides borrowers with the possibility to overcome domestic resource constraints while being able to choose from different sets of conditions.

Building on the insights gathered in the “Money in the Age of Offshore Finance” sections through “Offshore Money Power,” the “International Monetary Power Revisited” section returns to the theory of international monetary power. Juxtaposing Cohen’s key premises with offshore money power, I argue that as trade in financial products has surpassed that in real goods (Borio and Disyatat 2011, 1), the balance of payments is no longer the key battlefield of international monetary power. Instead, in the age of offshore finance, international monetary power has become the ability to overcome domestic resource constraints by getting access to offshore dollar in combination with the capacity to determine international liquidity and to set, select, or circumvent the related rules. This capacity is constrained by the hierarchically organized social credit relations that money consists of. International monetary power unfolds on a continuum from relative autonomy, to influence, to a means of coercion. It varies between times of financial stability and volatility and with an actor’s role—as issuer, creator, OFC, or borrower—in the system.

This altered nature of international monetary power has implications for its distribution. Compared to a hypothetical world without offshore finance, the United States can extend monetary autonomy in good times because with the US dollar’s denationalization come loosened credit relationships. In times of financial turmoil, it is reduced, if not eclipsed, because of the sheer volume of offshore money combined with feedback loops into the domestic economy. Additionally, loose credit relationships and OFCs’ infrastructural power make the United States’ capacity to influence others more indirect. Nevertheless, it remains the only country that can use its unit of account as a means of coercion—though weaponizing offshore money undermines the trust that brings it into existence in the first place. Even at the top, international monetary power is constrained.

Next, borrowers and OFCs have increased international monetary power in times of financial stability. In crises, their subordinate position in the international currency hierarchy turns out to be sticky. They depend on the United States’ support for stabilizing the system. Finally, global banks—in cooperation with central banks—realize a net gain in international monetary power. In good times, they have rule-setting power and determine who can use regulatory loopholes. In crises, their globally interlocked balance sheets allow them to deflect the costs onto others. The United States’ authority is entwined with global banks across borders.

In the “Conclusion: Outsourcing Empire” section, the paper concludes by drawing a historical analogy between this public–private entanglement of global banks with the United States and the hybrid nature of company-states (such as the East Indian Company) of the early modern period.

<sup>1</sup>With money, I mean modern money as it emerged in England in the 1690s (Desan 2013).

<sup>2</sup>The data underlying this article are available on the ISQ Dataverse at: <https://dataverse.harvard.edu/dataverse/isq>.

Delegating certain sovereign prerogatives, imperial European powers “outsourced empire,” as Phillips and Sharman (2020) observe. They bridged the gap between ambition and actual capabilities via indirect rule. Likewise, offshore finance can be seen an instance of outsourcing monetary empire.

### The Theory of International Monetary Power: A Critique

For thinking about international monetary power, Benjamin Cohen’s work has been foundational. I summarize his theory around four essential theoretical statements (Cohen 2006, 2013, 2015, 2017):

First, international monetary power is a country’s ability to manage external economic imbalances by delaying necessary adjustments and/or shifting the related costs onto others. The balance of payments, measured in the current accounts, represents the key battlefield of monetary power. Second, monetary power is a matter of autonomy. It manifests itself in unconstrained monetary policy and independence from international lenders. Third, monetary power is a function of the internationalization of a country’s currency, measured by its share in international financial markets, in trade, and in central bank reserves. Fourth, because states issue currency, monetary relations are state-to-state relations.

In the past decades, many scholars have engaged with Cohen’s work. Within this discourse, we can identify three elements of agreement. For one, the debate is grounded in a *functional view* on money. Scholars understand money by what it is used for—as a means of exchange, unit of account, and store of value. Next, there is the shared view that the international demand for a currency determines a currency hierarchy. As it is beneficial to be at the top, states engage in currency competition (Strange 1971; Kirshner 1997; Norrlof 2014). From which follows finally, that monetary power is relational in the sense that the action of one state influences that of another (Andrews 2006), or that one actor’s gain is another’s relative loss (Norrlof 2014; Krampf 2019). Beyond this common core, scholars have suggested different extensions to Cohen’s theory. They advocate to complement the macro-level analysis with micro-level factors such as economic interests and identities (Helleiner 2006), or with domestic monetary regimes and institutions (Walter 2006; Krampf 2019). Other authors have highlighted the importance of private actors, particularly foreign investors, and banks (Hardie and Maxfield 2016; Hardie and Thompson 2021). Finally, they suggest moving beyond the focus on the current account (especially trade and debt) to include the capital account and a state’s external balance sheet into the analysis of international monetary power (Vermeiren 2014; Hardie and Maxfield 2016; Norrlof 2017; Krampf 2019).

However, the most profound contestation within these debates pertains to the notion of power. This is unsurprising, of course, as power is an essentially contested concept (Gallie 1956) in international studies. Regarding monetary power, the debate revolves around three different meanings. First, there is Cohen’s (2013, 160–62) notion of monetary power as the autonomy to act unconstrained by other actors or external circumstance (see also Schwartz 2015; Hardie and Maxfield 2016; Krampf 2019). The second meaning of monetary power highlights the capacity to influence the behavior of others (Andrews 2006) or to provide a globally attractive currency (Norrlof 2014). The third meaning considers international monetary power as a possible means of

coercion, i.e., an instrument to achieve security-related goals (Kirshner 1997; Farrell and Newman 2019). These debates have contributed toward a more nuanced understanding of international monetary power. However, they also have omitted two important and interrelated aspects for theorizing it—one is conceptual, the other empirical.

Conceptually, a functional view on money produces the paradoxical situation where scholars analyze the power money bestows in international affairs, while simultaneously subscribing to a concept of money that ignores its innate political qualities. In short, scholarship concentrates on theorizing power at the expense of theorizing money.

Empirically, there is growing evidence that offshore finance is structurally important for the international political economy. Studies demonstrated the relevance of the offshore dollar for the financial integration of Anglo-America (Green 2020), for the Financial Crash in 2008 (Goldberg, Kennedy, and Miu 2010; Tooze 2018; Hardie and Thompson 2021; Thompson 2022), for the entanglement of public and private power across borders (Braun, Krampf, and Murau 2020; Binder 2023), and for the effectiveness of bailouts by the IMF (Kern et al. 2023). Offshore finance scholars have also reconceptualized the international monetary system as a global credit system of interlocking balance sheets (Murau, Rini, and Haas 2020) and argued that it alters states’ monetary sovereignty (Murau and van’t Klooster 2022). Thus far, none of these insights found their way into theorizing international monetary power.

Addressing these conceptual and empirical gaps, we must theorize money and the power inherent to it. The next three sections do so.

### Money in the Age of Offshore Finance

To appreciate the political qualities of money, an ontological approach is insightful (Lawson 1994). It is concerned with what money *is* as opposed to what it *does*. It allows us to uncover the politics of money onshore as the background for carving out what the advent of offshore finance did to it and hence to the notion of international monetary power.

#### *Money’s Ontological Status and Innate Power Sources*

The 2008 Financial Crash and central banks’ response to it have reinvigorated credit-money theory in IPE scholarship (Mehrling 2011; Dutta et al. 2020). In this line of monetary thought, two tenets are central: money as credit and money as a hierarchically structured social relationship.

The first tenet, modern money as credit, highlights that money is a promise of the issuer to pay back and thus an asset for the user. It is a means to account for and to settle debt in a measure of abstract value (a unit of account) (Innes 1913; Keynes 1930). Among credit theorists, Ingham (1998, 2004) most pithily made the case that from money’s ontological status as credit follows that money *is* a social relation—specifically: a debt relation. He writes: “Credit networks denominated in a money of account were used as early as 2000 BC in Babylon, but the general use of transferable debt is specific to capitalism. Debt is used as means of payment to an anonymous third party. A’s IOU,<sup>3</sup> held by B, is used to pay C” (Ingham 2004, 39).

Today, these debt relations are codified in law. As Pistor (2020) explains, property rights determine ownership, and regulate priority of creditors in case of competing claims. Further legal provisions ensure the durability and univer-

<sup>3</sup>I owe you.



sality of claims as well as their convertibility into sovereign money. Pistor (2020, 6) refers to this set of claims, rights, and regulations as “legal code” underpinning financial transactions. To be effective, claims and their attributes must be enforceable.

That is, for general and transferable debt relations to work, state authority is a necessary condition. By accepting tax payments exclusively in the unit of account that the state issues itself, the state ensures the validity of the money in circulation (Knapp 1924; Schumpeter 1954; Ingham 2004). The stability of a state’s money derives from its power to tax its citizens (Schumpeter 1954), to determine its own debt as unit of account by decree (Kindleberger 1984), and to guarantee the enforcement of both via its monopoly of violence. Money is a social relation “suspended between trust and violence” as Eich (2022, 6) emphasizes. The acceptability of money hinges upon credible promises to repay debt, which work better in constitutionalist than in autocratic regimes (Kindleberger 1984; Calomiris and Haber 2014). In short, state authority ensures that its promise to pay is accepted (Bell 2001).

The second tenet, money as a hierarchically structured social relationship, goes back to the insight that credit relations display a simultaneity of formal equality and vertical stratification characteristic for hierarchy (Mattern and Zarakol 2016, 624). In the hierarchy of money, we have a differentiation between money forms. The two principal forms of money are, in Ingham’s nomenclature (2004, 30) “sovereign money” and “near money.” Sovereign money is the state’s, near money the banks’ promise to repay. The state creates sovereign money by going into debt. There is no other way: the issuing of notes shows as a liability on the government’s balance sheet. For it to work, an economic actor—private or corporate—must be willing to hold that government debt so that the notes show up as an asset on their balance sheet (Bell 2001; Ingham 2004; Minsky [1986] 2008).

Near money entails the promise to pay back *and* the promise to be transferable into sovereign money in the future. Commercial banks create it through crediting a customer’s account. Most money comes into existence this way (McLeay, Radia, and Thomas 2014, 14–27). Near money becomes monetized once the central bank, as lender of last resort, takes private liabilities onto its balance sheet. It is this potential for monetization that allows banks to create money, and that ranks it below sovereign money. The state’s promise to pay is the most secure credit because it is backed by tax revenue and by the state’s monopoly power of decreeing its debt as legal tender (Kindleberger 1984; Ingham 1998). Bank deposits, loans, bonds, securities, and other financial instruments follow in the hierarchy. Differential rates of interest, expressing the risk of broken promises, organize the hierarchy (Ingham 2004, 107–33). The state provides authority, the banks liquidity. From money’s ontological status as a hierarchically organized credit relationship follows two principal sources of power: the power to overcome resource constraints (Keynes 1930) and the power to create money (Minsky 1993).

The power to overcome resource constraints is rooted in the fact that any economic activity necessitates raw materials, labor, land, know-how, etc. Consider a simple example from agriculture. To cultivate grain, a farmer needs seeds and tools. Yet, the income from their economic activity to buy these inputs materializes only after the harvest has been sold months later. To overcome these resource constraints, credit is essential. It allows acquiring the resources needed for today’s economic activity and paying for it in the future.

The power to create money entails determining how much money there is, who gets access to it, and under which conditions (Calomiris and Haber 2014, 27–59). Put differently, the power to create money consists of two components: liquidity and rule-setting. In the contemporary world, that power is shared between states and banks (Strange 1994, 99–130). Figure 1 summarizes the argument.

### *Offshore Promises*

The next step in the endeavor to understand the implications of money in the age of offshore finance on international monetary power is to appreciate that there are two different notions of offshore money in the literature—one that is mostly concerned with liquidity and one that is mostly concerned with rule-setting.

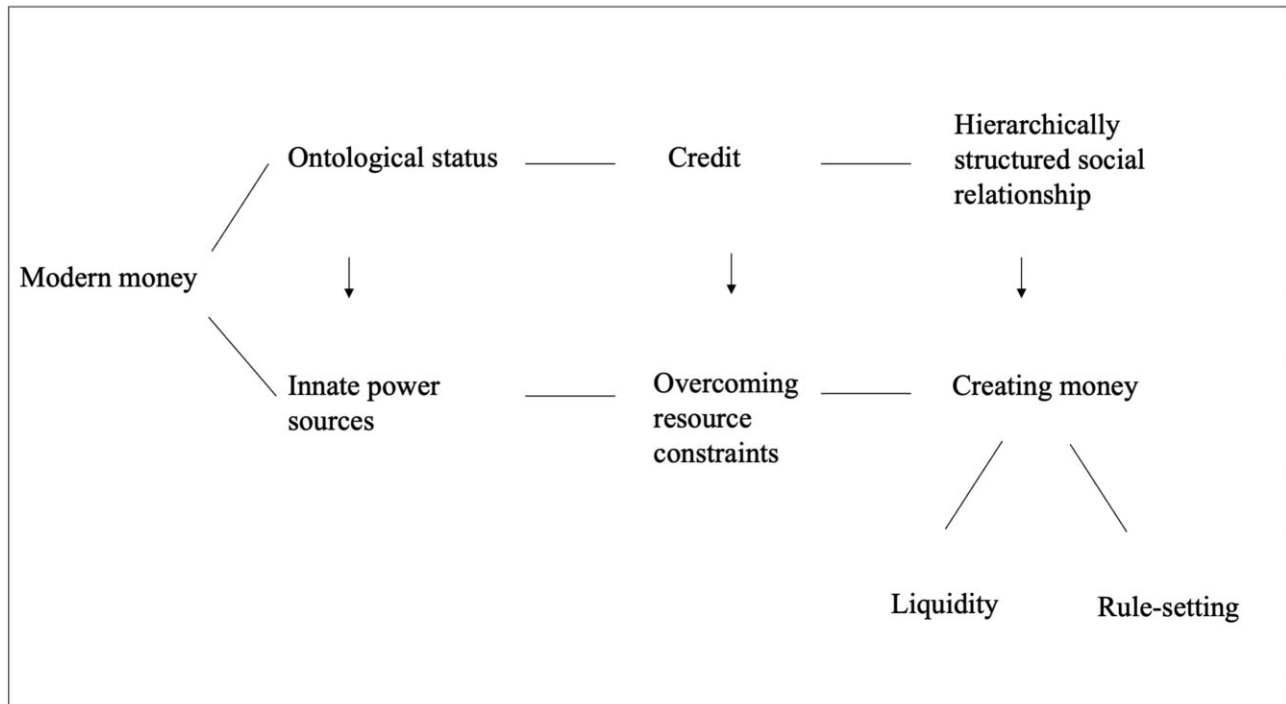
The liquidity view considers “offshore” as synonymous with “foreign”: all transactions denominated in US dollar taking place outside the United States are offshore dollar (He and McCauley 2012; Mehrling 2015; Murau, Rini, and Haas 2020).

The rule-setting view, in contrast, emphasizes that the business model of OFCs is precisely to have no or low levels of regulation (Palan 1998; Picciotto 1999). US dollar created in OFCs are outside US jurisdiction, and they are outside the regulation of any one state. This practice has its roots in the Eurodollar markets of the 1950s and the breakup of the British Empire (Schenk 1998; Burn 1999; Ogle 2017). The early Eurodollar business of the City of London was made possible by the Bank of England accepting a new accounting technique—a separate book for “offshore business,” i.e., all those transactions that took place exclusively between non-residents. As such, these offshore banking services would take place outside of British financial regulations (Burn 1999; O’Malley 2015). Creating US dollar outside the United States meant that these transactions were also outside US financial regulations. The underlying legal code was purposefully designed to keep the financial flows opaque (Sharman 2010; Altamura 2017). Once established, the practice spread from the City of London to other OFCs (Hampton 1996). It became the backdoor to the rule-based monetary order.

In terms of the power to create money, the difference in perspective matters. While US dollar in both perspectives are “offshore” seen from the United States and affect global US dollar liquidity, only those created in OFCs come with the private power to determine who can circumvent the rules, not least those set by the United States. To deal with this “conceptual confusion” (Collier et al. 2006, 211) for the purpose of this paper, I consider US dollar created in the United States as “domestic” or “onshore” US dollar and distinguish “offshore dollar” or “Eurodollar” by booking location. The booking location can be either an OFC or any other country (AOC), i.e., all booking locations that are neither the United States nor in an OFC. Figure 2 systematizes the terminology.

### **Empirics: Scope and Substance**

Next to the concept of offshore dollar, its scope matters too. For if it were small, omitting offshore finance in theorizing international monetary power would be a matter of parsimony. If it was large, it would be a matter of neglect. This section therefore quantitatively assesses the scope of offshore finance in a sample analysis. In addition, it assesses qualitatively the substance of offshore money from the borrower’s



**Figure 1.** An ontological perspective on modern money.  
*Source:* own illustration.

Unit of account/ 'descriptor'	US dollar		
Seen from United States	Onshore	Offshore	
Booking location	United States	Offshore financial centre (OFC)	All other countries (AOC)
Term	Domestic or onshore dollar	Eurodollar or offshore dollar	

**Figure 2.** The US dollar—one “descriptor” different “things.”  
*Source:* own illustration.

perspective via a case study of Brazil, complementing the better researched perspective of the United States.

*Sample Analysis*

To assess the importance of offshore finance, I create a ratio of offshore to onshore US dollar. The estimate reflects the different notions of offshore by differentiating between OFCs and AOCs as booking locations for offshore claims and liabilities. I set the sum of country *y*'s offshore dollar claims and liabilities in relation to its claims and liabilities vis-à-vis the United States. I create two samples. One covers the five largest advanced economies in terms of exposure to offshore finance. These countries are Britain, Germany, France, Japan, and Switzerland. The second sample covers

the three largest emerging economies: Brazil, South Korea, and Greece.<sup>4</sup>

Measuring Eurodollar is no easy task. The related statistical problems have existed since its invention (BIS 1964, 127). All macro-economic statistics suffer from the related obscurity (McCauley, McGuire, and Sushko 2015; Linsi and Mügge 2017; Damgaard, Elkjaer, and Johannesen 2019). Despite these issues, from the perspective of international monetary power, the BIS LBS is the best available dataset as it measures *gross* flows, making visible money creation via loans across borders.<sup>5</sup> Comparing the sample countries

<sup>4</sup>Countries in the first sample started reporting in 1977, those in the second since the early 2000s. France reports currency breakdowns only since 2007.

<sup>5</sup>See the Supplementary Appendix for the assessment approach and its limitations.

allows inferring empirical insights for theorizing offshore money power in the “Offshore Money Power” section.

**Panel 1** illustrates the offshore dollar (chequered and striped area) to onshore dollar (dotted area) claims and liabilities for each sample country as a share of 1. Offshore liabilities represent money created offshore via bank loans. Offshore claims are country *y*’s deposits held in offshore accounts. Claims and liabilities together represent a sample country’s exposure to offshore banking.<sup>6</sup> Next to analyzing overall exposure to offshore banking, having the data on both sides of the balance sheet also helps to determine a country’s role as net-lender or net-borrower in the offshore markets, which is relevant given the dominant understanding of international monetary power as a matter of balance of payments.

**Panel 1** reflects that in 2023, the last point of observation, in all sample countries, offshore dollars outweigh onshore dollars. The ratio ranges from 2:1 in the cases of Britain, Brazil, and Japan over 4:1, 6:1, and 9:1 for South Korea, France, and Switzerland, respectively, to a staggering 10:1 in the case of Germany. Greece almost exclusively does offshore dollar banking.<sup>7</sup> Distinguishing between different booking locations reveals that in 2023 offshore dollar created in OFCs is more important than those created in AOC, except for Britain.

Seen from the perspective of money’s innate power sources, these results reflect that most sample countries overcome their US dollar resource constraints offshore. Economic actors are in search for US dollar liquidity offshore, and they prefer accessing it in OFCs’ unregulated spaces. Apparently, the ability to circumvent the rules plays a significant role. That is, offshore finance changes who holds the rule-setting power of money creation. As offshore dollars are liabilities of private banks (Mehrling 2015, 311–24), they decide who gets access to offshore liquidity and under which conditions. Creating US dollar offshore means that foreign banks can make these decisions independent from the United States. On top, in conjunction with OFCs, whose business model it is to provide unregulated spaces (Palan 2002, 156), foreign banks can also determine who can avoid the rules, including those of the United States. Second, the same is true for liquidity. As offshore money creation tends to outweigh onshore money creation, it is foreign banks that drive global US dollar liquidity.<sup>8</sup> None of the sample countries thus depends solely on the United States for access to US dollar liquidity.

Beyond the tenets of credit-money theory, **Panel 1** also exposes that, when offsetting offshore claims against liabilities, a country’s account in the offshore dollar markets must not correlate with its balance of payments. Germany, Japan, South Korea, and Switzerland table balance of payments surpluses, yet they hold varying positions in the offshore dollar markets. Germany and South Korea are, as one would expect, net-lenders, while Japan is a net-borrower, and Switzerland has roughly balanced accounts. Brazil, France, Greece, and Britain are deficit countries, and their offshore accounts are equally varied. Brazil and France are net-lenders, while Greece is a net-borrower, and Britain has a balanced offshore account. He and McCauley (2012, 33) made a similar observation for the United States, which did not finance, as was long claimed (e.g., Helleiner 1994, 81–100), its balance of payments deficit in the Eurodollar dollar markets.

Given the large role of money creation in OFCs, **Panel 2** zooms in on them. Disaggregating the LBS data by counterparty country, the panel depicts country *y*’s Eurodollar liabilities in OFCs. This analysis helps to draw inferences about money as hierarchically structured social relationships. **Panel 2** demonstrates that in 2023 for six of the eight sample countries, Britain, or rather the City of London, is the largest offshore counterparty country. The two countries where this is different are Brazil and South Korea. Here local offshore centers—the Cayman Islands and Hong Kong—overtake Britain. In addition, the data shows that European OFCs are relevant participants in the Eurodollar markets and that Asian OFCs, especially Hong Kong and Singapore, are on the rise.<sup>9</sup>

Furthermore, **Panel 2** suggests that offshore finance affects the currency hierarchy. OFCs clearly hold a role in international monetary affairs by providing liquidity, which is more sought after than liquidity from AOC or the United States. Existing scholarship highlights that the currency hierarchy is structured by the level of international demand for different currencies. The US dollar is undisputed at the top of the hierarchy. Other currencies follow suit. However, thus far the role of OFCs in that hierarchy has not been addressed. I come back to this gap in the “International Monetary Power Revisited.”

Finally, **Panels 1** and **2** both reflect that in the age of offshore finance, a US-dollar-denominated credit does not have to include the United States territorially (as booking location), legally (as jurisdiction), or even as counterparty. Economic actors can go into US-dollar-denominated debt without having to have a relationship with the United States. Indeed, for most sample countries, this relationship played an inferior role.

#### *Case Study: Brazil*

To further examine offshore money, I now turn to the case of Brazil. The country is an empirically relevant case—it is among the largest emerging economy borrowers in the offshore dollar markets (McCauley, McGuire, and Sushko 2015, 32–33). Since 1967, Brazil has crafted laws and policies to manage its embeddedness into the offshore dollar system. It is hence an easily traceable case. Brazil’s experiences help to explore the hierarchically organized credit relationships.

The analysis traces Brazil’s engagement with the offshore dollar in historical perspective. It builds on data from semi-structured, open-ended interviews with market participants conducted during field research and on historical literature.

From 1822, the year of Brazil’s independence, to 1994, the year of the introduction of the Brazilian Real, a quick succession of unsuccessful currencies, high levels of inflation, high interest rates, and chronic underbanking characterized Brazil’s monetary affairs (Calomiris and Haber 2014, 415–448). To substitute its limited domestic liquidity, successive Brazilian governments tapped into the offshore dollar markets (Binder 2022, 69–87).

In 1967, the military regime laid, with Resolution 63 and subsequent laws, the legal foundations for banks to engage with offshore finance. The legal framework explicitly encouraged offshore dollar debt. Corporations’ offshore borrowing was subsidized through credits via the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES), a government-owned development bank. Commercial banks could forgo reserve requirements for all transactions conducted under Resolution 63. At the same time, the legal framework

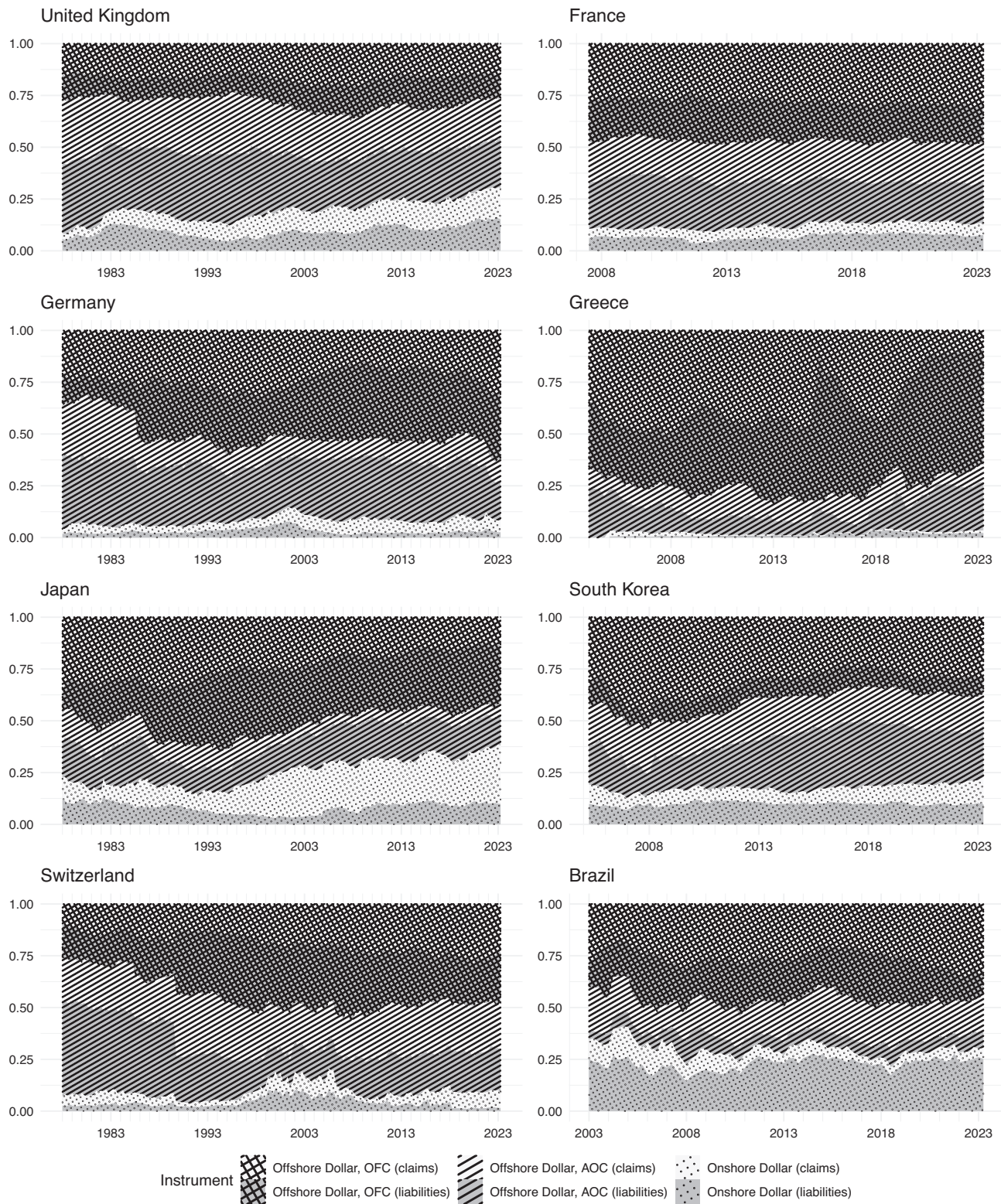
<sup>6</sup>I use offshore banking and offshore finance synonymously.

<sup>7</sup>The ratios are rounded for ease of reading.

<sup>8</sup>See also Aldasoro and Ehlers (2018).

<sup>9</sup>See also Aldasoro and Ehlers (2018).



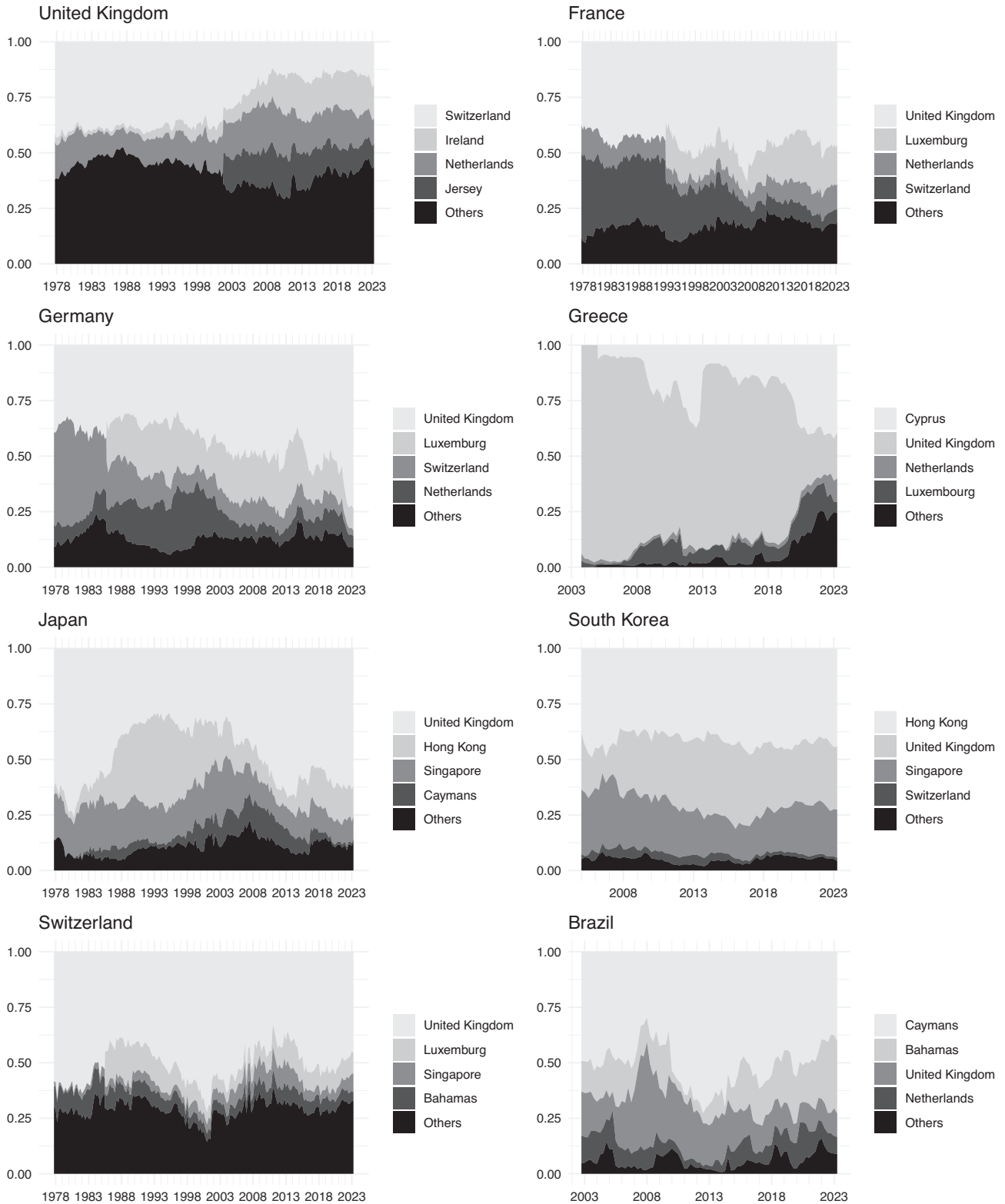


**Panel 1.** Offshore-onshore dollar ratio.  
*Source:* BIS LBS (own calculation and illustration).

managed the risks related to offshore banking. The engagement with the offshore dollar system was limited to a handful of (partially) government-owned and commercial banks. These banks could transfer the related exchange-rate risks onto the central bank’s balance sheet through currency

swaps. The central bank also took on the charges of foreign lenders (Frieden 1987; Alvarez 2021).

Within this legal framework, Brazilian banks started in the 1970s to establish branches abroad. Throughout the decade, 18 Brazilian banks opened shop in New York, tapping into



**Panel 2.** Offshore dollar liabilities disaggregated by OFC (in US dollar billion)  
 Source: BIS LBS (own calculation and illustration).

the onshore US dollar market. Eleven banks started to operate in London, twelve in the Caribbean, particularly in the Cayman Islands and the Bahamas, tapping into the Eurodollar markets (Alvarez 2021, 188).

With the establishment of their foreign branches, Brazil's banks had now four principal ways to access the US dollar, each attached to a different set of rules: They could borrow onshore in New York or offshore through London and other



OFCs. In each location, they could borrow either through their domestic offices under Brazilian regulation or through their foreign branches under foreign regulation. Borrowing through foreign branches in OFCs came with lax regulation.

The Brazilian government's carefully crafted approach to borrowing US dollar under different sets of rules worked. In the 1970s, Brazilian banks could borrow Eurodollar in London at the same rates as Sweden or Denmark (Skidmore 2010, 171–5). Moreover, the loans were simpler and free from the conditionality of the World Bank and the IMF (Altamura 2017). Unsurprisingly, Brazil became one of the largest borrowers in the Eurodollar markets for funding its economic development.

By the early 1980s, Brazilian banks had aggregated onshore US dollar assets in New York of US\$1.9 billion and offshore assets in London of US\$1.3 billion. Given that these numbers exclude borrowing in the Cayman Islands and the Bahamas (Alvarez 2015; 2021), one can assume that by the early 1980s, onshore dollar and Eurodollar exposure was about equal. Notably, Brazilian banks prioritized offshore borrowing through domestic offices under Brazilian regulation over fully unregulated offshore borrowing through foreign offices (Alvarez 2021).

When the 1982 debt crisis hit, the balance sheet of domestic banks engaging in US dollar borrowing was, thanks to the regulations under Resolution 63, resilient to the shock. However, given the interlocked nature of balance sheets between lending banks and Brazil's exposure to sovereign debt of other Latin American countries, the liquidity squeeze in the Eurodollar markets hit Brazilian banks with full force (Alvarez 2021). Brazilian banks' foreign offices had no access to emergency funding through the Fed in New York. As their liabilities were in a foreign currency, Brazilian authorities could do little but take them onto their own balance sheet and default. The mechanism through which Brazil substituted domestic liquidity with Eurodollar liquidity had broken down. Brazil's economy came to a grinding halt.

Despite the high socio-economic and political costs of Eurodollar borrowing, the Brazilian government continued to tie the domestic economy into the offshore dollar system. In response to the crisis, the government devised a division of labor between the domestic and the offshore banking systems. The domestic banking system provided long-term credit mostly to the government. Following the 1994 currency reform, it was increasingly denominated in Brazilian real. The offshore markets provided long-term credit to Brazil's corporate sector in the Eurobond markets.<sup>10</sup> Again, the government incentivized a selected number of large, internationally active firms to borrow offshore.<sup>11</sup> Strict financial regulations and litigation laws in the United States deterred Brazilian corporates from seeking to issue bonds in New York. Going through OFCs allowed them to combine access to US dollars with British commercial law, which is less punishing on the borrower.<sup>12</sup> It also allowed the firms to borrow at lower interest rates<sup>13</sup> and to use the offshore debt for tax planning.<sup>14</sup> The export-oriented development and oil revenues helped the government to build up US dollar reserves, which it used to backstop private offshore dollar borrowing (Binder 2023, 115–48). Since the early 2000s,

the ratio of onshore to offshore banking has been about 1:3, whereby offshore dollars from OFCs made up two-thirds of all offshore banking (Panel 1). The locations of offshore banking have remained, since the 1970s, the Caymans Islands, followed by the Bahamas, and London (Panel 2).

Despite these continuities, the 2008 Financial Crash played out differently than the 1982 crisis. This time, Brazil's central bank was ready to respond. A combination of capital controls, domestic swap lines, and participation in the Fed's central bank swaps stabilized Brazil's financial system (Allen 2013; Chamon and Garcia 2016). By 2009, when credit was still short in the United States, offshore dollar liquidity flowed freely to Brazil.<sup>15</sup>

From historically tracing Brazil's engagement with the offshore dollar system, we can infer three insights on the specificities of offshore money.

First, the analysis reveals that in times of financial stability, the offshore dollar has helped the Brazilian governments to overcome resource constraints set by domestic financial circumstances. The Brazilian governments of the 1960s and 70s could borrow at better conditions in the Eurodollar markets than either onshore in the United States or through the IMF. The debt came at lower rates and with no political strings attached. Likewise, since the 1990s, offshore borrowing has allowed Brazilian multinational corporations to overcome the constraints of a shallow domestic banking system. In hard times, however, the ability to navigate the complex interdependence forged by the cross-border credit relationship determines whether the gains from the good times can be preserved. Offshore dollar borrowing must be backstopped with domestic monetary measures and via the Fed's swap lines. Absent these mechanisms, the 1982 crisis had turned into a socio-economic disaster. In 2008, the backstop worked and avoided a similar fallout (Binder 2023, 115–48).

In times of financial stability, the rules are followed as codified by the law underlying each financial transaction.<sup>16</sup> It is in times of financial crises that the legal code behind offshore money creation becomes vital. It clarifies which creditors can extend their claims across space and who can transfer offshore near money into sovereign money. Relying on trust rather than violence, no sovereign alone—the United States, the offshore jurisdiction, or Brazil—can enforce the claims (Krasner 1999, 127–51). The code becomes negotiable: past promises get contested on the ground of today's conditions. Borrowers aim to limit their losses. Creditors recognize their interest in the borrowers' survival. The issuer seeks to avoid domestic spillover (Flores and Pénet 2021, 1–14). What are private liabilities in good times become (partially) monetized via the state's balance sheet in bad times. Recognizing the temporality of money makes visible that state authority—domestically and that of the United States—becomes indispensable for maintaining credit relationships and for negotiating the rules of who must pay for the fallout in times of financial fragility.

Second, the rule-setting power of offshore money creation entails to determine who gets access to credit, at which conditions, and who gets to circumvent the rules. These powers are bestowed to the sovereign of the unit of account and the liquidity creating banks. The case of Brazil provides two insightful differentiations to these observations.

<sup>10</sup>Author's interview with banker, Rio de Janeiro, 2017.

<sup>11</sup>Author's interview with financial expert, Rio de Janeiro, 2017; with financial journalist, São Paulo, 2017.

<sup>12</sup>Author's telephone interview with investment banker, 2017; with tax lawyer, London, 2017; with tax lawyer, Mexico City, 2015.

<sup>13</sup>Author's interview with BNDES employee, with financial market expert, Rio de Janeiro, 2017.

<sup>14</sup>Author's interview with tax lawyer, Rio de Janeiro, 2017.

<sup>15</sup>Author's interview with financial market expert, Mexico City, 2015. Author's telephone interview with investment banker, 2017.

<sup>16</sup>This applies only to transactions that are not illegal. Offshore financial centers are often used for illegal activities such as money laundering, sanctions busting, financing of terrorism, and organized crime.

For one, the possibility of offshore borrowing leads to a multiplication of rules (those applicable in the United States, in OFCs or in AOCs) and roles (next to the issuers and users of money, there are now also the offshore jurisdictions and foreign banks). This multiplication offers borrowing governments, corporates, and banks the opportunity to choose from different sets of rules and conditions. Furthermore, as the Brazilian government has done since the late 1960s, the borrowing state can also determine who is allowed to overcome its resource constraints offshore and under which conditions. The Brazilian case suggests that economic actors consciously opt for different sets of rules. Since the early 2000s, Brazilian actors favored offshore over onshore US dollar and within offshore dollar, those issued in OFCs (see [Panel 1](#)).

Third, the qualitative assessment demonstrated that the currency hierarchy is, as one would expect, persistent. The Brazilian Real's subordination to the US dollar remained unchanged across time although its relative position in the international currency hierarchy improved with establishing a stable currency in the mid-1990s. Nevertheless, Brazil's experiences reveal that the earlier described differentiation of rules and roles caused by offshore finance and access to US dollar liquidity created room for manoeuvre. Therefore, the monetary power of subordinate economies must be theorized too.

### Offshore Money Power

Combining the conceptual considerations of the “Money in the Age of Offshore Finance” section with the empirical insights in the “Empirics: Scope and Substance” section, I now spell out the notion of offshore money power. As previously argued, the power intrinsic to money is rooted in money's ontological status as a hierarchically organized credit relation. It has two core sources: the power to overcome resource constraints and the power to create money, i.e., to determine liquidity and to set the rules ([Figure 1](#)). Money power can never be absolute. It is relational because it can only materialize if the promise to pay back is met with its simultaneous acceptance ([Bell 2001](#)). The advent of the offshore dollar has implications for money's ontological status and for its innate power sources.

For one, offshore finance changes the credit relations that constitute money. The offshore dollar bifurcates these relations across borders. It combines the unit of account of the United States with the legal code of another. In [Keynes's \(1930, 3\)](#) terms, the “descriptor” remains constant, but the underlying “thing” changed. Distinguishing between booking locations, the changes are particularly pronounced for US dollars from OFCs as they offer high opacity and little regulation. The resulting jurisdictional mismatch stymies law enforcement by coercion. On the above introduced continuum between trust and violence ([Eich 2022, 6](#)), the dollars from OFCs rely on trust more than those from AOCs or the United States. Furthermore, the offshore dollar also bifurcates the shared power of the state and banks to create money across borders. As a purely private liability, the offshore dollar loosens the relationship with the state compared to onshore money, without fully cutting it as the “descriptor” remains the unit of account of the United States. Consequently, offshore money affects the hierarchy of money. Offshore dollars entail the promise to pay back *and* the promise to get access to onshore US dollar in case of need, despite not formally being backed by the Fed. Therefore, they are fur-

ther down the money hierarchy than nationally created near money.

Next, combining the unit of account of the United States with (mostly) English law, foreign territory, and the banks of yet another jurisdiction, offshore money transcends, as [Murau and van't Klooster \(2022\)](#) point out, the logic that nation and currency inevitably align. This multi-dimensional move away from the alignment of nation and currency constitutes a denationalization of the US dollar. As a result, it extends liquidity and the risk of broken promises at once creating a propensity to disorder in the international monetary system ([Thompson 2022, 131–40](#)). This is particularly the case regarding unregulated Eurodollars from OFCs. At the same time, all offshore dollar, once created, can flow into the US banking system, for instance through the balance sheet of foreign banks with branches in the United States ([He and McCauley 2012, 35–42](#)). Onshore and offshore financial markets are thus linked.

That is, the denationalization of the US dollar is a varying continuum, not a fixed outcome. In good times, the offshore dollar is only loosely linked to the authority of the United States. In times of crises, however, offshore dollars need central banks' balance sheet to be convertible into sovereign money or else face complete destruction of their value ([Pistor 2020](#)). States must back up the offshore system and negotiate the terms of who must foot the bill for the fallout. The social credit relationship forged by offshore banking is best described by complex interdependence in [Oatley's \(2019, 958\)](#) sense of a “persistent hierarchical structure of connectivity” in conjunction with “rising heterogeneity” of roles and rules. Consequently, offshore money power can never be absolute.

Next, offshore finance also modulates the two sources of money power: the ability to overcome resource constraints and the ability to create money. As the empirical analysis demonstrated, offshore dollars relax foreign actors' domestic resource constraints. Borrowers get access to credit at better conditions than available either at home or onshore in the United States. It allows economic activity that could otherwise not be financed ([Binder 2023, 176–92](#)). This is possible because offshore finance allows autonomous foreign private actors to create offshore dollar, thereby determining the volume of US dollar in circulation, who gets access to it, and under which conditions. As the former Fed Chairman Arthur Burns remarked in the Eurodollar's early days (cit. in [Altamura 2017, 90](#)), foreign banks had found a “dollar creating mechanism of great power.” These banks can now influence global US dollar liquidity. In addition to liquidity power, the Eurodollar from OFCs comes with an exclusive type of rule-setting power. It allows global banks, large multinational corporations, and wealthy individuals to circumvent rules that are binding for everyone else. Money creation in OFCs is not only about who sets the rules, but also who gets to avoid them. As the empirical analysis demonstrated, the sample countries (apart from Britain) prefer US dollars from OFCs or those from AOCs over a traditional credit relationship with the United States. They make ample use of the possibility to circumvent the rules, including those of the United States.

Taken together, the specificity of offshore money compared to onshore money is that it relies more on trust than coercion. It extends global US dollar liquidity while increasing the risk of broken promises. It also bifurcates money's public-private relationship across borders and introduces the power to determine who gets to avoid the rules. These characteristics of offshore money power affect the nature and distribution of international monetary power.

Therefore, a principal rethink of the related dominant theory is necessary.

### International Monetary Power Revisited

As we have seen, in the age of offshore finance, money creation has bifurcated the power to create US dollar across borders. The US dollar as a unit of account is now combined with (usually) English law and most of it is created by foreign banks. The United States provides the state authority behind the world reserve currency, European banks liquidity (Aldasoro and Ehlers 2018; Hardie and Thompson 2021), and OFCs the laws and practices (Sharman 2010; Binder 2023). This development denationalized the US dollar, intertwined the issuing country with offshore centers, borrowers, and global banks across borders. In the process, it became possible to circumvent almost any regulation. Reflecting these changes, I suggest in the following a reformulation of the theory of international monetary power. To do so, I bring Cohen's key premises and its critics in conversation with the notion of offshore money power.

#### *Nature*

Offering conceptual arguments and empirical evidence, the preceding analysis challenges Cohen's premise of the balance of payments as the primary arena of international monetary power. A country's position as borrower or lender in the international financial system does not consistently align with its balance of payments. In the age of offshore finance, international monetary power is not what it used to be: the ability of a sovereign state to deflect and delay adjustment to external imbalances. Instead, the pivotal battleground for international monetary power revolves around access to the US dollar and the power to set, choose or circumvent the associated rules.

This insight relates to Cohen's second premise—international monetary power as a matter of monetary autonomy. As established, it is the most contested one. Next to Cohen's claim of monetary power as autonomy (see also Schwartz 2015; Hardie and Maxfield 2016; Krampf 2019), we also find propositions of monetary power as the capacity to influence the behavior of others (Andrews 2006; Norrlof 2014) and as a means of coercion (Kirshner 1997; Farrell and Newman 2019).

Analyzing money from an ontological perspective allows us to reconcile these different perspectives on power. Based on money's ontological status as a hierarchically organized social relation, offshore finance creates credit relationships characterized by complex interdependence. This means that the pursuit of an independent monetary policy has become impossible (see also Murau and van't Klooster 2022). Any one actor is subject to and limited by other actors' courses of action. At the same time, the Brazilian experience illustrates that offshore money power allows actors to increase their room for manoeuvre relative to the constraints. When it comes to monetary relations, power is not a binary. It is not either autonomy or capacity, but a continuum ranging from relative autonomy, over the capacity to influence others, to a means of coercion. These expressions of power differ between types of actors.

Third, Cohen argues that the internationalization of a currency—its share in transactions in international financial markets, in trade, and in central bank reserves—determines its position in the international monetary hierarchy. The paper's conceptual and empirical assessments suggest a two-fold refinement of this premise.

For one, a country's and its currency's position in the international hierarchy are not perforce the same. Next, money creates structural hierarchies between those who can create money (the state and banks) and those who cannot (firms and individuals) (Bell 2001), as well as between money forms (Ingham 2004). Sovereign money and onshore near money are higher up the money hierarchy than offshore near money. What matters for international monetary power is not only a country's position in the hierarchy determined by internationalization, but also the degree of a currency's denationalization, whether it can participate in the creation of US dollar, and to which money form it has access.

Finally, I close with Cohen's fourth and last premise—international monetary power as state-to-state relations. Offshore money creation entangles central with private banking and treasury control across borders. It transcends the classical public-private and the external-internal demarcations of the international system (Ruggie 1993). It is a truly global and hybrid phenomenon. Offshore finance creates contested state-bank relations with central banks acting in between (Hardie and Maxfield 2016; Krampf 2019; Hardie and Thompson 2021; Braun and Gabor 2021; Murau and van't Klooster 2022).

Beyond Cohen's four premisses, the analysis also highlighted the importance of temporality. Liquidity, autonomy, hierarchy, and the role of the state and private banks all change when moments of financial stability descend into financial crises. The main reason behind this variation is that the legal code, which is followed in good times, becomes negotiable in bad times.

Against this background, I argue that international monetary power is the ability to overcome domestic resource constraints by getting access to offshore dollar in combination with the capacity to determine international liquidity and to set, select, or circumvent the related rules. This capacity is constrained by the hierarchically organized social credit relations that money consists of. International monetary power varies between times of financial stability and volatility and with an actor's role in the system.

These changes to the nature of international monetary power have implications for its distribution, too. The next section spells them out for each of the different actors in the offshore dollar system.

#### *Distribution*

In the following, I evaluate how offshore money power translates into international monetary power along the continuum of autonomy, influence, and coercion. The assessment compares different actors' international monetary power in the age of offshore finance with the hypothetical situation of a world without it.

Starting with the issuing country, the offshore dollar at once enhances and constrains the United States' money power. Allowing the US dollar to be created offshore has strengthened the currency's international role beyond what would have been possible with domestic banks alone. It contributes to the exorbitant privilege (Helleiner 1994, 81–100; Thompson 2022, 131–40). At the same time, the United States' ability to determine the volume of US dollar in circulation, who has access to it, and under which rules, has been reduced through offshore finance. That power is undermined by the sheer volume of offshore dollar, especially the large share of US dollar from OFCs, because the United States has limited enforcement power outside its



jurisdiction, and because OFCs are havens for circumventing any onshore rules and regulations.

The limited rule-setting power through offshore finance becomes visible for the first time in the 1970s. The abandonment of the gold standard seems to represent a peak in US monetary power. Yet, incorporating the offshore dollar into the analysis, we can observe that a considerable element of that monetary power was, indeed, the power of European banks. Thanks to offshore, they could create US-dollar unconstrained even before the end of the gold standard (Binder 2023, 12–42). Noticing the European banks' resulting international monetary power, the United States and Germany favored regulating the Eurodollar markets in the early 1970s. Yet, the US dropped its plans in face of the 1973 oil shock (Altamura 2017, 83). The US lost its regulatory power offshore before it initiated onshore deregulations in the 1980s.

A similar ambivalence of money power is discernible in the United States credit relations. On the one side, the degree to which foreign countries use the US dollar as unit of account is enormous. On the other, at least in times of financial stability, the actual credit relations run between foreign banks and non-US borrowers without them having to have a relationship with the United States. This leads to lower interdependence in good times, but heightened interdependence in times of crisis, when the Fed needs to decide whether to back these claims as lender of last resort. The ambivalence even remains regarding the currency hierarchy and the hierarchy of money forms. Offshore finance helps to anchor the US dollar at the top of the international currency hierarchy, yet it has simultaneously denationalized it.

The ambivalent money power of the United States in times of offshore finance transpires into its international monetary power. The loosened credit relationships allow for more autonomy in good times compared to a world without offshore finance. In times of financial turmoil, it is reduced, if not eclipsed, because of the volume of offshore money creation and the feedback loops between the onshore and offshore economy. The United States' capacity to influence others has become—again compared to a world without offshore finance—more indirect because of the loosened credit relationships and OFCs' infrastructural power. Finally, the United States remains the only country that can use its unit of account as a means of coercion. Even in a world without offshore finance, the relational nature of money power means that weaponizing money undermines the trust that brings it into existence in the first place. Since trust is more central, but also more volatile for Eurodollars, and since offshore centers provide the opportunity to circumvent coercive measure such as sanctions, these restrictions are further amplified. Even at the top international monetary power is constrained.

Next, offshore jurisdictions such as the City of London, Switzerland, or Hong Kong inserted themselves into cross-border credit relations (Garcia-Bernardo et al. 2017). Their interdependence with other actors has increased as a result. In the hierarchy of money, they provide the infrastructure—the laws and practices—for near money creation. This infrastructural power allows OFCs to complement or, if they are small, even supplant, the international standing of their home currencies with that of the US dollar. They can now partake in the US dollar's superior international standing, overcoming domestic resource constraints by doing financial business otherwise unavailable. Furthermore, offshore jurisdictions gain the power to determine the conditions under which actors have access to the US dollar and to of-

fer loopholes for the rules set by others. Yet, by offering their services exclusively to non-residents, offshore centers can, to a certain extent at least, maintain relative autonomy over their monetary policy (as can be seen in Britain and Switzerland). As the middleman, they have acquired infrastructural power by providing the laws and practices of offshore finance, making them influential in monetary relations. Offshore jurisdictions wield international monetary power. In a world in which offshore outsizes onshore dollar creation, the core of international monetary power no longer lies with the United States alone. There is a shared space of Anglo-American monetary power (Tooze 2018; Green 2020; Hardie and Thompson 2021), which is increasingly extended toward Asia. Yet, unlike the United States, OFCs do not have the Fed to deal with the resulting complex interdependence. In times of financial volatility, their international monetary power is contingent on the central bank swap lines.

Turning to the users of offshore dollar—borrowing states (and their private sectors), we have seen that offshore money helps them overcome domestic resource constraints. This is an important increase in money power. As Hoang (2022, 42–53) demonstrates, especially in frontier markets, the Eurodollar has led to a situation long thought impossible: these countries can attract foreign investment despite a weak rule of law. The reason is that the legal code underlying the credit relations is usually rooted in English law dominant in OFCs. Moreover, offshore finance offers borrowers the possibility to choose between different sets of political and regulatory conditions under which they issue debt. The variety of options to borrow in US dollar increases and makes the credit relationships more complex—they entail non-local and non-US banks, offshore jurisdictions, and the banks' home country. The ability to manage the resulting complex interdependence hinges on domestic institutions backstopping the system, especially in times of financial volatility (Binder 2022, 69–87). In the hierarchies of money, offshore finance has little impact on the borrowing country's currency position, and it provides access to offshore near money only. In combination, borrower's money power translates into increased relative autonomy through liquidity and a choice of rules under which to issue it in good times. In bad times, this increase of international monetary power easily turns bitter.

Finally, as we have seen, most credit relationships are formed between borrowers and private banks. Thanks to the offshore dollar, Deutsche Bank or BNP Paribas, for instance, can decide who gets access to US-dollar-denominated credit and at which conditions. On top, OFCs provide them with the power to decide who can circumvent the rules. With the advent of the Eurodollar, global banks gained the power to create denationalized liquidity denominated in the world's premier currency outside the regulatory purview of any one state. Offshore finance has also allowed them to overcome the constraints of business limited to their home currency. Offshore dollar creating banks' credit relations have become more and more complex.

From global banks' offshore money power follows that in the age of offshore finance, they too hold international monetary power (see also Hardie and Maxfield 2016; Hardie and Thompson 2021). Global banks have greatly increased their autonomy. They provide the world with US dollar liquidity. Through their globe-spanning interlocked balance sheets, they can influence countries' monetary policy, and in times of crises, it is these interlocking balance sheets that force other actors—particularly their home governments—to bear the costs. Moreover, they can decide which economic



actors can exit the rules-based monetary order through the backdoor of OFCs. With so much global bank power, international monetary power is no longer the remit of the United States alone.

The 2008 Financial Crash exemplified this form of bank power. As the offshore system grew, it enhanced the responsibility of the Fed. During the crisis, liquidity only came back once the Fed monetized the European banks' offshore dollar liabilities (Tooze 2018; Hardie and Thompson 2021). Central bank currency swaps were the tool the Fed chose to do so. They allow foreign central banks to provide US dollar emergency funding to the banks under their responsibility. In response to the COVID-19 pandemic market volatilities in March 2020, the Fed reactivated the central bank swap lines and extended them with the temporary foreign and international monetary authorities repo facility (Federal Reserve 2020a, b). Backstopping the system means that the Fed engenders the possibility for offshore dollar creating banks to turn their offshore dollar liabilities largely created outside the US regulatory purview into sovereign money, US dollars backed by the United States. In times of crisis, the Fed now indirectly acts as a lender of last resort to foreign private banks creating, in good times, US dollar offshore (Mehrling 2015; McDowell 2017; Page 2021).

A feedback loop between offshore and onshore US dollar systems means that the Fed has no choice. It must stabilize the system in hard times, though the Eurodollar makes it difficult to regulate it in good times. As the US dollar has denationalized, the Fed's responsibility has globalized (McDowell 2017; Page 2021). The United States is picking up the pieces of a party thrown by others. Moreover, acting as a global lender of last resort may put US monetary policy at odds with government politics. For instance, the Fed's response to the 2020 COVID-19 market turmoil potentially opened US dollar liquidity support to China. This policy choice contradicted the Trump administration's trade and foreign policy toward China. More power for the Fed does not necessarily translate into more monetary power for the United States. Instead, offshore money creation solicited a move of power from government to central bank (see also Braun and Gabor 2021). The growing importance of the central bank was also visible in Brazil. The Banco Central do Brasil manages the embeddedness of national banks into the offshore system and backs them up during financial crises.

Banks—commercial and central—are the only actors with a net-gain in international monetary power in the age of offshore finance. Nevertheless, it is in times of crisis that a system driven by private money creation depends on state authority. This state authority is, in turn, constrained through banks' systemic entanglement across borders. The US American state and global banks are implicated across borders.

### Conclusion: Outsourcing Empire

This entanglement between sovereign and private power is not without historical precedent. Company-states of the early modern period, famously among them the East India Company, achieved remarkable success in accruing power and profits, catalyzing the first wave of globalization by powering imperialism and capitalism. They gave rise to the international system in the early modern period and were important actors within it. Company-states held a range of sovereign powers, including currency minting, legal enforcement rights within their factories, diplomatic relations,

and even engaging in war. They bridged the gap between European rulers' colonial ambition and actual territorial control. This is what Phillips and Sharman (2020, 1) refer to as "outsourcing empire." Such forms of indirect rule were common in the early modern period when sovereigns could delegate or even sell certain sovereign privileges. The company-state's initial allure was that they could conquer new territory—through trade and violence—at little direct cost for the ruler. In the late nineteenth and early twentieth centuries, however, company-states turned into costly failures, often requiring substantial financial bailouts from their governments (Phillips and Sharman 2020, 199–222).

Of course, company-states have been specific to their historical context. Yet, Phillips and Sharman argue that they are the predecessor of the contemporary multinational corporation. In legal and functional terms, this may well be. However, today's financialized international economy, the structural privileging of state and bank debt over corporate and individual debt, and the quintessential entanglement of public and private power make company-states more akin to contemporary global banks. Indeed, some commonalities are striking.

Global banks' sovereign prerogatives include the right to create money and, although they cannot administer the law, the possibility to circumvent it. The denationalization of the US dollar via offshore finance helped the United States to bridge the gap between its ambition to run the world's reserve currency and its ability to do so. The denationalization of the US dollar via offshore finance is an instance of indirect rule. Just as for company-states, that strategy's initial allure was that it involved little cost for the United States. That calculus changed over time, when next to regular regional financial crises, the 2008 Financial Crash and the COVID-19 pandemic made costly bailouts of global banks necessary. International monetary power in the age of offshore finance is an instance of outsourcing (monetary) empire. It comes with all the intricacies of indirect rule.

### Supplementary Information

Supplementary information is available in the *International Studies Quarterly* data archive.

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