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THE SYSTEM WORKED
Global Economic Governance during the Great Recession

By DANIEL W. DREZNER*

I. Introduction

THE 2008 financial crisis posed the biggest challenge to the global economy since the Great Depression. During the first ten months of the "Great Recession," global stock market capitalization plummeted lower as a percentage of its precrisis level than during the first ten months of the 1930s depression.[1] Housing prices in the United States declined more than twice as much as they did during the Great Depression.[2] Banks and other financial institutions lost more than $4 trillion in the value of their holdings as a result of the crisis.[3] The global decline in asset values in 2008 was conservatively estimated to be $27 trillion, or roughly 50 percent of global economic output.[4] Five years after the start of the subprime mortgage crisis, concerns about systemic risk were still elevated.

The demand for global economic governance structures to perform effectively is at its greatest during crises. I define *global economic governance* as a set of formal and informal rules that regulate the global economy and the collection of authority relationships that promulgate, coordinate, monitor, or enforce said rules. As Menzie Chinn and Jeffry Frieden note: "The 1929 recession became a depression largely

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[1] Eichengreen and O'Rourke 2010.

[2] Reinhart and Rogoff 2009, 226.

[3] IMF 2009.

[4] Roxburgh, Lund, and Piotrowski 2011.

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because of the collapse of international cooperation; the current crisis may head in that direction if international collaboration fails."[5] One of the primary purposes of global economic governance is to provide public goods—most importantly, keeping barriers to cross-border exchange low. An open global economy lessens the stagnation that comes from a financial crisis, preventing a downturn from metastasizing into a depression.[6]

Since the Great Recession began, there has been no shortage of scorn for the state of global economic governance in public perception, policy analysis, and scholarly assessment. Nevertheless, a closer look at the global response to the financial crisis reveals a different picture. Despite initial shocks that were more severe than the 1929 financial crisis, global economic governance responded quickly and robustly. Whether one looks at economic outcomes, policy outputs, or institutional resilience, these governance structures either reinforced or improved upon the status quo after the collapse of the subprime mortgage bubble. These regimes performed particularly well during the acute phase of the crisis in the fall of 2008, ensuring the continuation of an open global economy. To be sure, there remain areas where global governance either faltered or failed. Even if the policy outcomes have been suboptimal, they have not been subpar. International institutions and frameworks performed contrary to expectations. Simply put, the system worked—the open global economy survived because of "good enough" global governance.

If global economic governance has worked, why has there been such a widespread consensus that it has not? Misperceptions about global economic governance persist because the Great Recession has disproportionately affected the core economies, a fact that is also the center of gravity for commentary about the global political economy. Commentators based in the advanced industrialized states have conflated national governance with global governance. They have also overestimated the effectiveness of prior periods of global economic governance. *Why* the system has worked better than expected remains a more open question. We can tentatively conclude that both the power of the United States and the resilience of neoliberal economic ideas were underestimated during the depths of the Great Recession.

The rest of this article is divided into eight sections. Section II discusses the widespread perception that post-2008 global economic governance has been a failure. Section III discusses the methodologi-

[5] Chinn and Frieden 2011, xvi. See also James 2001.
[6] Claessens, Kose, and Terrones, 18.

cal challenges to assessing the effectiveness of global economic governance. Sections IV, V, and VI consider the performance of global economic governance in terms of economic outcomes, policy outputs, and governance processes. Section VII considers why there is so much misperception on this issue. Section VIII proffers some preliminary explanations for why the system worked. Section IX concludes.

II. The Perceived Crisis in Global Economic Governance

Even if states are the principal actors in world politics, they rely on global governance structures to coordinate action on the global scale. These structures can range from hard law treaty-based organizations with autonomous secretariats and operational authority to soft law groupings and arrangements that act merely as focal points for national governments.[7] For some issues, such as taxation or investment, the "regime complex" that governs these issues includes a network of bilateral arrangements as well.[8]

International relations scholars have posted a welter of causal mechanisms through which global economic governance facilitates economic growth and international cooperation. Even skeptics about international institutions acknowledge that they can serve as useful focal points to coordinate the global rules of the game.[9] International relations theorists have posited a number of additional roles for these regimes. These include reassuring participating actors about the future course of action; monitoring and enforcing the actors' compliance with the rules of the game; providing expertise and advice on policy issues; offering a means for leaders to blunt domestic pressures to act unilaterally; securing legitimacy, accountability, and representation for global public policy; and fostering shared understandings between policy principals.[10] When global economic governance functions well, it reduces the transaction costs of policy coordination. When it functions poorly, a lack of trust and a surfeit of uncertainty stymie responsible authorities from cooperating in situations where a bargaining core exists.

Prior to the 2008 financial crisis, there was mounting concern about the ability of these governance structures to handle severe challenges.

[7] Snidal and Abbott 2000.

[8] Raustiala and Victor 2004. On BITs, see the symposium in this issue: *World Politics* 66, no. 1 (January 2014).

[9] Goldsmith and Posner 2005.

[10] On reassurance, see Martin 1992. On monitoring/enforcement, see Axelrod and Keohane 1985. On expertise, see Haas 1992. On blunting domestic pressures, see Goldstein 1996. On legitimacy and socialization arguments, see Johnston 2001.

Public confidence in multilateral institutions was trending downward before the subprime mortgage bubble popped.[11] Policy elites were also sounding warning alarms about a looming crisis in global economic governance.[12] There appeared to be a growing mismatch between the global distribution of power and the institutional prerogatives within global governance structures. If those mismatches were allowed to fester, many feared a breakdown of the open economic order in favor of a more balkanized, mercantilist set of arrangements.

Some modest steps were taken to address these issues prior to the crisis, but pre-2008 global economic governance seemed to confirm the worst expectations of dysfunction. Despite rising macroeconomic imbalances, China vetoed any serious discussion of exchange rate issues at the IMF. Fund discussions of financial mismanagement in the eurozone area were suppressed prior to the crisis.[13] By the spring of 2008, the IMF leadership opted to sell off some gold reserves to shrink its operating deficit.[14] The Basel Committee on Banking Supervision's core banking standards not only failed to prevent banking crises across Europe—but, arguably, the "Basel II" standard exacerbated the banking crises.[15] The Doha Round of world trade talks was stalemated. G8 efforts to reach out and include the BRIC economies in their summitry bordered on the insulting.

The Great Recession provided a severe stress test for global economic governance—and there has been no shortage of scorn for the state of global economic governance since 2008. Public opinion polls reveal frustration with the status quo and a desire for more robust global governance structures. In early 2009 an overwhelming majority of global respondents supported "major reforms" of the international economic system. In July 2009 majorities in seventeen of nineteen countries polled wanted a more powerful global financial regulator.[16] Four years after the collapse of Lehman Brothers, public pessimism about the global economy had not dissipated.[17]

Global public policy elites have been just as disdainful as the mass public. In early 2011 Richard Samans, Klaus Schwab, and Mark Malloch-Brown noted that "nearly every major initiative to solve the new century's most pressing problems has ground to a standstill amid

[11] PIPA 2006.
[12] Abdelal and Segal 2007; Drezner 2007.
[13] On China, see Beattie and Oliver 2010. On Europe, see Doyle 2012.
[14] Dunphy 2008.
[15] Levinson 2010; Bair 2012; Zaring 2009–10, 483.
[16] PIPA 2009.
[17] Pew Research Center 2012.

political gridlock, summit pageantry, and perfunctory news conferences."[18] The World Economic Forum similarly concluded: "As the financial crisis unfolded in 2008 and 2009, the world lacked an appropriate and effective crisis response mechanism."[19] Ian Bremmer and Nouriel Roubini characterized the G20 as toothless, proclaiming instead that we live in a "G-Zero" world: "[T]he divergence of economic interests in the wake of the financial crisis has undermined global economic cooperation, throwing a monkey wrench into the gears of globalization." By January 2012, Bremmer had concluded that "the effectiveness of many global institutions is under severe strain, as they remain largely unchanged from their postwar forms."[20] Alan Beattie concurred, noting that "the collective response of the world's big economies since 2007 has been slow, disorganized, usually politically weak and frequently ideologically wrong-headed."[21]

The current skepticism about global economic governance extends beyond publics and pundits to include a broad array of social scientists. Tom Hale, David Held, and Kevin Young note that "in recent years the problem of addressing global policy challenges seems to have grown worse," attributing the problem to "gridlock" in global governance. In a joint report, Jeffry Frieden, Michael Pettis, Dani Rodrik, and Ernesto Zedillo conclude that with the exception of monetary policy, "on virtually every other important global economic issue, international cooperation is stalled, flawed, or non-existent." Historian Mark Mazower notes: "With the WTO's Doha Round paralyzed and the World Bank chastened, the IMF incapable of helping to rectify the global imbalances that threaten the world economy . . . the institutions of international governance stand in urgent need of renovation." David Zaring posits that international financial institutions "have been ineffective or, at best, marginally useful" since the start of the crisis. Naazneen Barma, Ely Ratner, and Steven Weber conclude: "It's not particularly controversial to observe that global governance has gone missing."[22]

Scholars provide two reasons for why global economic governance has failed. The first is that the current era echoes the interwar period all too ominously.[23] As Charles Kindleberger famously explained in *The World in Depression*: "In 1929 the British couldn't and the United States

[18] Samans, Schwab, and Malloch-Brown 2011, 80.
[19] World Economic Forum 2012.
[20] Bremmer and Roubini 2011, 4; Bremmer 2012.
[21] Beattie 2012a, 18.
[22] Hale, Held, and Young 2013, 2; Frieden et al. 2012, 2; Mazower 2012, 424; Zaring 2009–10, 475; Barma, Ratner, and Weber 2013, 56.
[23] See, for example, Mastanduno 2009; Cohen and DeLong 2009; and Chinn and Frieden 2011.

wouldn't [stabilize the world economic system]. When every country turned to protect its national private interest, the world public interest went down the drain, and with it the private interests of all."[24] Now it is the developed world that is willing but unable and the developing world that is able but unwilling. Charles Kupchan warns that "emerging powers will want to revise, not consolidate, the international order erected during the West's watch." Christopher Layne concludes that "in the Great Recession's aftermath . . . a financially strapped United States increasingly will be unable to be a big time provider of public goods to the international order."[25] China's rise has led to claims that it is articulating a "Beijing Consensus" as an alternative to the discredited Washington Consensus. Because this consensus rests on principles of mercantilism and state capitalism, it is antithetical to the liberal economic order.[26] China therefore acts like a spoiler rather than a supporter state.

The other proffered reason is that power itself is diffusing so rapidly that no actor or concert of actors can successfully wield authority anymore. Moises Naim argues: "Today's panoply of international threats and crises . . . come as the hierarchy of nations is in flux and the very exercise of state power is no longer what it used to be." Bruce Jentleson believes we are now in a "Copernican world" characterized by "power diffused and diluted more than realists portray, post–World War II norms and institutions more contested than liberal internationalists acknowledge, and the nation state still more central than most theories of global governance convey." Randall Schweller goes even further, concluding that we are now living in "age of entropy" in which "world politics is being subsumed by the forces of randomness and enervation, wearing away its order, variety, and dynamism."[27] In such a world of disorder, efforts at global governance would seem particularly foolhardy.

III. How Can We Tell If Global Economic Governance Works?

In theory, global governance structures can provide a welter of services to facilitate economic growth and international cooperation. In practice, however, empirical assessments about whether global governance

[24] Kindleberger 1971, 292.
[25] Kupchan 2012, 7; Layne 2012, 211.
[26] Halper 2010; Bremmer 2009.
[27] Naim 2013, 158; Jentleson 2012, 140–41; Schweller 2011, 287.

"works" or is "effective" do not suffer from an abundance of analytical clarity.[28] Part of the problem is conceptual and part of the problem is empirical. Conceptually, any definition of global economic governance that shows it to be "working" is freighted with peril, because the counterfactual is often so difficult to determine. For example, did the joint G20 statements in late 2008 and early 2009 advocating fiscal and monetary expansion provide vital reassurance and policy coordination to the great powers, or are they simply epiphenomenal to a harmony of preferences? Even the best counterfactual analysis cannot completely eliminate this uncertainty.

Empirically, critics of the current system of global governance tend to rely upon a few stylized facts that are meant to imply general dysfunction. Almost any list includes the collapse of the Doha Round; the spike in protectionist actions contravening G20 pledges in the six months after the first G20 summit; the accusations of "currency wars" among the great powers; the failure of the 2009 Copenhagen climate change summit; and the ongoing sclerosis of the eurozone economies.

These facts, though true, are not the whole truth. To ascertain the effectiveness of global economic governance after the 2008 financial crisis, I follow Tamar Gutner and Alexander Thompson's framework of examining three different levels of analysis to assess the performance of global economic governance.[29] First, what do the *policy outcomes* look like? How have global output, trade, and capital flows responded since the start of the Great Recession compared with their responses to similar crises in the past? Second, what do the *policy outputs* look like? Have key international institutions provided policies that a consensus of experts would consider significant and useful in response to a global financial crisis? Would the policies have been implemented in the absence of these global governance structures? Finally, have these governance structures demonstrated *improved policy processes*? A common complaint prior to 2008 was that these institutions had not adapted to shifts in the distribution of power. Have these structures maintained their relevance and authority? Have they ensured that rising actors continue to view participation and compliance with existing arrangements as incentive compatible?

The advantage of looking at all three levels of performance is that it permits a check against standard counterarguments that global economic governance is either irrelevant or ineffective. It is frequently

[28] Gutner and Thompson 2010.
[29] Gutner and Thompson 2010, 234–37.

posited that global governance structures are merely the "low-hanging fruit" of international political economy, in which a harmony of preferences makes governance easy to achieve.[30] This would render global economic governance epiphenomenal. For this case, however, examining the process level in particular helps to refute this claim. The post-2008 goal at the process level was to reallocate influence among states within these structures. Traditionally, such governance reforms are intrinsically difficult to execute, because such steps go against the interests of those actors whose power is diluted. If process reforms nevertheless went through, we can infer that there was genuine policy coordination rather than a simple harmony of preferences.

IV. Policy Outcomes

How well has the global economy recovered from the 2008 crisis? The burgeoning literature on economic downturns suggests two factors that impose significant barriers to a strong recovery from the Great Recession: it was triggered by a financial crisis and it was global in scope. Whether measuring output, per capita income, or employment, financial crashes trigger downturns that last longer and have far weaker recoveries than standard business cycle downturns.[31] Furthermore, the global nature of the crisis makes it extremely difficult for individual states to simply "export their way" out of the problem. Countries that have experienced severe national financial crises since World War II have usually done so when the rest of the global economy was unaffected.[32] That was not the case for the Great Recession, which affected wide swaths of the global economy. The proper baseline for comparison is therefore the last severe global financial crisis—the Great Depression.

By any metric, the global economy post-2008 rebounded much more robustly than did the global economy of the Great Depression. Economists Barry Eichengreen and Kevin O'Rourke have compiled data to compare global economic performance from the start of the crises (see Figures 1 and 2).[33] Two facts stand out in their comparisons. First, the percentage drop in global industrial output and world trade levels at the start of the 2008 financial crisis was more precipitous than the falloffs following the October 1929 stock market crash. The drop

[30] Keohane 1984.

[31] Reinhart and Rogoff 2009, 223–39; Claessens, Kose, and Terrones 2011; Reinhart and Reinhart 2010; Eichengreen 2011; Jorda, Schularick, and Taylor 2012.

[32] One example would be the Scandinavian countries that experienced severe banking crises in the early 1990s.

[33] Eichengreen and O'Rourke 2010; Eichengreen and O'Rourke 2012.

in industrial output was greater one year into the 2008 financial crisis than it was eighty years earlier after the same time period. The drop in trade flows was more than twice as large. Second, the post-2008 rebound has been far more robust. Four years after the onset of the Great Recession, global industrial output is 10 percent higher than when the recession began. In contrast, four years after the 1929 stock market crash, industrial output was only two-thirds of its precrisis levels.

A similar story can be told with aggregate economic growth. According to calculations from Angus Maddison's historical database, global economic output shrank by approximately 3 percent in 1930 and then contracted at annual rates of approximately 4 percent for the next two years. In contrast, global economic output shrank by 0.59 percent in 2009, followed up by growth in 2010 of 5.22 percent and 3.95 percent in 2011. Indeed, the average growth in global output between 2010 and 2012 was on par with the average growth rate in the decade that preceded the financial crisis.[34] More intriguingly, the growth continued to be poverty reducing. Despite the 2008 financial crisis, extreme poverty continued to decline across all the major regions of the globe. In the teeth of the Great Recession, the World Bank reported that the developing world achieved its first Millennium Development goal of halving 1990 levels of extreme poverty.[35] The United Nations Development Programme noted that despite the crisis, the data showed a more rapid improvement in human development in recent years than during the 1990s—in no small part because poorer countries were able to access global markets.[36]

An important reason for the quick return to positive economic growth is that cross-border flows did not dry up after the 2008 crisis. Compared with the Great Depression, post-2008 trade flows rebounded extremely well. As Eichengreen and O'Rourke observe, four years after the 1929 stock market crash, trade flows were off by 25 percent compared with their precrisis levels. Four years after the start of the Great Recession, trade flows are more than 5 percent higher. Even compared with other postwar recessions, the current period has seen robust cross-border exchange. Indeed, the growth in world trade since 2008 has been more robust than growth was in all other postwar recoveries.[37]

[34] IMF 2013.
[35] Lowery 2012.
[36] United Nations Development Programme 2013, 75–77.
[37] At http://www.cfr.org/geoeconomics/quarterly-update-economic-recovery-historical-context/p25774, accessed July 2012.

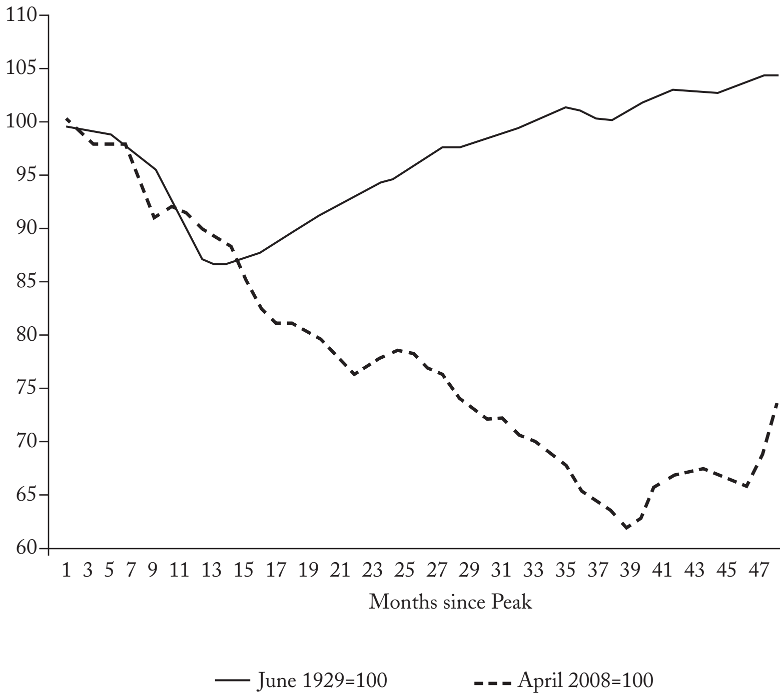

FIGURE 1
WORLD INDUSTRIAL PRODUCTION:
GREAT DEPRESSION VS. GREAT RECESSION

SOURCE: Eichengreen and O'Rourke 2010, data provided by authors.

Other cross-border flows have also rebounded from Great Recession lows. Total cross-border capital flows are still below 2007 highs, but even financial analysts acknowledge that those precrisis flows were due to several unsustainable trends, including excessive leverage and the carry trade.[38] The more resilient components of cross-border capital flows have rebounded well. Global foreign direct investment (FDI) returned to robust levels. The precrisis average of FDI inflows between 2005 and 2007 was $1.49 trillion. The postcrisis three-year FDI inflow average, between 2010 and 2012, was $1.47 trillion—a negligible

[38] Lund et al. 2013, 17.

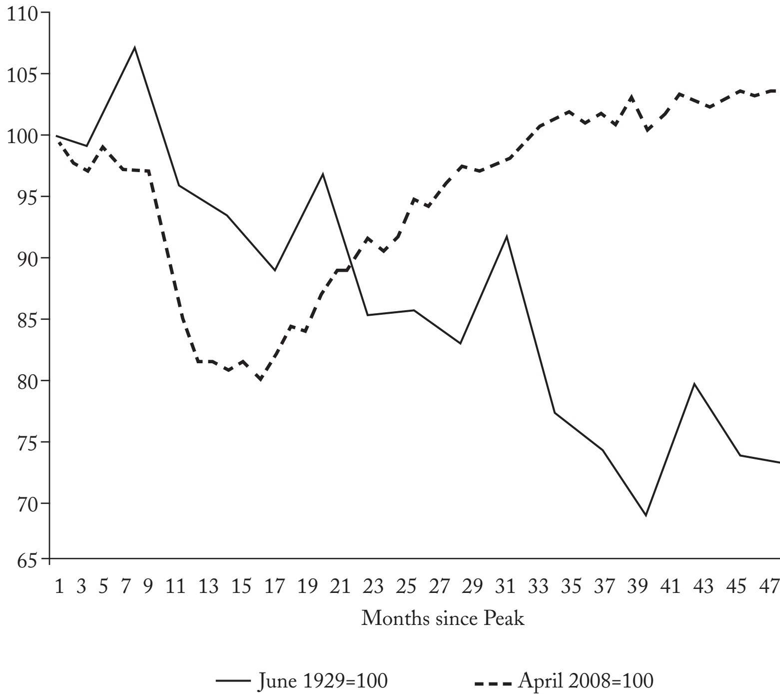

FIGURE 2
WORLD TRADE VOLUMES:
GREAT DEPRESSION VS. GREAT RECESSION

SOURCE: Eichengreen and O'Rourke 2010, data provided by authors.

difference.[39] Furthermore, as with economic growth more generally, an increasing proportion of FDI was targeted at the developing world. Multiple private sector analyses conclude that global foreign investment assets have fully recovered from the financial crisis and are now valued at 10–15 percent higher than at their precrisis highs. Remittances from migrant workers have also become an increasingly important revenue stream to the developing world—and the 2008 financial crisis barely dented that income stream. Cross-border remittances to developing countries quickly rebounded to precrisis levels and then

[39] United Nations Commission on Trade and Development 2013, xvi.

rose to an estimated all-time high of $389 billion in 2012. Total cross-border remittances were more than $519 billion in 2012 and are estimated to exceed $700 billion by 2016.[40] Excluding intra-European bank lending, other cross-border capital flows now approximate precrisis levels. At the same time, the McKinsey Global Institute estimates that current account imbalances have shrunk by 30 percent since the start of the 2008 financial crisis.[41] With FDI and remittances now occupying a greater share of cross-border capital flows, they are far more resilient to financial shocks than precrisis capital markets.

The final significant outcome addresses a dog that hasn't barked: the effect of the Great Recession on cross-border conflict and violence. During the initial stages of the crisis, multiple analysts asserted that the financial crisis would lead states to increase their use of force as a tool for staying in power.[42] They voiced genuine concern that the global economic downturn would lead to an increase in conflict—whether through greater internal repression, diversionary wars, arms races, or a ratcheting up of great power conflict. Violence in the Middle East, border disputes in the South China Sea, and even the disruptions of the Occupy movement fueled impressions of a surge in global public disorder.

The aggregate data suggest otherwise, however. The Institute for Economics and Peace has concluded that "the average level of peacefulness in 2012 is approximately the same as it was in 2007."[43] Interstate violence in particular has declined since the start of the financial crisis, as have military expenditures in most sampled countries. Other studies confirm that the Great Recession has not triggered any increase in violent conflict, as Lotta Themnér and Peter Wallensteen conclude: "[T]he pattern is one of relative stability when we consider the trend for the past five years."[44] The secular decline in violence that started with the end of the Cold War has not been reversed. Rogers Brubaker observes that "the crisis has not to date generated the surge in protectionist nationalism or ethnic exclusion that might have been expected."[45]

[40] For FDI data, see OECD/UNCTAD 2012; OECD/UNCTAD 2013. For foreign investment assets, see Lund et al. 2013. For remittance flows, see World Bank 2012.

[41] Lund et al. 2013, 6.

[42] See, for example, Rogers 2008, Kurlantzick 2009; and Brubaker 2011, 93.

[43] Institute for Economics and Peace 2012, 37.

[44] Themnér and Wallensteen 2012, 566. See also Human Security Report Project 2010.

[45] Brubaker 2011, 94.

V. Policy Outputs

It could be that the global economy has experienced a moderate bounceback in spite of, rather than because of, the global policy response. At the beginning of the twentieth century, for example, cross-border flows grew dramatically despite efforts by states to raise barriers to exchange.[46] In assessing *policy outputs*, Charles Kindleberger provided the classic definition of what should be done to stabilize the global economy during a severe financial crisis: "maintaining a relatively open market for distress goods" and providing liquidity to the global financial system through "countercyclical long-term lending" and "discounting."[47] Serious concerns were voiced in late 2008 and early 2009 about the inability of anyone to provide these kinds of public goods, threatening a repeat of the beggar-thy-neighbor policies of the 1930s.[48]

By Kindleberger's criteria, however, public goods provision has been quite robust since 2008. On the surface, the open market for distressed goods seemed under threat. The stalemate of the Doha Round, the rise of G20 protectionism after the fall 2008 summit, and the explosion of antidumping cases that occurred at the onset of the financial crisis suggested that markets were drifting toward closure. According to WTO figures, antidumping initiations surged by 30 percent in 2008 alone. In a June 2013 assessment, the free trade group Global Trade Alert warned of a massive spike in protectionist measures leading to "a quiet, wide-ranging assault on the commercial level playing field."[49]

A closer look, however, reveals that warnings about an increase in protectionism have been vastly overstated. The surge in nontariff barriers following the 2008 financial crisis quickly receded; indeed, as Figure 3 shows, the surge never came close to peak levels of these cases. By 2011, antidumping initiations had declined to their lowest levels since the founding of the WTO in 1995. Both countervailing duty complaints and safeguards initiations have also fallen to precrisis levels.

Some post-2008 measures are not captured in these traditional metrics of nontariff barriers, but similar results hold. Most temporary trade barriers were concentrated in countries such as Russia and Argentina that had already erected higher barriers to global economic integration.[50] Even including these additional measures, the combined effect of protectionist actions for the first year after the peak of the financial crisis

[46] O'Rourke and Williamson 1999, chaps. 6, 10.
[47] Kindleberger 1971, 292.
[48] *Economist* 2009; Kurlantzick 2009; Abdelal and Segal 2009.
[49] Evenett 2013.
[50] Bown 2012.

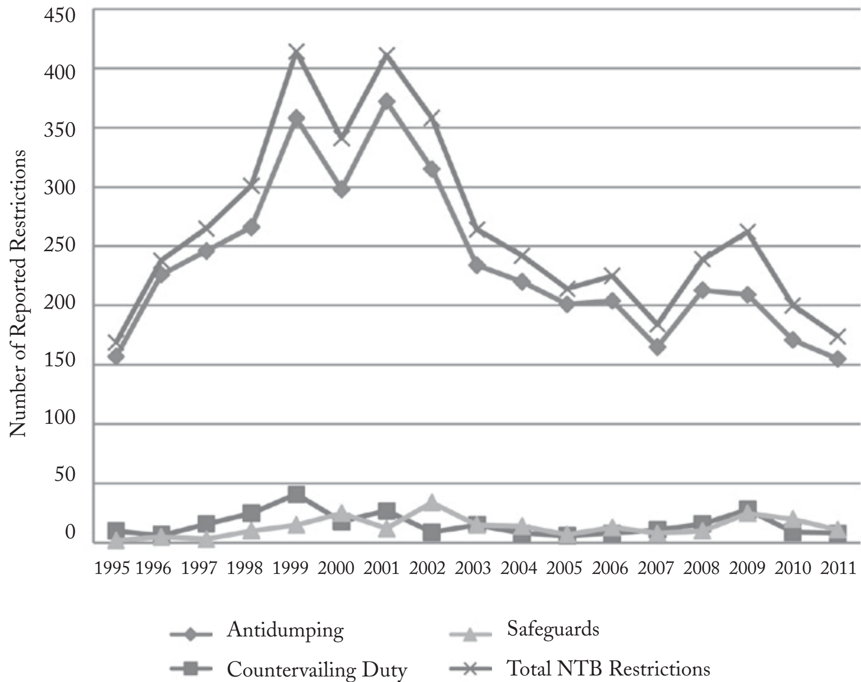

FIGURE 3
TRADE RESTRICTIONS, 2006–11

SOURCE: WTO.

affected less than 0.8 percent of global trade.[51] Furthermore, the use of these protectionist measures declined further in 2010 to cover only 0.2 percent of global trade. Five years after the start of the Great Recession, the effect of these measures remains modest, affecting less than 4 percent of global trade flows. The WTO's June 2013 estimate is that the combined effect of all postcrisis protectionist measures by the G20 had reduced trade flows by a total of 0.2 percent.[52] The WTO estimate jibes with academic estimates of post-2008 trade protectionism playing a minimal role in affecting cross-border exchange. The overwhelming consensus is that "the Great Recession of 2009 does not coincide with any obvious increase in protectionism."[53] The quick turnaround

[51] Dadush, Ali, and Odell 2011.
[52] WTO 2013.
[53] Rose 2012, 4. See also Kee, Neagu, and Nicita 2013; Kim 2013, 7.

and growth in trade levels further show that these measures have not seriously impeded market access.[54]

The multilateral trade system played a significant role in this outcome. The WTO's dispute-settlement mechanism helped to contain the spread of protectionist measures that the Great Recession triggered; there is no evidence that compliance with these rulings waned after 2008.[55] This is consistent with research that shows membership in the WTO and related organizations acted as a significant brake on increases in tariffs and nontariff barriers.[56] The major trading jurisdictions—the United States, the European Union, and China—adhered most closely to their WTO obligations. As Alan Beattie acknowledged: "The 'Doha Round' of trade talks may be dead, but the WTO's dispute settlement arm is still playing a valuable role."[57] The WTO's Government Procurement Agreement (GPA) helped to blunt the most blatant parts of the "Buy American" provisions of the 2009 fiscal stimulus, thereby preventing a cascade of "fiscal protectionism."

Policy advocates of trade liberalization embrace the "bicycle theory" —the belief that unless multilateral trade liberalization moves forward, the entire global trade regime will collapse because of a lack of forward momentum.[58] The last four years suggest that there are limits to that rule of thumb. The *Financial Times*/Economist Intelligence Unit surveys of global business leaders reveal that concerns about protectionism have stayed at a low level. Figure 4 shows that compared with popular concerns about economic and political uncertainty, corporate executives were far less concerned about either protectionism or currency volatility. Reviewing the state of world trade, Uri Dadush and his colleagues conclude: "The limited resort to protectionism was a remarkable aspect of the Great Recession."[59] Former US trade representative Susan Schwab concurs, noting, "Although countries took protectionist measures in the wake of the crisis, the international community avoided a quick deterioration into a spiral of beggar-thy-neighbor actions to block imports."[60] At a minimum, the bicycle of world trade is still coasting forward.

From the earliest stages of the financial crisis, there was also concerted and coordinated action among central banks to ensure both dis-

[54] Dadush, Ali, and Odell 2011. See also Bussière et al. 2011.
[55] On pre-2008 compliance, see Wilson 2007.
[56] Gawande, Hoekman, and Cui 2011; Baccini and Kim 2012; Kee, Neagu, and Nicita 2011.
[57] Beattie 2012b.
[58] Bhagwati 1988, 4,1 was the great popularizer of the term.
[59] Dadush, Ali, and Odell 2011, 3.
[60] Schwab, 2011, 112.

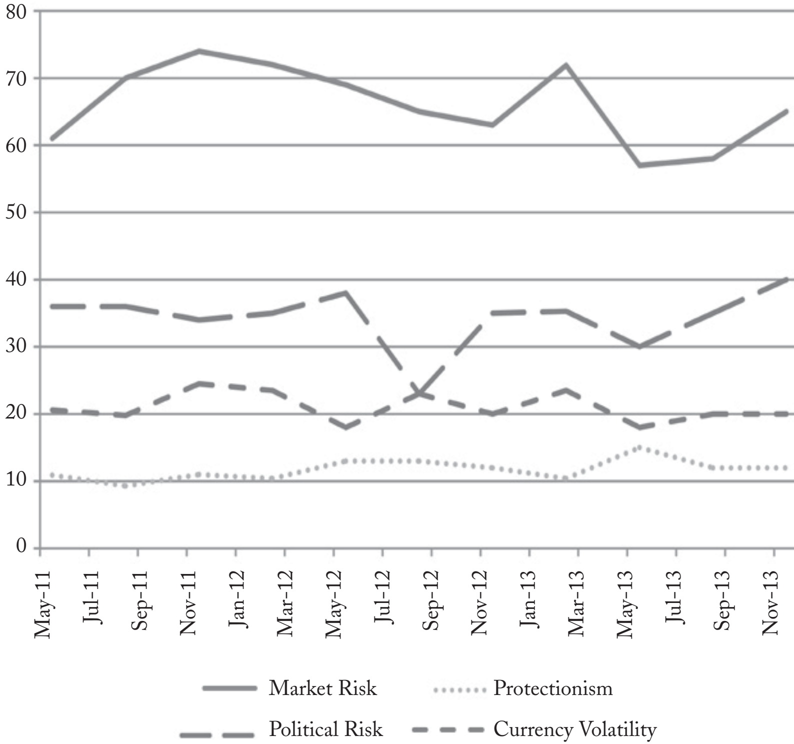

FIGURE 4
PRIVATE SECTOR PERCEPTIONS OF THREATS AND
RISKS TO THE GLOBAL ECONOMY

SOURCE: *Financial Times*/Economist Intelligence Unit.

counting and countercyclical lending. Indeed, even global governance skeptics acknowledge the success of global economic governance on this point.[61] As the extent of the subprime mortgage crisis became clear, central banks of the major economies slowly cut interest rates in the fall of 2007. A few months later, the central banks of the United States, Canada, the United Kingdom, Switzerland, and the eurozone announced currency swaps to ensure liquidity.[62] By the fall of 2008 they were cutting rates ruthlessly and in a coordinated fashion—"the first globally coordinated monetary easing in history," as one assessment put it.[63] Global real interest rates fell from an average of 3 percent

[61] See, for example, Beattie 2012a, 10–11; Frieden et al. 2012, 2.
[62] Irwin 2013, 127–32.
[63] Irwin 2013, 161.

prior to the crisis to zero in 2012—in the advanced industrialized economies, the real interest rate was effectively negative.[64] Not content with lowering interest rates, most of the major central banks also expanded emergency credit facilities and engaged in more creative forms of quantitative easing. Between 2007 and 2012, the balance sheets of the central banks in the advanced industrialized economies more than doubled. The Bank for International Settlements acknowledged in its 2012 annual report that "decisive action by central banks during the global financial crisis was probably crucial in preventing a repeat of the experiences of the Great Depression."[65]

Central banks and finance ministries also took coordinated action during the fall of 2008 to try to ensure that cross-border lending would continue, so as to avert currency and solvency crises. In October of that year, the G7 economies plus Switzerland agreed to unlimited currency swaps in order to ensure that liquidity would be maintained in the system. The United States then extended its currency-swap facility to Brazil, Singapore, Mexico, and South Korea. The European Central Bank expanded its swap arrangements for euros with Hungary, Denmark, and Poland. China, Japan, South Korea, and the ASEAN economies broadened the Chang Mai Initiative into an $80 billion swap arrangement to ensure liquidity. The International Monetary Fund also negotiated emergency financing for Hungary, Pakistan, Iceland, and Ukraine. In the ten months after September 2008, the IMF executed more than $140 billion in stand-by arrangements to seventeen countries.[66]

Over the longer term, the great powers bulked up the resources of the international financial institutions to provide for further countercyclical lending. In 2009 the G20 agreed to triple the IMF's reserves to $750 billion. In 2012, in response to the worsening European sovereign debt crisis, G20 countries combined to pledge more than $430 billion in additional resources. The Fund created multiple new credit facilities for its least developed members and established a flexible credit line that enabled members to sign up for precautionary arrangements without triggering market panic. Multiple outside reviews of the IMF's performance concluded that the IMF response to the Great Recession "was larger in magnitude, was more rapid, and carried fewer conditions" than in prior crises.[67] The World Bank's International

[64] Bank of International Settlements 2012, 39.
[65] Bank of International Settlements 2012, 41.
[66] Joyce 2013, 170.
[67] Joyce 2013, 168.

Development Association (IDA), which offers up the most concessionary form of lending, also increased its resources. The sixteenth IDA replenishment in December 2010 was a record $49.3 billion, an 18 percent increase of IDA resources from three years earlier. Using Kindleberger's criteria, global economic governance worked rather well in response to the 2008 financial crisis.

To be sure, there are global public goods that go beyond Kindleberger's initial criteria, as Kindleberger and successive IPE scholars have observed. Macroeconomic policy coordination would be an additional area of possible cooperation, as would coordinating and clarifying cross-border financial regulations. Again, however, the international system acted in these areas after 2008. Between late 2007 and the June 2010 G20 Toronto summit, the major economies agreed on the need for aggressive and expansionary fiscal and monetary policies in the wake of the financial crisis. Even reluctant contributors like Germany—whose finance minister blasted the "crass Keynesianism" of these policies in December 2008—eventually bowed to pressure from economists and G20 peers. Indeed, in 2009 Germany enacted the third largest fiscal stimulus in the world.[68] Germany's actions, which contravened its *ordoliberal* preferences, are an example of global economic governance leading to greater policy coordination.[69]

Progress was also made on regulatory coordination in finance and investment rules. There were developments in two particular areas: investor protectionism and banking regulation. The rise of sovereign wealth funds prior to 2008 had precipitated a ratcheting up of restrictions to cross-border investment by state-owned enterprises and funds. The OECD articulated its own guidelines for recipient countries but warned that unless these funds demonstrated greater transparency, barriers to investment would likely rise even further.[70] In September 2008 an IMF-brokered process approved a set of "Generally Accepted Principles and Practices" for sovereign wealth funds. These voluntary guidelines—also called the Santiago Principles—consisted of twenty-four guidelines addressing the legal and institutional frameworks, governance issues, and risk management of these funds. Contemporaneous press reports characterized the new rules as "a rare triumph for IMF financial diplomacy."[71] The expert consensus among financial analysts, regulators, and academics was that these principles—if fully implemented—address most

[68] Prasad and Sorkin 2009.
[69] Farrell and Quiggin 2011.
[70] OECD 2008, 6.
[71] Davis 2008.

recipient country concerns.[72] Since the IMF approved the Santiago Principles, furthermore, investor protectionism has declined.[73]

With respect to banking, international regulators have significantly revised the Basel core banking principles. At the November 2010 Seoul summit, the G20 approved the Basel III banking standards. Basel III took only two years to negotiate in the Basel Committee on Banking Supervision—an extraordinarily brief period given that the Basel II standards took more than six years to hammer out. The new rules, scheduled to be phased in over the rest of this decade, take a number of steps to improve bank stability. The primary "microprudential" step was to triple the amount of "Tier 1" reserve capital that qualifying banks needed to keep on hand. Basel III further created a leverage ratio—the ratio of Tier 1 capital to a bank's total exposure—of more than 3 percent by 2018. For the first time, Basel III also instituted "macroprudential" measures designed to ensure that banks could function even when asset markets seized up. By 2019 banks are expected to have a "liquidity coverage ratio" —the proportion of "high-quality liquid assets" to the estimated net liquidity outflows over a thirty-day period of "market stress"—of 100 percent. A net stable funding ratio proposed a similar 100 percent ratio of a bank's available stable funding over a calendar year to required funding over the same year. Finally, systemically important banks would be required to amass additional countercyclical capital buffers to prevent financial institutions from engaging in procyclical lending.

Financial sector analysts and scholars have debated whether Basel III is a sufficient upgrade in regulatory stringency and whether it will be implemented too slowly, or not at all.[74] There is consensus, however, on three points. First, if implemented, Basel III clearly represents an upgrade over the Basel II standards for preventing bank failures.[75] Second, the dampening effects of the new standards on economic growth are negligible; indeed, the preliminary evidence shows that banks have significantly augmented their capital reserves while still increasing their lending.[76] Third, the Basel Committee did not substantively alter its draft set of standards despite fierce resistance from the global banking industry.[77]

[72] Deloitte Touche Tohmatsu 2008; Cohen and DeLong 2009, 89.
[73] OECD/UNCTAD 2012; OECD/UNCTAD 2013.
[74] See, for example, Bair 2012; Lall 2012; Baker 2013.
[75] Chinn and Frieden 2011, 214; Véron 2012.
[76] Cohen 2013.
[77] Interviews with BCBS officials; see also Wilf 2013. It should be noted that the BCBS has altered its macroprudential standards somewhat from its original draft, but bank lobbying is not the primary reason for these changes.

VI. Governance Processes

The degree of institutional resiliency and flexibility at the global level has been remarkable. Once the acute phase of the 2008 financial crisis began, the G20 quickly supplanted the G7/G8 as the focal point for global economic governance. At the September 2009 G20 summit in Pittsburgh, the member countries explicitly designated the G20 to be the "premier forum" for international economic cooperation. This move addressed the problem of the G8's waning power and relevancy. The G20 grouping comprises 85 percent of global economic output, 80 percent of global trade, and 66 percent of global population, making it a far more legitimate and representative body than the G8. As Geoffrey Garrett puts it: "[T]he G20 is globally representative yet small enough to make consensual decision-making feasible."[78] As a club of great powers, consensus within the G20 would lead to effective policy coordination across a wide range of issues.

The perception is that G20's political momentum stalled out years ago after countries disagreed on macroeconomic imbalances and the virtues of austerity. By 2010, various G20 finance ministers were accusing each other of "currency wars." The reality is a bit more complex. On the currency question, actual currency volatility did not appear to faze business executives too much, as Figure 4 demonstrates. This is likely in part because, despite media reports about currency wars, the data indicate a downward secular trend in exchange rate volatility to levels below the precrisis average.[79] It is certainly true that consensus on macroeconomic policy broke down, but the rest of the G20's Framework for Strong, Sustainable and Balanced Growth agenda went forward. According to the University of Toronto's G20 Information Centre, compliance with G20 commitments actually increased over time. They measured G20 adherence to "chosen priority commitments." Measured on a per country average, G20 members have steadily improved since the 61.5 percent compliance rate for the April 2009 London Summit commitments, rising all the way to 77 percent for the June 2012 Los Cabos Summit.[80]

The obvious rejoinder is that this kind of assessment inflates compliance because the pledges made at these summits are increasingly modest.[81] Indeed, the G20 has likely scaled back its ambitions—even in

[78] Garrett 2010, 29.
[79] Hood 2012, chart 3.
[80] G20 Information Centre 2013.
[81] Downs, Rocke, and Barsoom 1996; Gutner and Thompson 2010.

its "priority commitments"—making compliance easier. There are examples, however, of great powers using the G20 as a means of blunting domestic pressures for greater protectionism—at precisely the moment when the group was thought to be losing its momentum. For example, the G20 has served as a useful mechanism for defusing rising domestic tensions concerning China's undervalued currency. In response to congressional pressure for more robust action, in April 2010 Treasury Secretary Timothy Geithner cited the G20 meetings as "the best avenue for advancing U.S. interests" on China's manipulation of its exchange rate.[82] This successfully deflected momentum in Congress to take unilateral action against China.

In June 2010, President Obama sent a letter to his G20 colleagues stressing the importance of "market-determined exchange rates." Three days after Obama's letter was sent, the People's Bank of China announced that it would "enhance the RMB exchange rate flexibility." For the next two years, the renminbi nominally appreciated at a rate of 5 percent a year—and more so if one factors in the differences in national inflation rates. Significant appreciations in the renminbi occurred in advance of G20 meetings.[83] By late 2012, as the renminbi hit record highs against the dollar, there was mounting evidence that China had dramatically curtailed its intervention into exchange rate markets.[84] In the three years after China's pledge, the renminbi has appreciated by 15 percent against China's major trading partners. This has contributed to a shrinking of global current account imbalances of more than 30 percent since the start of the crisis.[85]

Other key financial bodies also strengthened their membership and authority as a response to the 2008 crisis. In March 2009 the Basel Committee on Banking Supervision expanded its membership from thirteen advanced industrialized states to twenty-seven members by adding the developing country members of the G20. The Financial Stability Forum was renamed the Financial Stability Board in April 2009 and given greater responsibilities for regulatory coordination; it also expanded its membership to include the developing country members of the G20. During this period the Committee of the Global Financial System also grew in size from thirteen countries to twenty-two, adding Brazil, China, and India, among others. The Financial Action Task Force on Money Laundering has added China, India, and

[82] Geithner 2010.
[83] Rickards 2011, 113.
[84] Bradsher 2012; Rabinovitch 2012.
[85] Lund et al. 2013, 6.

South Korea to its grouping since 2007. Prior to 2008, the G7 countries dominated most of these financial standard-setting agencies. That is no longer the case in terms of membership. In the future, this expansion might impair the efficacy of these groups, but their legitimacy has been enhanced since 2008. Indeed, the G20 assessment process has enhanced the monitoring powers of many of these institutions. In requesting reports from the FSB, as well as organizations ranging from the WTO to UNCTAD, the G20 has implicitly burnished the expertise and legitimacy of these governance structures.

The International Monetary Fund and World Bank also changed after the financial crisis, though on the surface that might not appear to be the case. The implicit compact in which a European is given the IMF managing director slot and an American is appointed to the World Bank presidency has continued. Despite the scandals that engulfed Dominique Strauss-Kahn in 2011 and Paul Wolfowitz five years earlier, former French finance minister Christine Lagarde replaced Strauss-Kahn in 2011 and an American, Jim Yong Kim, replaced Robert Zoellick as the new World Bank president in 2012.

Beneath the surface, however, the Bank and the Fund have witnessed significant evolution. Power within the IMF is based on quota size, calculated using a complex formula of economic variables. Prior to 2007 the allotment of quotas in the IMF bore little resemblance to the distribution of economic power. This has changed. A significant step has been two rounds of quota reform in the IMF that were implemented in 2011. An additional proposed quota reform was proposed in 2010 and is pending, awaiting US congressional approval and implementation. The explicit goal of these reforms has been to expand the voting power of advanced developing economies to better reflect the distribution of economic power. Once the latest round of quota reform is completed, China will possess the third largest voting share in the Fund, and all four of the BRIC economies will be among the ten largest shareholders in the IMF. There will also be a planned shift to an all-elected executive board for the IMF that is designed to allow a further reduction in the number of European representatives to the board.

The World Bank Group underwent a parallel set of reforms. Between 2008 and 2010, the voting power of developing and transition economies within the main World Bank institution (the International Bank for Reconstruction and Development) had been increased by 4.59 percentage points, and China became the third largest voting member. The International Finance Corporation (IFC) approved an even larger shift of 6.09 percentage points. More importantly, the Bank's

Development Committee agreed that Bank and IFC shareholding would be reviewed every five years beginning in 2015, thereby routinizing the process.[86]

While the appointments of Lagarde and Kim might appear retrograde, their appointments represent political bargaining that reflected the greater influence of the advanced developing countries. In both cases, the nominee had to woo developing countries to secure political support in advance of voting. China, for example, was an early supporter of both Lagarde and Kim despite the possibility of emerging market candidates.[87] The appointment of Chinese national Min Zhu to be a deputy managing director of the IMF at the same time that Lagarde took over might have been one reason for this preference. This highlights a shift in the distribution of senior-level appointments toward the advanced developing economies.

The content of Bank and Fund policies has also shifted to better reflect developing country concerns. In the wake of the 2008 financial crisis, the IMF began to change its attitude about the wisdom of capital controls. In February 2010 an IMF staff paper concluded that under some circumstances, capital controls could be a legitimate and useful policy tool.[88] Dani Rodrik characterized the change in the IMF's tune as a "stunning reversal" of its previous orthodoxy.[89] By November 2012 the staff note had translated into the IMF's official position. The Fund allowed that capital controls could be "useful" in some circumstances and that "[t]here is . . . no presumption that full [capital account] liberalization is an appropriate goal for all countries at all times."[90] As for the Bank, Kim's appointment to the presidency in 2012 highlights the shift in priorities. Trained as a doctor and an anthropologist, Kim's entire career had focused on health policy. This suggests that the Bank will use a more capacious notion of development going forward, consistent with a shift toward developing country preferences.

The trade and investment regimes have displayed somewhat less vigor than global financial governance, but these regimes have not withered on the vine either. The multilateral trade regime would appear to have suffered the most from the Great Recession. The failure to complete an ambitious Doha Round was a blow to the World

[86] World Bank 2010.
[87] Subramanian 2013, 4.
[88] Ostry et al. 2010.
[89] Rodrik 2010.
[90] International Monetary Fund 2012, 1. It should be noted that the change in the IMF's position on capital controls did not lead to a wholesale rejection of capital account liberalization. Rather, restrictions on capital flows were temporary and market based.

Trade Organization. Nevertheless, the institution has endured, as the December 2013 trade facilitation deal in Bali demonstrates. Indeed, it has expanded its reach in several ways. Geographically, the WTO finally secured the accession of the Russian Federation, the last G20 non-member, after a slow-motion fifteen-year negotiation process. Since the start of 2007 the WTO has added seven additional members, including Ukraine and Vietnam.

The WTO also adapted to play a crucial role in constraining the rise in protectionism. The WTO's impact was felt through both enhanced monitoring and acting as a focal point for plurilateral liberalizaton. Beginning in late 2008, the WTO's secretariat used the Trade Policy Review Mechanism (TPRM) to report on a regular basis to the G20 on increases in protectionism. After initial reluctance, WTO members accepted the move as a useful increase in monitoring and transparency.[91] A comparison of the WTO's monitoring with that of Global Trade Alert further shows that the monitoring of the latter is based on less reliable metrics and exaggerates the increase in protectionism.[92] WTO members also shifted their approach to pushing for greater trade liberalization by switching to expanding or starting plurilateral agreements. China is now negotiating to join the Government Procurement Agreement. The United States, the European Union, and eighteen other countries have accelerated talks on a services liberalization agreement that would encompass most of the OECD economies as well as advanced developing countries.

Enthusiasm for greater trade liberalization has also found an additional outlet: the "open regionalism" of regional and bilateral free trade agreements (FTAs). The traditional expectation that an economic downturn would dampen enthusiasm for greater openness has not been borne out by the data on FTAs. In the four years prior to the collapse of Lehman Brothers, fifty-one FTAs were reported to the World Trade Organization. In the four years since, fifty-eight free trade agreements were registered.[93] The United States and eleven other countries are currently negotiating a Trans-Pacific Partnership. The United States and the European Union are negotiating a Transatlantic Trade and Investment Partnership as well.

To be sure, not all of these FTAs were created equal. Some of them have greater coverage of goods and services than others. Some of them might promote more trade diversion than trade creation. Neverthe-

[91] Wolfe 2012, 787–79; Kim 2013.
[92] Wolfe 2012.
[93] World Trade Organization 2012.

less, the patterned growth of these FTAs mirrors how they spread in the late nineteenth century.[94] Even if these FTAs do not possess the most-favored-nation provision that accelerated trade liberalization in the nineteenth century, the political economy of trade diversion still generates competitive incentives for a growth in FTAs, thereby leading to a similar outcome.[95] Through their own shared understandings and dispute-settlement mechanisms, they act as an additional brake on protectionist policies.[96]

There is no multilateral investment regime to display resiliency. Instead, investment is governed by a network of bilateral investment treaties (BITs). Compared with the data on free trade agreements, it would appear that the pace of BITs has slowed since 2008. According to UNCTAD data, an annual average of seventy-eight BITs were completed in the three years prior to 2008; an average of only sixty-one per annum were negotiated in the three years after 2008. That indicates a slowdown. A look at the longer time series, however, reveals that the Great Recession is not the cause of this slowdown. As Figure 5 shows, the peak of BIT negotiations took place in the decade after the end of the Cold War. From 1992 to 2001, an annual average of 160 BITs were negotiated. After 2001, however, the number of negotiated BITs declined, following a standard diffusion pattern. Based on that kind of pattern of diffusion, the last three years have seen expected levels of BIT growth. Furthermore, in 2012 the United States introduced a new "model BIT" and started negotiations with China, India, and other countries on bilateral investment treaties, suggesting that there will be more significant liberalization going forward.[97]

VII. Why the Misperception?

There is considerable evidence that global economic governance functioned comparatively well in response to the 2008 financial crisis and the Great Recession. Even through the initial drop in output and trade levels was more acute in 2008 than in 1929, by any measure the global economy has rebounded more robustly in the past five years than during the era of the Great Depression. The great powers and global governance structures successfully coordinated policy outputs that alleviated the worst effects of the financial crisis. Key multilateral insti-

[94] Lazer 1999; Drezner 2006.

[95] Indeed, the US endorsement of the Trans-Pacific Partnership has already caused China to accelerate its own strategy of signing regional free trade agreements. See Song and Yuan 2012.

[96] Dadush, Ali, and Odell, 8–9.

[97] Politi 2012.

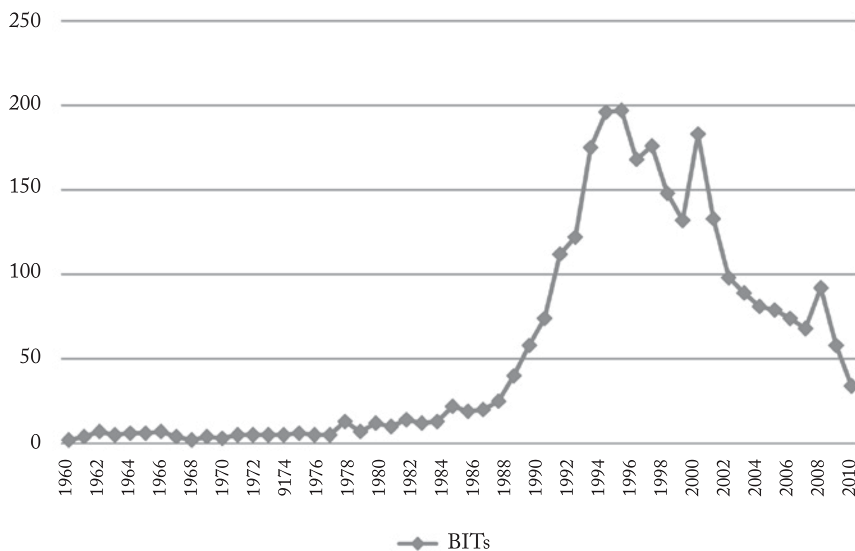

FIGURE 5
ANNUAL COUNT OF BILATERAL INVESTMENT TREATIES, 1960–2011

SOURCE: UNCTAD.

tutions, particularly in the financial realm, expanded their policy competencies and adjusted their governance structures to better reflect the distribution of power in the world. Contrary to precrisis expectations, global economic governance performed the necessary tasks to prevent the 2008 financial crisis from metastasizing into a prolonged depression.

Why is there such a profound gap between perceptions and reality in evaluating the performance of multilateral economic institutions?[98] The simplest explanation is that the core economies—the advanced industrialized democracies—have not rebounded as vigorously as expected. Two trends have marked most postwar global business cycles: economies rebound as vigorously as they drop, and the advanced industrialized states suffer less than the economic periphery. Neither of these trends has held during the Great Recession. As previously noted, the recovery from a financial crisis tends to be longer and slower than standard business-cycle recessions. After the 2008 financial crisis, the recovery has been particularly weak in the advanced industrialized

[98] See Kahler 2013 for a notable exception.

economies. According to the Economist Intelligence Unit, the OECD economies averaged GDP growth of 0.5 percent between 2008 and 2012. The non-OECD economies averaged 5.2 percent during the same period. A weak economy feeds perceptions of institutional breakdown. The 2012 Edelman Trust Barometer reflects this phenomenon. It shows that trust of elite institutions is significantly higher among developing countries than in the developed world.[99] This is a reversal of traditional findings that show lower levels of trust in emerging markets. Since the study of global economic governance has been anchored in the developed world, it is not surprising that this literature suffers from a pessimism bias.

Pessimism about current economic conditions in the developed world might also be causing analysts to conflate poor domestic and regional governance with poor global governance. The primary causes for domestic economic weakness in the United States, Europe, and Japan are not global in origin—and neither are policies at the global level necessarily the best possible response.[100] Japan's economic woes have been a function of two decades of slack economic growth combined with the aftereffects of the Fukushima disaster. US economic misfortunes have had little to do with either the global economy or global economic governance. Indeed, the United States benefited from the postcrisis state of international affairs through lower borrowing costs and higher exports. Domestic policy stalemates and political uncertainty, by contrast, tamped down the US recovery.

Europe's situation is more complex because of the sui generis nature of the eurozone. To be sure, the Great Recession was the trigger for the eurozone's sovereign debt crisis. The international response to the crisis has been that of a modest supporting role. The IMF has proffered both its technical expertise and its financial support in excess of $100 billion to Greece, Portugal, and Ireland. The United States and other major economies have offered to reopen swap lines with the European Central Bank to ensure liquidity. European and national policy responses to the crisis, however, have badly exacerbated the economic situation. Greece's reckless precrisis levels of government spending and borrowing made that economy a target ripe for market pessimism. The initial European bailout package for Greece was inadequate, allowing the crisis to fester. The austerity policies advocated in some quarters have not panned out as expected. The European Central Bank's decision to raise

[99] The Edelman Trust Barometer data can be accessed at http://trust.edelman.com/trust-download/global-results/.

[100] Frieden et al. 2012.

interest rates prematurely in early 2010 helped to stall out the nascent recovery on the Continent. On the fiscal side of the equation, austerity-related policies led to a double-dip recession in Great Britain and the eurozone, higher borrowing costs in Spain and Italy, and continued uncertainty about the euro's future. Europe's fiscal and monetary policies have been less expansionary than in the United States. This, in turn, has prevented any appreciable private sector deleveraging in Europe, thereby guaranteeing a longer downturn before any sustained recovery is possible.[101]

The IMF has come under criticism for failing to exert more influence over the eurozone crisis. One high-ranking staffer resigned in June 2012, blasting the Fund for its "European bias" and the consensus culture that keeps the Fund from criticizing countries in the middle of lending programs.[102] There are two counterpoints to this argument. First, the IMF *has* been critical at various moments during the eurozone crisis. Fund staff issued warnings about the health of the European banks in August 2011, and IMF managing director Lagarde called explicitly for debt sharing among the eurozone countries in June 2012.[103] The first criticism received significant pushback from the European Central Bank and eurozone governments, and Germany ignored the second criticism. This leads to the second point: it is highly unlikely that national governments would feel compelled to respond to IMF criticism in the absence of a market response. The Fund must walk a tightrope between transparent criticism and setting off market panic. This is hardly an ideal vantage point for strong-arming governments with sizable IMF quotas.

A final reason for misperception about global economic governance is exaggerated nostalgia for prior eras of global economic governance. The presumption in much of the commentary on the current global political economy is that both governance structures and hegemonic leadership were better and stronger in the past. Much of this commentary evokes the era of the 1940s, when the creation of the Bretton Woods institutions, backstopped by the United States, ushered in a new era of global governance. The contrast between US leadership then and now seems stark.

This comparison elides some inconvenient facts, however. The late 1940s were indeed the acme of American hegemonic leadership. Even during that peak, however, the United States failed to ratify the Havana

[101] Reinhart and Rogoff 2009; Roxburgh et al. 2012.
[102] Doyle 2012.
[103] Beattie and Giles 2011; Kanter 2012.

Charter that would have created an International Trade Organization with wider scope than the current WTO. With the Marshall Plan, the US decided to act outside the purview of Bretton Woods institutions, weakening their influence. After the late 1940s American leadership and global financial governance experienced as many misses as hits. The logic of the Bretton Woods system rested on an economic contradiction that became known as the Triffin dilemma. Extravagant macroeconomic policies in the United States, combined with a growing reluctance to accommodate the US position, eroded that global financial order. As the logical contradictions of the Bretton Woods regime became more evident, existing policy coordination mechanisms failed to correct the problem. Despite initial efforts to have the IMF exercise leverage over surplus countries as well as deficit countries, the Fund found itself incapable of pressuring countries running surpluses.[104] By 1971, when the United States unilaterally decided to close the gold window, all of the major economies had chosen to ameliorate domestic interests rather than coordinate action at the global level.[105] In ending Bretton Woods, the United States also undercut the IMF's original raison d'être.

Post–Bretton Woods global economic governance was equally haphazard. An increase in antidumping, countervailing duties, and nontariff barriers weakened the rules of the global trading system over the next two decades. Neither the United States nor any global governance structure was able to prevent OPEC from raising energy prices from 1973 to 1986.[106] Exchange rates and macroeconomic policy coordination devolved from the IMF to the G7. A predictable cycle emerged: other G7 countries would pressure the United States to scale back its fiscal deficits. In turn, the United States would pressure Japan and West Germany to expand their domestic consumption in order to act as locomotives of growth. Not surprisingly, the most common outcome on the macroeconomic front was a stalemate.[107]

Even perceived successes in macroeconomic policy coordination have had mixed results. While the 1985 Plaza Accord helped to depreciate the value of the dollar while allowing the yen to rise in value, it was also the beginning of an unsustainable asset bubble in Japan. In Europe the creation of the euro would seem to count as an example of successful coordination. The Growth and Stability Pact that was attached

[104] Barnett and Finnemore 2004, chap. 3.
[105] Gowa 1984.
[106] Keohane 1980.
[107] Putnam and Bayne 1987.

to the creation of the common European currency, however, was less successful. Within a year of the euro's birth, five of the eleven member countries were not in compliance; by 2005, the three largest countries in the eurozone were ignoring the pact.[108] Regardless of the distribution of power or the robustness of international institutions, the history of macroeconomic policy coordination is not a distinguished one.[109] In comparison with this historical standard, three years of successful macroeconomic policy coordination is quite remarkable.

None of this is to deny that global economic governance was useful and stabilizing at various points after 1945. Rather, it is to observe that even during the heyday of American hegemony, the ability of global economic governance to solve ongoing global economic problems was limited. The original point of Kindleberger's analysis of the Great Depression was to discuss what needed to be done during a global economic crisis. By that standard, the post-2008 performance of key institutions has been far better than extant commentary suggests. The obvious defects of recent global economic governance remain clear: the 2008 collapse of the Doha Round, the 2009 breakdown in climate change negotiations, the 2010 breakdown of macroeconomic policy coordination, and the complete absence of any international regime to tackle cybercrime. Expecting more than an effective crisis response might be unrealistic, however. Global economic governance has not been optimal, but it has been good enough.

VIII. Why Has the System Worked?

Global economic governance did what was necessary during the Great Recession—but *why* did the system work? The precrisis observations about sclerotic international institutions and a looming power transition did not seem too far off the mark. How did these actors manage to produce the necessary policy outputs and reforms to stave off systemic collapse? It is impossible to provide a definitive answer in the space provided, but a preliminary evaluation is warranted.

The most commonly provided answer is that the shared sense of crisis spurred the major economies into joint action—and when the immediate crisis subsided, so did the degree of policy coordination. This is not a compelling argument, however. The same crisis mentality did not lead to sustained cooperation during the Great Depression.

[108] Dominguez 2006.
[109] Willett 1999.

Significant postwar economic crises—such as the end of the Bretton Woods regime, the oil shocks of the 1970s, and the breakdown of the European exchange rate mechanism in the early 1990s—also failed to spur meaningful great power cooperation. What caused powerful actors to think of the 2008 crisis as a "shared" one?

A more sophisticated version of this argument stems from open economy politics.[110] It argues that globalization has locked in powerful interests that give strong preference to an open global economy. These interests then pressured governments into taking necessary actions at the national and global levels so as not to interfere with the global supply chain. The problem with this explanation is that there are too many instances in which powerful interests either lost or compromised their positions. Neither Germany's government nor German business interests were predisposed toward Keynesian macroeconomic policies in late 2008. Neither China's government nor its exporting interests preferred allowing the renminbi to appreciate in 2010. Large financial firms were firmly opposed to the Basel III banking accord. European governments resisted the dilution of their influence in the World Bank and International Monetary Fund. There are too many instances of policy coordination—rather than a harmony of preferences—for a strictly interest-based approach to explain post-2008 outcomes.

A fuller answer requires additional research, but some tentative answers can be proffered here. The distribution of power and the role of economic ideas are among the primary conceptual building blocks of international political economy—and both of these factors offer a partial explanation for the performance of global economic governance.[111] Comparing the current situation with the analogous moment during the Great Depression along both of these dimensions, we can discern why events have unfolded differently this time around. Looking at the distribution of power, for example, the interwar period was truly a moment of great power transition. At the start of the Great Depression, the United Kingdom's lack of financial muscle badly hampered its leadership efforts. Even as it was trying to maintain the gold standard, Great Britain possessed only 4 percent of the world's gold reserves.[112]

By contrast, American power and leadership during the recent crisis turned out to be more robust than many experts perceived.[113] This was particularly true in the financial realm. Despite occasional grumblings

[110] For a review, see Lake 2009.
[111] Drezner and McNamara 2013.
[112] Frieden 2006, chap. 8.
[113] Norrlof 2010; Ikenberry 2011; Beckley 2011–12.

among the BRICS, the US dollar's hegemony as the world's reserve currency remained unchallenged, giving the United States the financial power that the United Kingdom lacked eight decades earlier.[114] Nor was the dollar's status as a reserve currency the sole basis for American financial power. The IMF estimated that the United States housed 25 percent of global capital markets in 2010; private sector analysts estimate that American capital was responsible for more than a third of global asset markets. While domestic politics might have prevented a more robust US policy response, partisan gridlock did not prevent the United States from pursuing emergency rescue packages (via the 2008 Troubled Assets Relief Program), expansionary fiscal policy (via the 2009 American Recovery and Reinvestment Act and the 2010 payroll tax cut), stress tests of large financial institutions, expansionary monetary policy (via interest rate cuts, three rounds of quantitative easing, and Operation Twist), and financial regulatory reform (via Dodd-Frank). These acts of US leadership helped to secure multilateral cooperation on macroeconomic policy coordination for two years, as well as Basel III.

Another way to demonstrate the significance of US economic power is to compare and contrast the finance and trade dimensions. As just noted, US market power in the financial realm remained significant even after the crisis; American policy outputs were significant enough to display leadership on these issues. The picture looks very different on trade. US relative power on this issue had faded: according to WTO figures, US imports as a share of total world imports declined from 18.1 percent of total imports in 2001 to 12.3 percent a decade later. US policy on this issue was more inert. The executive branch's trade-promotion authority expired, and legislative demands for protectionism spiked. Not surprisingly, the global policy response on trade has been somewhat more muted than on finance. Intriguingly, as the US economy has recovered more quickly than other advanced industrialized states, even previous skeptics of US power have acknowledged that the death of its hegemony may have been exaggerated.[115]

The other difference between the interwar era and the current day is the state of economic ideas. As the Great Depression worsened during the decade of the 1930s, there was no expert consensus about the best way to resuscitate the global economy.[116] Prominent economists like John Maynard Keynes, who had been staunch advocates of free trade a

[114] Cohen and Benney 2012; Stokes 2013.
[115] See, for example, Subramanian 2013, 4.
[116] James 2001.

decade earlier, reversed themselves as the depression worsened. There was no agreement on the proper macroeconomic policy response to the downturn; nor was there any agreement about whether and how to fix the broken gold standard.

To be sure, there has also been a rethinking of causal beliefs after the 2008 financial crisis—but this rethink has been much less radical. Former Federal Reserve chairman Alan Greenspan made headlines when he admitted that his faith in the intellectual edifice of self-correcting markets had "collapsed." As previously noted, the IMF has reversed course on the utility of temporary capital controls. While the Washington Consensus might be fraying, however, it has not been dissolved or replaced by a "Beijing Consensus." Indeed, such a policy consensus does not even exist within China.[117] If anything, the fifth generation of Chinese leadership has shifted away from the state-led capitalist model. The *China 2030* project, endorsed by China's top leaders, emphasized a transition away from the state-owned enterprises. In a major speech outlining his plan for further economic reform, Prime Minister Li Keqiang stressed the need to "further develop the market's fundamental role in allocating resources." In not articulating an alternative to the current open economic order, China has acted like a responsible stakeholder—not a spoiler.[118]

Mass public attitudes about the global economy suggest the relative robustness of market-friendly economic ideas about the global economy. A general assumption in public opinion research is that during a downturn, demand for greater economic closure should spike, as individuals scapegoat foreigners for domestic woes. The global nature of the 2008 crisis, combined with anxiety about the shifting distribution of power, should have triggered a fall in support for an open global economy. The reverse is true, however. Beginning in 2002 Pew's Global Attitudes Project has been surveying a wide spectrum of countries about globalization.[119] The results show resilient support for expanding trade and business ties with other countries. Twenty-four countries were surveyed in both 2007 and at least one year after 2008, including a majority of the G20 economies. By 2011, twenty of twenty-four countries showed greater or equal support for trade compared with 2007. Indeed, between 2007 and 2012, the unweighted average support for more trade in these countries *increased* from 78.5 percent to 83.6 percent.

[117] Ferchen 2013; Kennedy 2010.
[118] See Johnston 2013, 32–33.
[119] Pew 2012.

After more than a half-century of laying the intellectual groundwork for an open global economy and more laissez-faire domestic economic policies, it would appear that the ideas animating the Washington Consensus are more resilient than expected.[120] As one recent history of free-market thought concluded: "the hold of market advocacy on the popular imagination has remained far stronger than in the early 1930s. . . . Capitalism may be in crisis, but the horizon of alternatives has narrowed."[121] Postcrisis surveys of leading economists suggest that a powerful consensus persists on several key international policy dimensions. The University of Chicago has run an economic experts panel for the past few years since the crisis started. The survey results show a strong consensus on the virtues of freer trade and a rejection of returning to the gold standard to regulate international exchange rates. There is, however, much less consensus on macroeconomic policy, including about the relative merits of quantitative easing and fiscal austerity.[122] This absence of agreement reflects a much greater policy debate on this area. This helps to explain why macroeconomic policy coordination has been less robust.

IX. Conclusion

When the subprime mortgage crisis began, there were rampant fears that global economic governance was too dysfunctional and unprepared to cope with a severe crisis. The Great Recession then exacerbated those fears. A review of policy outcomes, outputs, and processes shows a different picture. Global trade and investment levels have recovered from the plunge that occurred in late 2008. A mélange of international coordination mechanisms facilitated the provision of key policy outputs from 2008 onward. Existing global governance structures, particularly in finance, have been revamped to accommodate shifts in the distribution of power. The evidence suggests that multilateral institutions adapted and responded to the 2008 financial crisis in a robust fashion. They passed the stress test—global economic governance has been good enough. The picture presented here is at odds with prevailing conventional wisdom on this subject.

This does not guarantee that global economic governance will continue to function effectively going forward. It is worth remembering

[120] Yergin and Stanislaw 1997; Burgin 2012.

[121] Burgin 2012, 216.

[122] Gordon and Dahl 2013. For further evidence of the absence of consensus on macroeconomic policy, see Weisenthal 2012; and Blyth 2013.

that there were genuine efforts to provide global public goods in 1929 as well, but they eventually fizzled. The failure of the major economies to assist the Austrian government after the CreditAnstalt bank failed in 1931 led to a cascade of bank failures across Europe and the United States. The collapse of the 1933 London conference guaranteed an ongoing absence of policy coordination for the next several years. The start of the Great Depression was bad, but international policy coordination failures made it worse. Such a scenario could play out again.

It is equally possible, however, that the postcrisis system has increased in resiliency. The 2013 Cyprus crisis failed to trigger the same financial contagion as prior eurozone episodes, for example. Furthermore, a renewed crisis could trigger a renewed surge in policy coordination. As John Ikenberry has observed: "The last decade has brought remarkable upheavals in the global system—the emergence of new powers, financial crises, a global recession, and bitter disputes among allies. . . . Despite these upheavals, liberal international order as an organizational logic of world politics has proven resilient. It is still in demand."[123] Despite uncertain times, the open global economic order that has been in operation since 1945 does not appear to be closing anytime soon.

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[123] Ikenberry 2011, 6.

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