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The Irony of Global Economic Governance

The System Worked

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Acronyms

ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
BIT	bilateral investment treaty
BRIC	Brazil, Russia, India, China
FDI	foreign direct investment
FTA	free trade agreement
G7	Group of Seven
G8	Group of Eight
G20	Group of Twenty
GPA	Government Procurement Agreement (WTO)
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
OECD	Organization of Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Introduction

The 2008 financial crisis posed the biggest challenge to the global economy since the Great Depression and provided a severe "stress test" for global economic governance. A review of economic outcomes, policy outputs, and institutional resilience reveals that these regimes performed well during the acute phase of the crisis, ensuring the continuation of an open global economy. Even though some policy outcomes have been less than optimal, international institutions and frameworks performed contrary to expectations. Simply put, the system worked.

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 Great Depression.[1] Housing prices in the United States declined more than twice as much as they did during the Great Depression.[2] The global decline in asset values led to aggregate losses of $27 trillion in 2008—a half-year's worth of global economic output.[3] Global unemployment increased by an estimated fourteen million people in 2008 alone.[4] Nearly four years after the crisis, concerns about systemic risk still continue.[5]

The demand for global economic governance structures to perform effectively is at its greatest during crises. An open global economy lessens the stagnation that comes from a financial crisis, preventing a downturn from metastasizing into another Great Depression. One of the primary purposes of multilateral economic institutions is to provide global public goods—such as keeping barriers to cross-border exchange low. Even if states are the primary actors in world politics, they rely on a bevy of acronym-laden institutions—the International Monetary Fund (IMF), World Trade Organization (WTO), Bank for International Settlements (BIS), and Group of Twenty (G20)—to coordinate action on the global scale. International institutions can be the policymaker's pacifier. In an anarchic world, these structures reduce uncertainty for all participating actors. When they function well, they facilitate communication and foster shared understanding between policy principals. When they function poorly, a lack of trust and a surfeit of uncertainty stymies responsible authorities from cooperating.

Since the Great Recession began, there has been no shortage of scorn for the state of global economic governance among pundits and scholars.[6] Nevertheless, a closer look at the global response to the financial crisis reveals a more optimistic picture. Despite initial shocks that were more severe than the 1929 financial crisis, national policy elites and multilateral economic institutions responded quickly and robustly. Whether one looks at economic outcomes, policy outputs, or institutional resilience, global economic governance structures have either reinforced or improved upon the status quo since the collapse of the subprime mortgage bubble. To be sure, there remain areas where governance has either faltered or failed, but on the whole, the global regime worked.

How Does Global Economic Governance Work?

Debates about whether global governance works or not usually do not suffer from an abundance of data. More typically, critics of the current system tend to rely on a few stylized facts that are meant to suggest general dysfunction. In recent years, the three events most commonly cited are:[7]

- *The collapse of the Doha round.* Just before the financial crisis hit its acute phase, last-gasp efforts to the Doha round of WTO negotiations stalled out. Subsequent G20 pledges to abstain from protectionism and complete the Doha round of world trade talks have been as common as they have been toothless. Within the first six months of the financial crisis, seventeen of the twenty countries had violated that pledge, implementing a combined forty-seven measures to restrict trade at the expense of other countries.[8] The current status of the Doha round is so moribund that the Bush administration's last U.S. trade representative advocated abandoning the effort.[9]
- *The breakdown of macroeconomic policy consensus at the 2010 Toronto G20 summit.* Prior to the Toronto summit, there was a rough consensus among the G20 in favor of government stimulus to keep the global economy afloat. The United States went into that summit to argue for more expansionary monetary and fiscal policy, but came out of it with no consensus. Other countries embraced austerity policies instead. In the subsequent eighteen months, numerous G20 members accused each other of starting a currency war.
- *The escalation of Europe's sovereign debt crisis.* As an increasing number of eurozone economies have found their fiscal fortunes collapsing, European institutions have appeared powerless to stop the spreading financial contagion. If the European Union, the single most powerful regional institution in existence, cannot cope with this crisis, why should we expect global governance structures to do better with bigger problems?

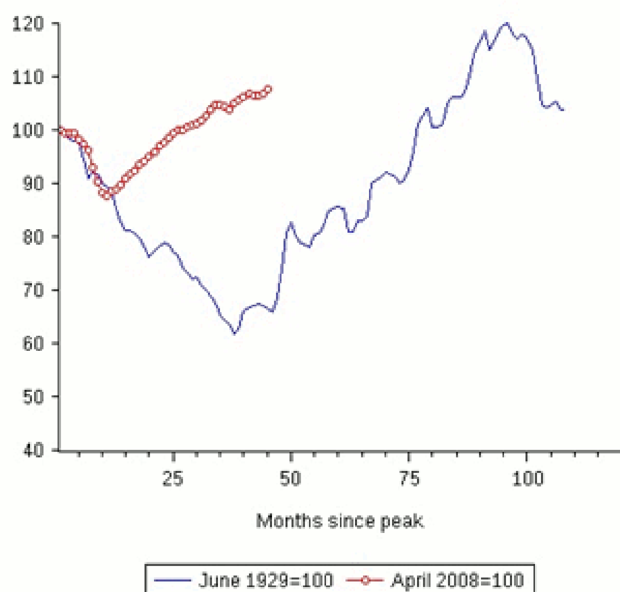
These facts are true, but they are not the whole truth. To ascertain the effectiveness of global economic governance after the 2008 financial crisis, it is useful to look at three different levels of analysis. First, what do the policy outcomes look like? How have global output, trade, and other capital flows responded since the start of the Great Recession? Second, what do the policy outputs look like? Have important international institutions provided policies that experts would consider significant and useful in response to the global financial crisis? Finally, have these governance structures demonstrated institutional resiliency and flexibility? A common complaint prior to 2008 was that these institutions had not adapted to the shifting distribution of power. Have these structures maintained their relevance and authority? Have they responded to the shifts in the distribution of power to ensure that the powerful actors continue to buy into existing arrangements?

POLICY OUTCOMES

In looking at outcomes, the obvious question is how well the global economy has recovered from the 2008 crisis. The current 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.[10] Furthermore, the global nature of the crisis makes it extremely difficult for countries to export their way out of the problem. Countries that have experienced severe banking crises since World War II have usually done so when the global economy was largely unaffected. That was not the case for the Great Recession.

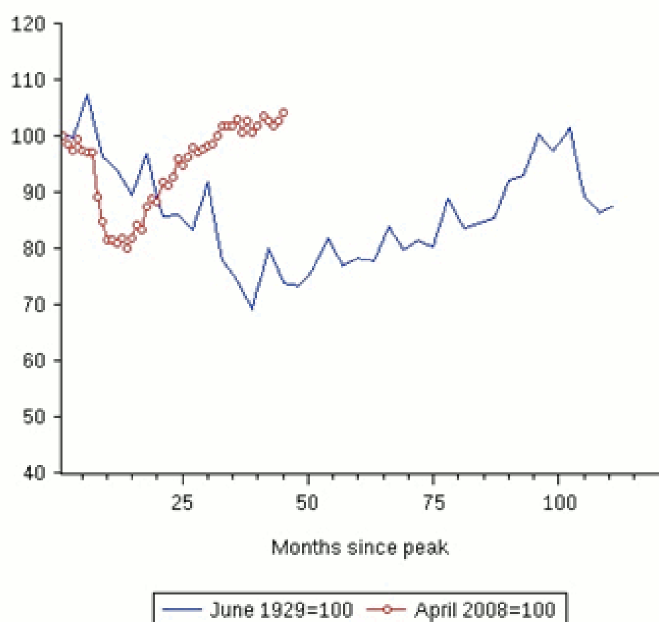
The global economy has rebounded much better than during the Great Depression. Economists Barry Eichengreen and Kevin O'Rourke have compiled data to compare global economic performance from the start of the crises (see Figures 1 and 2).[11] Two facts stand out in their comparisons. First, the percentage 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 in industrial output was greater in 2008 nine months into the crisis than it was eighty years earlier after the same amount of time. 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 at only two-thirds of precrisis levels.

Figure 1. World Industrial Production: Great Depression vs. Great Recession



Source: Eichengreen and O'Rourke, "A tale of two depressions redux."

Figure 2. World Trade Volumes: Great Depression vs. Great Recession



Source: Eichengreen and O'Rourke, "A tale of two depressions redux."

A similar story can be told with aggregate economic growth. According to World Bank figures, global economic output rebounded in 2010 with 2.3 percent growth, followed up in 2011 with 4.2 percent growth. The global growth rate in 2011 was 44 percent higher than the average of the previous decade. Even more intriguing, the growth continued to be poverty reducing.[12] The World Bank's latest figures suggest that despite the 2008 financial crisis, extreme poverty continued to decline across all the major regions of the globe. And the developing world achieved its first Millennium Development Goal of halving the 1990 levels of extreme poverty.[13]

An important reason for the quick return to positive economic growth is that cross-border flows did not dry up after the 2008 crisis. Again, compared to the Great Depression, trade flows have rebounded extremely well.[14] Four years after the 1929 stock market crash, trade flows were off by 25 percent compared to precrisis levels. Current trade flows, in contrast, are more than 5 percent higher than in 2008. Even compared to other postwar recessions, the current period has seen robust cross-border exchange. Indeed, as a report from CFR's Maurice R. Greenberg Center for Geoeconomic Studies concluded in May 2012, "The growth in world trade since the start of the [current] recovery exceeds even the best of the prior postwar experiences."[15]

Other cross-border flows have also rebounded from 2008–2009 lows. Global foreign direct investment (FDI) has returned to robust levels. FDI inflows rose by 17 percent in 2011 alone. This put annual FDI levels at $1.5 trillion, surpassing the three-year precrisis average, though still approximately 25 percent below the 2007 peak. More generally, global foreign investment assets reached $96 trillion, a 5 percent increase from precrisis highs. Remittances from migrant workers have become an increasingly important revenue stream to the developing world—and the 2008 financial crisis did not dampen that income stream. Cross-border remittances to developing countries quickly rebounded to precrisis levels and then rose to an estimated all-time high of $372 billion in 2011, with

growth rates in 2011 that exceeded those in 2010. Total cross-border remittances were more than $501 billion last year, and are estimated to reach $615 billion by 2014.[16]

Another salient outcome is mass public attitudes 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. Somewhat surprisingly, however, the reverse is true. Pew's Global Attitudes Project has surveyed a wide spectrum of countries since 2002, asking people about their opinions on both international trade and the free market more generally.[17] The results show resilient support for expanding trade and business ties with other countries. Twenty-four countries were surveyed both in 2007 and at least one year after 2008, including a majority of the G20 economies. Overall, eighteen of those twenty-four countries showed equal or greater support for trade in 2009 than two years earlier. By 2011, twenty of twenty-four countries showed greater or equal support for trade compared to 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. Contrary to expectation, there has been no mass public rejection of the open global economy. Indeed, public support for the open trading system has strengthened, despite softening public support for free-market economics more generally.[18]

The final 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.[19] Whether through greater internal repression, diversionary wars, arms races, or a ratcheting up of great power conflict, there were genuine concerns that the global economic downturn would lead to an increase in conflict. Violence in the Middle East, border disputes in the South China Sea, and even the disruptions of the Occupy movement fuel impressions of surge in global public disorder.

The aggregate data suggests otherwise, however. A fundamental conclusion from a recent report by the Institute for Economics and Peace is that "the average level of peacefulness in 2012 is approximately the same as it was in 2007."[20] 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; the secular decline in violence that started with the end of the Cold War has not been reversed.[21]

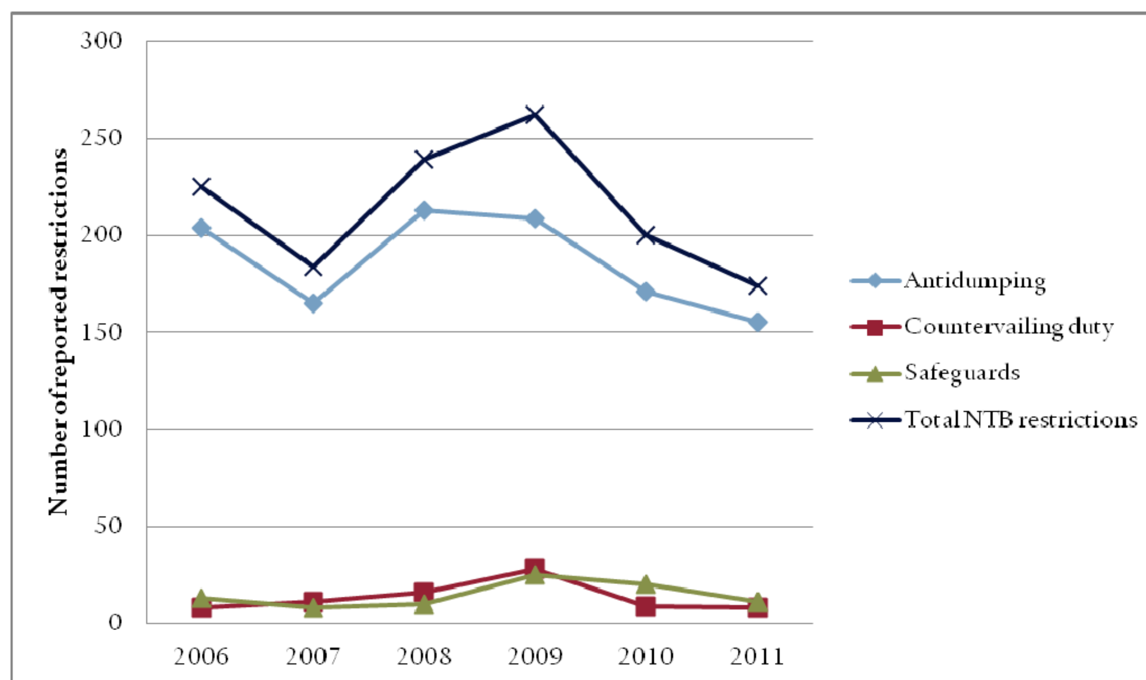
None of these data suggest that the global economy is operating swimmingly. Growth remains unbalanced and fragile, and has clearly slowed in 2012. Transnational capital flows remain depressed compared to precrisis levels—primarily due to a drying up of cross-border interbank lending in Europe. Currency volatility remains an ongoing concern. Compared to the aftermath of other postwar recessions, growth in output, investment, and employment in the developed world have all lagged behind. But the Great Recession is not like other postwar recessions in either scope or kind; expecting a standard V-shaped recovery was unreasonable. One financial analyst characterizes the current global economy as in a state of "contained depression."[22] The operative word is contained, however. Given the severity, reach, and depth of the 2008 financial crisis, the proper comparison is with the Great Depression. And by that standard, the outcome variables look impressive.

POLICY OUTPUTS

It could be that the global economy has experienced a moderate bounce back in spite rather than because of the global policy response. Economists like Paul Krugman and Joseph Stiglitz have been particularly scornful of policymakers and central bankers.[23] 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:"(a) maintaining a relatively open market for distress goods; (b) providing countercyclical long-term lending; and (c) discounting in crisis."[24] 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 trade protectionism and beggar-thy-neighbor policies of the 1930s.[25]

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 death of the Doha round, the rise of G20 protectionism after the fall 2008 summit, and the explosion of anti-dumping cases that occurred at the onset of the financial crisis suggested that markets were drifting toward closure. According to the WTO's data, anti-dumping initiations surged by 30 percent in 2008 alone. This surge quickly receded, however. Figure 3 shows that by 2011, antidumping initiations had declined dramatically to precrisis levels. Indeed, these cases have fallen to their lowest levels since the WTO's founding in 1995. Both countervailing duty complaints and safeguards initiations have also fallen to precrisis levels.

Figure 3. Trade Restrictions, 2006–2011



Source: WTO

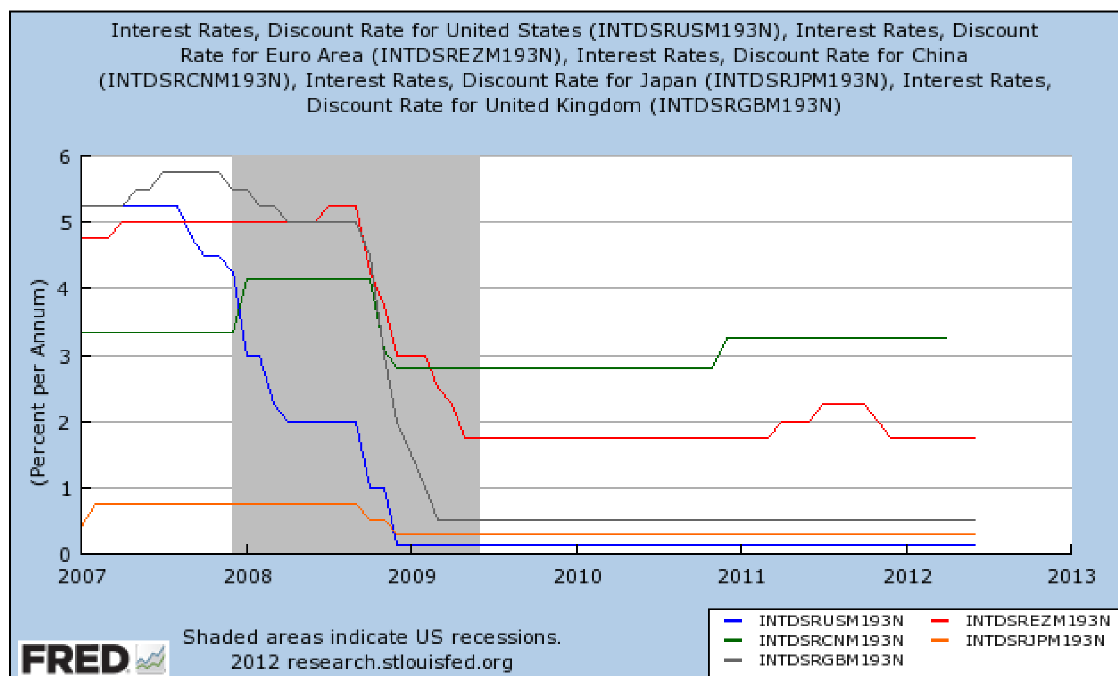
Some post-2008 measures aren't captured in these traditional metrics of nontariff barriers, but similar results hold. Most of those implemented measures were concentrated in countries that already possessed higher barriers to global economic integration, such as Russia and Argentina. Even

including these additional measures, the combined effect of protectionist actions for the first year after the peak of the financial crisis affected less than 0.8 percent of global trade.[26] Furthermore, the use of these protectionist measures declined additionally in 2010 to cover only 0.2 percent of global trade. Protectionist actions rose again in 2012, but again, the effect of these measures remains modest.[27] The quick turnaround and growth in trade levels show that these measures have not seriously impeded market access.[28] In part, accelerated steps toward trade liberalization at the bilateral and regional levels have blunted the effect of these protectionist actions.

Proponents 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. The past four years suggest that there are limits to that rule of thumb. Recent surveys of global business leaders reveal that concerns about protectionism have stayed at a low level.[29] At a minimum, the bicycle of world trade is still coasting forward at high speed.

From the earliest stages of the financial crisis, there was also concerted and coordinated action among central banks to ensure both discounting and countercyclical lending. The central banks of the major economies began cutting interest rates slowly after the fall of 2007. By the fall of 2008 they were cutting rates ruthlessly and in a coordinated fashion, as Figure 4 indicates. According to BIS estimates, global real interest rates fell from an average of 3 percent prior to the crisis to zero in 2012—in the advanced industrialized economies, the real interest rate was effectively negative.[30]At present, the highest interest rate among the major advanced economies is 0.75 percent, offered by the European Central Bank. Not content with lowering interest rates, most of the major central banks also expanded other 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. BIS 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."[31]

Figure 4. Major Policy Interest Rates, 2007–2012



Source: St. Louis Federal Reserve Bank.

Central banks and finance ministries also took coordinated action during the fall of 2008 to try to ensure cross-border lending as to avert currency and solvency crises. In October of that year, the Group of Seven (G7) economies plus Switzerland agreed to unlimited currency swaps in order to ensure 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 Association of Southeast Asian Nations (ASEAN) economies broadened the Chang Mai Initiative into an $80 billion swap arrangement to ensure liquidity. The IMF created the Short-Term Liquidity Facility designed to "establish quick-disbursing financing for countries with strong economic policies that are facing temporary liquidity problems."[32] The fund also negotiated emergency financing for Hungary, Pakistan, Iceland, and Ukraine.

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 World Bank's International Development Association (IDA), which offers up the most concessionary form of lending, also increased its resources. The sixteenth IDA replenishment was a record $49. 3 billion—an 18 percent increase of IDA resources from three years earlier. By Kindleberger's criteria, global economic governance worked reasonably well in response to the 2008 financial crisis.

To be sure, there exist global public goods that go beyond Kindleberger's criteria. 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.[33]

Progress has also been made on regulatory coordination in finance and investment rules. There were developments in two areas in particular: banking regulation and investor protectionism. In the former area, 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—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, increase the amount of reserve capital banks need to keep on hand and add additional countercyclical capital buffers to prevent financial institutions from engaging in pro-cyclical lending.

Financial sector 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. There is consensus, however, on two points. First, Basel III clearly represents an upgrade over the Basel II standards in preventing bank failures.[34] Second, the dampening effects of the new standards on economic growth are negligible. Furthermore, these standards were approved despite fierce resistance from the global banking industry. In November 2011 the Financial Stability Board designated global systemically important banks that will be required to keep additional capital on hand, and it plans to identify global systemically important nonfinancial institutions by the end of 2012.[35]

Progress was also made in investor protectionism against state-owned enterprises and funds. 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 Organization of Economic Cooperation and Development (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. In September 2008 an IMF-brokered process approved a set of Generally Accepted Principles and Practices (GAPP) 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."[36] The expert consensus among financial analysts, regulators, and academics was that these principles—if fully implemented—address most recipient country concerns.[37] Since the IMF approved the Santiago Principles, furthermore, investor protectionism has declined. [38]

INSTITUTIONAL RESILIENCE AND FLEXIBILITY

The degree of institutional resiliency and flexibility at the global level has been rather remarkable. Once the acute phase of the 2008 financial crisis began, the G20 quickly supplanted the G7 and Group of Eight (G8) as the focal point for global economic governance. At the September 2009 G20 summit in Pittsburgh, the member countries explicitly avowed that they had "designated the G20 to be the premier forum for our international economic cooperation."[39] This move addressed the worsening problem of the G8's waning power and relevancy—a problem of which G8 members were painfully aware.[40] The G20 grouping comprises 85 percent of global economic output, 80 percent of

global trade, and 66 percent of global population. The G20 is not perfectly inclusive, and it has a somewhat idiosyncratic membership at the margins, but it is a far more legitimate and representative body than the G8.[41] As Geoffrey Garrett puts it, "the G20 is globally representative yet small enough to make consensual decision-making feasible."[42] As a club of great powers, consensus within the G20 should lead to effective policy coordination across a wide range of issues.[43]

To be sure, having the capacity to be an effective body and actually *being* effective are two different things. The perception is that the G20's political momentum stalled out years ago after countries disagreed on macroeconomic imbalances and the virtues of austerity. The reality is a bit more complex. 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 November 2011 Cannes Summit.[44]

An obvious rejoinder is that this kind of assessment inflates compliance because the pledges made at these summits are increasingly modest.[45] It could be that the G20 has simply scaled back its ambitions—even in 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 to defuse 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.[46] In June of that year, President Barack Obama sent a letter to his G20 colleagues stressing the importance of "market-determined exchange rates." Three days after the president'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—more so if one factors in the differences in national inflation rates.[47]

Other important 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 countries by adding the developing country members of the G20. The Financial Stability Forum was renamed the Financial Stability Board in April 2009, was given greater responsibilities for regulatory coordination, and similarly expanded to include the developing country members of the G20 in its membership. During this period the Committee of the Global Financial System also grew in size from thirteen countries to twenty-two members, adding Brazil, China, and India, among others. The Financial Action Task Force on money laundering has added China, India, and South Korea to its grouping over the past five years. Prior to 2008, the G7 countries dominated most of these financial standard–setting agencies.[48] In terms of membership, that is no longer the case.

The International Monetary Fund and World Bank have 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 the World Bank presidency has continued over the past two years. 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 American Jim Yong Kim became 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. Pri-

or to 2007, the allotment of quotas in the IMF bore little resemblance to the distribution of economic power. This has changed. The most significant step has been two rounds of quota reform in the IMF, the first enacted in 2008 and the second to be completed by the end of this year. The explicit goal of the quota reform was to expand the voting power of advanced developing economies to better reflect the distribution of economic power. Once completed, China will possess the third-largest voting share in the fund and all four of the BRIC (Brazil, Russia, India, and China) economies will be among the ten largest shareholders in the IMF.[49] 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 important, the bank's development committee agreed that bank and IFC shareholding would be reviewed every five years beginning in 2015, routinizing the process.[50]

While the appointments of Lagarde and Kim might seem retrograde, they came with 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. The appointment of Chinese national Min Zhu to be a deputy managing director of the IMF at the same time that Lagarde took over shows a shift in the distribution of senior-level appointments toward the advanced developing economies.

The content of the bank and fund policies has also shifted to better reflect developing country concerns. In a staff paper, the IMF acknowledged that "capital controls may be useful in addressing both macroeconomic and financial stability concerns in the face of inflow surges," a shift from the Washington consensus.[51] 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 has focused entirely on health policy until now. This suggests that the bank will use a more capacious notion of development going forward.

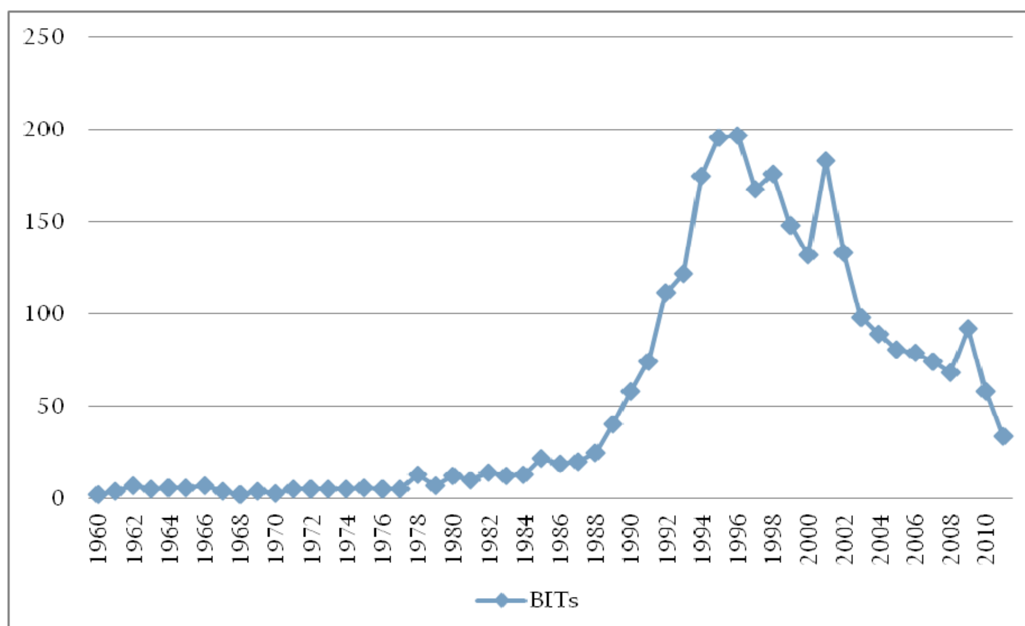
The trade and investment regimes have displayed somewhat less resiliency than global financial governance—but these regimes have not withered on the vine either. The multilateral trade regime in particular would appear to have suffered the most from the Great Recession. The collapse of the Doha round was a severe blow to the World Trade Organization. Nevertheless, the WTO as an institution has endured. Indeed, it has expanded its reach in several ways. Geographically, the WTO finally secured the accession of the Russian Federation, the last G20 nonmember, after a slow-motion, fifteen-year negotiation process. The WTO's dispute settlement mechanism helped contain the spread of protectionist measures that the Great Recession triggered. There is no evidence that compliance with these rulings has waned since 2008; the available evidence suggests that the WTO's dispute settlement arm is still playing a valuable role.[52] The WTO's Government Procurement Agreement (GPA) helped blunt the most blatant parts of the "Buy American" provisions of the 2009 fiscal stimulus, thereby preventing a cascade of fiscal protectionism. Although the GPA is only plurilateral, China is now negotiating to join the agreement. The United States, European Union, and China are also accelerating talks on a services liberalization agreement that would encompass most of the OECD economies as well as developing countries.

In truth, the Doha round had lost its momentum long before the 2007–2008 financial crisis, and it was effectively moribund before the Great Recession started. What is interesting to note is that the enthusiasm for greater trade liberalization has not lost its momentum, but rather found a new outlet: the explosion 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 Lehman, fifty-eight free trade agreements have been registered.[53] A transpacific partnership and a transatlantic free trade zone are at preliminary stages of negotiation as well. To be sure, not all of these FTAs were created equal. Some of them have greater coverage of goods than others. Some of them might promote more trade diversion than trade creation. Nevertheless, the patterned growth of these FTAs mirrors how they spread in the late nineteenth century.[54] Although 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.[55] Through their own shared understandings and dispute settlement mechanisms, they act as an additional brake on protectionist policies.[56]

There is no multilateral investment regime to display resiliency. Instead, investment is governed by a network of bilateral investment treaties (BITs). Compared to the data on free trade agreements, it would appear that the pace of BITs has slowed since 2008. According to United Nations Conference on Trade and Development (UNCTAD) data, an annual average of seventy-eight BITs were completed in the three years prior to 2008; only an average of sixty-one per annum were negotiated in the three years after 2008. That indicates a slowdown. A look at the series over the longer term, however, reveals that this slowdown is not surprising. 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 past three years have seen expected levels of BIT growth.

Figure 5. Annual Count of Bilateral Investment Treaties, 1960–2011



Source: UNCTAD.

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 waning American power did not seem off the mark. How did these actors manage to produce the necessary policy outputs and reforms to stave off systemic collapse? The most commonly provided answer is that the shared sense of crisis spurred the major economies into joint action. The crisis mentality did not lead to sustained cooperation during the Great Depression, however. Significant postwar economic downturns—such as the end of the Bretton Woods regime, the oil shocks of the 1970s, and the failure of the European Exchange Rate Mechanism in the early 1990s—also failed to spur meaningful great power cooperation during the immediate crisis moments. What caused powerful actors to think of the 2008 crisis as a shared one?

A fuller answer will require additional research, but some tentative answers can be proffered here. Power, institutions, and ideas are among the primary building blocks of international relations theory, and each of these factors offers a partial explanation for the performance of global economic governance. Comparing the current situation with the analogous moment during the Great Depression along these three dimensions can help explain 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.[57]

In contrast, U.S. power and leadership during the recent crisis turned out to be more robust than expected. This was particularly true in the financial realm. Despite occasional grumblings among the BRICs, the U.S. dollar's hegemony as the world's reserve currency remains unchallenged, giving the United States the financial power that the United Kingdom lacked eight decades ago. Capital surplus countries—such as China—exaggerated the leverage they could obtain from holding large amounts of dollar-denominated reserves.[58] They rapidly discovered that U.S. dollar hegemony bound their interests to the United States on financial issues. While domestic politics might have prevented a more robust U.S. 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), expansionary monetary policy (via interest rate cuts, two rounds of quantitative easing, and Operation Twist), and financial regulatory reform (via the Dodd-Frank Act). These deeds of U.S. leadership helped secure multilateral cooperation on macroeconomic policy coordination for two years, as well as Basel III.

Another way to demonstrate the significance of U.S. leadership is to compare and contrast the finance and trade dimensions. As just noted, U.S. power in the financial realm remained significant even after the crisis; according to the IMF, in 2010 the United States was responsible for 25 percent of global capital markets. American policy outputs were significant enough to display leadership on these issues. The picture looks very different on trade. U.S. relative power on this issue had faded:

U.S. 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. U.S. policy on this issue was inert.[59] 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.

Despite weaker U.S. power and leadership, the global trade regime has remained resilient—particularly when compared to the 1930s. This highlights another significant factor: the thicker institutional environment. There were very few multilateral economic institutions of relevance during the Great Depression. No multilateral trade regime existed, and international financial structures remained nascent. The last major effort to rewrite the global rules—the 1933 London Monetary and Economic Conference—ended in acrimony.[60] Newly inaugurated president Franklin D. Roosevelt unilaterally took the United States off the gold standard, signaling an end to any attempt at multilateral cooperation.

In contrast, the current institutional environment is much thicker, with status-quo policies focused on promoting greater economic openness. A panoply of preexisting informal and formal regimes was able to supply needed services during a time of global economic crisis. At a minimum, institutions like the G20 functioned as useful focal points for the major economies to coordinate policy responses. International institutions like the Bank of International Settlements further provided crucial expertise to rewrite the global rules of the game. Even if the Doha round petered out, the WTO's dispute settlement mechanism remained in place to coordinate and adjudicate monitoring and enforcement. Furthermore, the status-quo preference for each element of these regimes was to promote greater cross-border exchange within the rule of law. It is easier for international institutions to reinforce existing global economic norms than to devise new ones. Even if these structures were operating on autopilot, they had already been pointed in the right direction.

The final 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 economy. Prominent economists like John Maynard Keynes, who had been staunch advocates of free trade a 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 how to fix the broken gold standard.

There has also been a rethinking of causal beliefs after the 2008 financial crisis, but this rethink has been much less severe. 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. Though the Washington consensus might be fraying, it has not been dissolved or replaced by a "Beijing consensus"—indeed, it is far from clear that a Beijing consensus actually exists.[61] Postcrisis surveys of leading economists suggest that a powerful consensus remains on several essential international policy dimensions. For example, the University of Chicago has run an economic experts panel for the past few years. 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. On the other hand, there is much less consensus on monetary policy and the benefits of further quantitative easing.[62] This absence of agreement reflects a much greater policy debate on the subject, helping to explain why macroeconomic policy coordination has been less robust.

Why the Misperception?

Why is there such a profound gap between perceptions and reality in evaluating the performance of multilateral economic institutions? 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 economies. According to the Economist Intelligence Unit, the OECD economies have averaged GDP growth of 0.5 percent between 2008 and 2012. The non-OECD economies have averaged 5.2 percent during the same period. A weak economy feeds perceptions of institutional breakdown. The 2012 Edelman Trust Barometer reflects this phenomenon; contrary to traditional numbers, trust of elite institutions is significantly higher among developing countries than in the developed democracies.[63] Since most analyses of global governance structures have been anchored in the developed world, it is not surprising that this literature suffers from a pessimistic 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 the best policy responses. Japan's current economic woes are a function of two decades of slack economic growth combined with the aftereffects of the Fukushima disaster. American economic misfortunes have little to do with either the global economy or global economic governance. Indeed, the United States has benefited from the current state of international affairs through lower borrowing costs and higher exports. Domestic political deadlock and uncertainty, on the other hand, have contributed to the anemic U.S. recovery. Already, concerns about the coming fiscal cliff have dampened economic activity.[64] Eroding policy consensus within the Federal Reserve has not helped either. Without more expansionary fiscal and monetary policies, it will take even longer for the necessary private-sector deleveraging to play itself out.

Europe's situation is more complex. 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 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 ripe target for market pessimism. The initial European bailout package for Greece was woefully 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 prematurely raise interest rates in early

2010 helped stall out the nascent recovery on the continent. On the fiscal side of the equation, austerity-related policies have led to a double-dip recession in Great Britain, higher borrowing costs in Spain and Italy, and continued uncertainty about the future of the euro. 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.[65]

The IMF has come under criticism for failing to exert more influence over the eurozone crisis. One official recently resigned, blasting the fund for its European bias and the consensus culture that keeps it from criticizing countries in the middle of lending programs. There are two counterpoints to this argument, however. 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 in June 2012.[66] 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 the past 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 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 U.S. 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 Charter that would have created an International Trade Organization with wider scope than the current WTO. With the Marshall Plan, the United States decided to act outside the purview of Bretton Woods institutions, weakening their influence. After the late forties, 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 U.S. 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. 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.[67] In ending Bretton Woods, the United States also undercut the IMF's original purpose for existence.

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 the Organization of the Petroleum Exporting Countries (OPEC) from raising energy prices from 1973 to 1986.[68] 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 Ger-

many 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.[69]

Even perceived successes in macroeconomic policy coordination have had mixed results. The 1985 Plaza Accord helped depreciate the value of the dollar while allowing the yen to rise in value, but 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 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.[70] Regardless of the distribution of power or the robustness of international institutions, the history of macroeconomic policy coordination is not a distinguished one.[71]

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.[72] 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 vital institutions has been far better than extant commentary suggests. Expecting more than an effective crisis response might be unrealistic.

Conclusion

Five years ago, there were rampant fears that waning American power would paralyze global economic regimes. The crisis of the Great Recession exacerbated those fears even further. A review of policy outcomes, policy outputs, and institutional resilience 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 policy outputs from 2008 onward. Existing global governance structures, particularly in finance, have revamped themselves to accommodate shifts in the distribution of power. The World Economic Forum's survey of global experts shows rising confidence in global governance and global cooperation.[73] The evidence suggests that global governance structures adapted and responded to the 2008 financial crisis in a robust fashion. They passed the stress test. The picture presented here is at odds with prevailing conventional wisdom on this subject.

This does not mean that global economic governance will continue to function effectively going forward. It is worth remembering that there were genuine efforts to provide global public goods in 1929 as well, but they eventually fizzled out. The failure of the major economies to assist Austria after the Credit Anstalt bank crashed 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. International policy coordination failures made it worse. Such a scenario could play out again. There is no shortage of latent or ongoing crises that could lead to a serious breakdown in global economic governance. The IMF's reluctance to take more critical actions to address the eurozone crisis have already prompted one angry resignation letter from an IMF staffer. The summer 2012 drought in the midwestern United States could trigger another spike in food prices. The heated protectionist rhetoric of the 2012 presidential campaign in the United States, or the nationalist rhetoric accompanying China's 2012 leadership transition, could spark a Sino-American trade war. If global economic growth continues to be mediocre, the surprising effectiveness of global economic governance could peter out. Incipient signs of backsliding in the WTO and G20 might mushroom into a true "G-Zero" world.[74]

It is equally possible, however, that a renewed crisis would trigger a renewed surge in policy coordination. As scholar G. John Ikenberry has observed, "the complex interdependence that is unleashed in an open and loosely rule-based order generates some expanding realms of exchange and investment that result in a growing array of firms, interest groups and other sorts of political stakeholders who seek to preserve the stability and openness of the system."[75] The post-2008 economic order has remained open, entrenching these interests even more across the globe. Despite uncertain times, the open economic system that has been in operation since 1945 does not appear to be closing anytime soon.

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74. Ian Bremmer and Nouriel Roubini, "A G-Zero World," *Foreign Affairs,* vol. 90, March/April 2011; Ian Bremmer, *Every Nation for Itself* (New York: Portfolio/Penguin, 2012).
75. G. John Ikenberry, *Liberal Leviathan* (Princeton: Princeton University Press, 2011), p. 340.

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