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THE SYSTEM WORKED:
HOW THE WORLD STOPPED ANOTHER GREAT DEPRESSION

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P R O C E E D I N G S

MR. JONES: Okay. Thank you all for joining us here today. It's been a week of rather gloomy news. It's been a few years of rather gloomy news, and today we're going to get a bit of a breath of fresh air, a more optimistic look at one of the most important episodes of the recent history, namely, the international response to the global financial crisis. We're going to have a presentation from Dan Drezner, whose book, *The System Worked*, which tells you the basic message, is available for sale. I highly recommend it. A very readable and accessible and persuasive account of what are normally complicated issues but issues that matter a great deal, so we're going to hear from Dan about his argument, and then we'll have a discussion on stage, and then we'll engage in a conversation with all of you. So thank you for being here.

I'm going to introduce all of our panel now and then turn to Dan to introduce the book. And most of you know the people on the stage, but let me introduce them briefly anyway.

Dan Drezner is a professor of International Politics at the Fletcher School at Tufts. Much more importantly than that he's a nonresident fellow with our program on International Order and Strategy here at Brookings. He writes a blog at the Washington Post called *Spoiler Alert*, and before that was one of the editors -- contributor editor at *Foreign Policy*. He has written a number of books about global economic issues, about global politics. Was at the Treasury Department in 2000-2001, so you can't blame him for the global financial crisis, and is perhaps best known for a book that he wrote called *Theories of International Politics and Zombies*. You're never going to live that one down.

MR. DREZNER: No. The revised edition is coming out in October.

MR. JONES: There we go. And the new book is called *The System Worked: How the World Stopped another Great Depression*.

And then we're going to engage in a conversation with Kathleen McNamara, who is associate professor of Government and Foreign Service and director of the Mortara Center for International Studies at Georgetown, and has written widely and has huge expertise on international economic politics and monetary policy, and also of the ideas that shape that debate, which is an important part of Dan's books. I'm very pleased that you're here to join us.

And then with Ely Ratner as well, who is a senior fellow and deputy director of Asia-Pacific Security Program at CNAS, had its big jamboree conference the last couple days, and was previously the China desk officer at State Department and thinks a lot about strategic questions and the way the international system is or isn't able to handle the changing strategic picture. And so we'll be able to take the conversation beyond just the economic demand and into broader questions about whether or not we're seeing an international system that can cope with the changes that confront us.

So with that backdrop, Dan, why don't you kick us off with about 15 minutes on the argument about the book itself.

MR. DREZNER: Thank you very much, Bruce, who I'd like to consider my kindred spirit in optimism given the book that you had come out in March. I'd also like to point out I'm at a distinct disadvantage because both Kate and Ely actually have copies of my book, whereas I just wrote it, but that was a long time ago and I'm not entirely sure what I said, so I'm really going to be in deep trouble.

So the book is about essentially the system, which means -- by that I mean sort of the network of both multilateral economic institutions, like the IMF and WTO, and more informal structures, like the group of 20 nations, and even bilateral arrangements, like bilateral investment treaties that combined add up to sort of the international investment regime. And essentially, the state of these things, you know, the perception of these things resembles a joke that Woody Allen told at the beginning of Annie Hall where two women are at a resort up in the Catskills and one woman says to the other, "You know, the food here is really terrible." And then the second woman responds, "I know, and such small portions, too." And the implication here is that, you know, on the one hand no one likes the outputs that global economic governance has.

If you're on the left in this country, there's a general indictment of these institutions as being this sort of paragon of neoliberalism, promoting market fundamentalisms or what have you. If you're on the right, you're just convinced that all these structures have a secret phalanx of black helicopters hidden in reserve, eventually coming out that will strip your sovereignty.

And yet at the same time, everyone agrees that not enough is done by these institutions to sort of regulate the global economy. And I'm also equally pessimistic about the sort of performance of these structures before the 2008 financial crisis. I'm pretty clear about that in the book. There was paralysis in some structures. For example, the failure of the IMF to really get a grip on rising macroeconomic imbalances in the world, namely trying to deal with China keeping its currency under value. There was sclerosis in the form of the World Trade Organization. We're now on year 13 of trying to finish the Doha round of world trade talks, and each round of the WTO has been longer than the previous one. There was just outright stupidity, and here I'm referring to the Basel II banking standards that were set up, which didn't play that much of a role in the U.S. banking system, but actually played a decent role in explaining why, in fact, European banks are now in even worse straits than American banks following the 2008 financial crisis.

And then finally, there was just outright offensiveness. Like, for example, the G8. It began to dawn on them in the middle of the last decade that maybe there were these other economies out there like Brazil and India and China, that they should somehow bring into these sorts of summits. So they came up with the idea of doing that at like an opening dinner at the G8 summit, and then after that, you know, those countries were sort of summarily dismissed and then the real summit happened, which kind of reminded me of when I would be a kid and I would go to Thanksgiving dinner and I would get to sit at the kiddie table and then I was dismissed. I should add that that eventually changed when I turned 30.

So there were a lot of reasons to doubt the effectiveness of global effective governance in 2008, and this was a real problem because when you take a look at what happened in 2008, the global economy suffered in the first year a bigger shock in 2008 than it did in 1929. If you take a look at things like trade or industrial output or global equity markets, what happened in 2008 was actually worse than what happened at the start of the Great Depression. But the reason the Great Depression became the Great Depression wasn't just the initial shock, it was also that international cooperation collapsed. And in some ways, global governance really is the policymakers' pacifier in these situations, or as President Obama said at West Point, they're a force multiplier. If you can actually ensure that there's cooperation, and furthermore, that cooperation on the economic side keeps the system relatively open, then it prevents what would be an initial shock from metastasizing into a severe depression.

The general consensus since 2008, and there's a whole raft of books and articles that have been written on this with titles like *No One's World* and *Every Nation for Itself,* or *G-0* or what have you, has basically been that the system has failed for one of two reasons. Either it's because we're in the middle of a power transition that, much like during the Great Depression when U.K. was ostensibly willing but unable to supply the necessary global public goods and the United States was ostensibly able but unwilling, nowadays it's that China is supplanting the United States. The United States is willing but unable. Whereas, China is able but unwilling.

A second parallel argument is that power ain't what it used to be. We used to operate in a world where states could actually move markets, things like that, and now we're operating in a world where Edward Snowden or Julian Assange seems to have more of an effect than the president of the United States or the president of the European Central Bank.

Essentially, the book, *The System Worked*, argues that that diagnosis is just flat out wrong. If you actually take a look at what happened after 2008, the system worked surprisingly well compared to previous episodes where you've actually had a systemic financial crisis and in contrast to what happened, let's say in the 1890s or in the 1930s, or even to a lesser extent the 1970s, you didn't see a true breakdown in international cooperation.

So the evidence I provide in the book is on three levels. I can say that it worked but I figured some evidence would be a good idea. I look at --

MR. JONES: It's Washington.

MR. DREZNER: What?

MR. JONES: It's Washington.

MR. DREZNER: It's Washington. Just a little bit of evidence.

So I've got three sort of levels. First, I look at how the global economy performed after 2008, and I compare it to particularly what happened during the Great Depression and there's a great deal of evidence that shows that both output and trade levels recovered relatively quickly after the initial shock. If you take a look at sort of indices of economic globalization, the evidence is that, in fact, you know, trade flows, all of these things sort of as a percentage of global output stayed relatively constant. They were now at roughly pre-2008 levels. And so at best what you can say is that economic globalization -- the pace of economic globalization slowed somewhat. That's not really that much of an indictment.

I also look at outputs. It's possible the global economy recovered despite rather than because of what governments did. And here I sort of apply a four letter acronym -- WWKD, which is what would Kindleberger do? Charles Kindleberger, who wrote a great book on The Great Depression. Kindleberger offered a variety of ailments or recipes for how you're supposed to deal with this. Namely, you have to make sure that markets stay open. You have to have a broader market for distressed goods. You have to provide liquidity or inject liquidity in the system in a number of ways. You have to offer some degree of macroeconomic policy coordination, and you have to ensure there's not going to be sort of beggar-thy-neighbor policies on currencies.

And in the book I argue that, in fact, global governance by and large did all these things. In some cases they did them better than others. There was only about two years, for example, of really successful macroeconomic policy coordination. However, as someone who has looked at the history of macroeconomic policy coordination, two years of pretty good policy is actually damn near miraculous by historical standards. So that's not nothing.

And then I also look at operations. Did these governance structures actually reform themselves in the wake of the crisis, both in terms of policy and in terms of membership to better reflect both the distribution of power and ideally to prevent a crisis from happening again. And again, you can argue that they actually did. The IMF bolstered its reserves, tripled its reserves very quickly. The G20 supplanted the G8 as the sort of premier economic forum. The Basel Committee on Banking Supervision created Basel III in two years which quickly replaced Basel II. And there were a whole host of other things like quota reform within the IMF and the World Bank to better reflect the rise of these developing countries. And indeed, the only thing stopping further quota reform is not global governance but rather the United States Congress.

So then, hopefully having been shown the system worked, I then asked two things. First, why is there such widespread misperception, and then second, why did the system work? Because I was one of the people in the fall of 2008 that really expected everything to crack up.

In terms of why the misperception, I would argue there's a couple things going on. Part of it is that most people who write about the global economy are not living in the parts of the global economy that are doing the best. Namely, that a lot of the people writing about this are either centered in Washington or New York or London or Brussels. And what's interesting about this recovery is that it's been the developed economies that have been far more sluggish in terms of their rebound than the developing countries. Indeed, if you take a look at things like poverty reduction, as much as people might talk about the rise of inequality in the United States, global poverty reduction has actually been faster over the last decade, including the global financial crisis, than it was in the 1990s, which we associate as being the boom times. And the U.N. Development Program, not the most market friendly of international institutions, among other things does credit the fact that the large markets stayed open, the fact that globalization persisted.

There are a couple of other reasons that I offer, among other things sort of this misplaced nostalgia for the Cold War Era when, you know, we really built these international institutions like the IMF and the World Bank that were supposedly going to matter.

But in the book I then offer why the system worked and I'm trying to explain a case. To use the language of the academy, I'm not trying to develop a more general theory, so I don't give you a monocausal story. I look at the sort of degree of interest groups that were a factor, and there's no denying that sort of the development of the global supply chain meant that when a crisis hit, traditionally you would have seen a sort of spark or sharp jump in demands for protectionism and what have you, and you didn't really see that this time. And part of it might have been that the interest groups involved couldn't necessarily cut themselves off from the global economy in the way that they could have back in the 1930s or the 1890s. But interest can't explain everything. If it was a straight interest group story, Basel III never would have been negotiated because all of the banks were implacably opposed.

The second part of the story is the distribution of power, and I think this is one of the bigger misperceptions, is the notion that China was somehow eclipsing the United States as the premier economic power in the world. And indeed, if you take a look at things like the Pugh Global Attitude Survey, that's what a lot of people believe. But, in fact, if you take a look at the sort of structural components of U.S. power, a concept that Susan Strange talked about some time ago, you know, she talked about four different dimensions of power that were really important -- military power, financial power, ownership of production, and production of ideas. And if you take a look at that, the United States still actually maintains all of these things. So in a structural element, the U.S. was still able to act as a leader.

What the crisis did do was badly weaken U.S. supporters. It weakened Japan and it weakened the European Union, which then leads to the question of, you know, was U.S. leadership enough? No. The U.S. needed a supporter beyond the European Union, and it actually got one in China. This is the most surprising thing I think, or conclusion I came to, which is that China, with respect to global economic governance, actually acted like a responsible stakeholder. They were perfectly willing to engage in fiscal expansion, although they obviously did that for self-interested reasons, but they didn't ratchet up tariffs. They didn't erect nontariff barriers. After 2010, they started to let the currency appreciate somewhat to the point where the McKenzie Global Institute and the economists agreed that -- and even the Peterson Institute of International Economics, acknowledged that a fair amount of rebalancing had occurred.

Which then leads to the question of why. And the final chapter sort of deals with the role of ideas. And here again you could argue that in the fall of 2008 and afterwards, that was a moment that in theory should have discredited the Washington consensus. There was a lot of sort of blasting of market fundamentalism and that this shows that untrambled don't work terribly well and so forth. But the thing is that it's not enough to actually discredit existing ideas. You have to come up with new ones. And what's interesting is that no actor out there, including China which was the best place to do this, really did so. There was a lot of loose talk about ideas like the Beijing Consensus, sort of state-owned investments, and so on and so forth, but as one economist told me at a conference that I think Tom might have actually been at, he said, "Do you want to know what the Washington consensus and the Beijing consensus have in common? They were both invented in Washington." Which is to say that it's a nice set of ideas that they came up with, but if you actually take a look at what the Chinese though, the Chinese were much more internally divided as to the sort of merits of the model. And indeed, if you actually take a look at developments within China, they're actually shifting away from this so-called China model rather than towards it. They're shifting towards -- they're not going to do Washington consensus policies, but they're at least moving in that direction, which I find interesting.

So going forward, I'm actually, again, relatively optimistic. You can argue that actually what happened in 2008 and after 2008, actually demonstrates not so much the fragility of the system but rather its resiliency, that yes, there was a severe economic crisis, but what's actually surprising is the extent to which the system doesn't change all that much, at least in terms of what the rules of the game are, even though there were some reforms. The IMF starts to allow things like capital controls and Basel -- the Basel Committee actually starts to require banks to hold just a smidgeon of capital for old times' sake.

But there was no degree of deglobalization. The global economy is chugging along relatively impervious to geopolitical shocks, and indeed, the primary concern that actors like the Fed and the European Central Bank have now is not excessive market fragility but rather low market volatility, that they're now concerned that markets -- I'm not kidding. They're actually concerned now that markets are not freaking out enough about events like Ukraine or the South China Sea. So I'm actually relatively optimistic going forward.

That said, let me also close with one confession, which is to say I'm really, really scared that I'm making this argument, and here's why. In our business, pessimism sells. You can make predictions that the end of the world is just around the corner, and you can make those predictions every month for years on end. And you will suffer no hit whatsoever to your reputation. Why? Because if you make those predictions of doom, you're just being prudent or realistic or cautious, or even better, if the world didn't end, it's only because you warned people that the world didn't end.

On the other hand, if you make an optimistic prediction that does not come true, even if the optimistic prediction does come true, you're derided at the outset for being naïve and hopeful. And then if it doesn't come true, you're consigned to the sort of dust bin of Norman Angell and Francis Fukuyama saying how dare you make these sort of uber optimistic predictions that don't come true.

So I strongly encourage you to buy my book for either I'm right, in which case you can say I knew it when the only optimist in the room was actually correct about this, or I'm wrong, in which case you could point to the book on your mantle and laugh and say, "I was there when that fool said everything was going to work out just fine."

MR. JONES: Nicely done.

MR. DREZNER: Thanks.

MR. JONES: One of the things I'm struck by in the story in the book and the account of the performance of global economic governance before and after is the contrast to the way the story plays out in the field I know better, which is where you see global governance interacting with international security issues. In that domain, I would say the kind of empirical account tells you -- everybody says, "Oh, it doesn't work at all. It's simply not true." The empirical account tells you it works pretty well on low level cases, small problems; works reasonably well on middle cases and middle scale problems; and really has a hard time performing at all on the toughest cases. Of course, the toughest cases attract all the political commentary, which is overwrought, but nevertheless.

But here, what you're telling is a story where there's tons of small problems in global economic governance, tons of medium-scale things that aren't working, and then the mother of all problems shows up and it actually performs pretty well. And I'm struck by that. Maybe it's something to think about further on.

MR. DREZNER: Yeah. I mean, you know, I would say a few things. The first is, again, you can argue that potentially one of the differences between the securities sphere and the economics sphere is that in the economics sphere, even though you can argue both spheres actually, potentially have win-win or positive sum interactions, you can say that maybe all of the actors involved on the economic side recognize the win-win features in a way that on the securities side they're more likely to think of it as a zero sum gain.

I'm enough of a realist to believe there are even still relative gains concerns on the economics side. You know, in the middle of a crisis, you know, that's not what you're necessarily potentially going to be thinking. But also to be fair, if that was the case, then you should have seen cooperation happen in the inner war period as well, and that doesn't happen. So I think part of the reason also, in some ways it goes back to those ideas. It's the fact that you simultaneously had leaders capable of exercising leadership in the form of the United States, and then supporter states in the form of China and the European Union and Japan and elsewhere. But also was the fact that the ideas now were different than they used to be, which was there was genuine consensus that even if the system is prone to instability, it's the best one we've got, and we know that all the alternatives are discredited. No one was willing to offer an alternative.

MR. JONES: The last thing before I broaden the conversation, you use different formulations in the book about the relationship between major powers and international institutions. There are times when you phrase it as international institutions urged on by great powers did X or Y. And there are other times where it's really a story of the great powers choosing to work through international institutions. Which in your mind is the more accurate formulation?

MR. DREZNER: It's probably the second one. I'm not -- I generally think -- the fact that international institutions exist, in the sort of second chapter of the book I talk about the various different ways in which international institutions can matter. And one of the ways in which they matter, which might be a banal one but is nevertheless important, is they serve as a focal point. You need to get a bunch of great powers in the room. How are you going to do it? You do it by having a G20 summit or you do it by having the spring and fall meetings of the IMF and the Bank. So long as you continue to do that, you then get the key decision makers into the room, and the question is then are they going to agree on things?

But that said, there are times when the institutions themselves can potentially be useful. For example, I think one of the underreported stories post-2008 was the role the WTO played in actually preventing an upsurge in protectionism. And what they did wasn't, you know, they did two things. The first was the dispute settlement mechanism continued to work extremely well. But the second thing they did was, you know, which was pretty simple, was they actually just monitored what states did and told them you're starting to implement WTO impermissible actions. And what's interesting is that, you know, after some initial resistance these states actually appreciated the reports and began to somewhat comply with them. So I think it always does start with the great powers. I'm not naïve in saying these institutions have tremendous amounts of autonomy, but there are areas where they actually did have autonomy and were able to get their way.

MR. JONES: I want to bring you in Kathleen. You've worked on similar issues, so if you have any overarching reactions to Dan's presentation, but also you've raised this question about, all right, the system worked to some degree, but for whom and with what consequences for the shape of the U.S. and the global economies. Maybe speak to those questions.

MS. MCNAMARA: Thank you.

So I should first say this really is a terrific book. It's so well written. It's a fun read. It's engaging. It's smart. And it really was a pleasure reading it. And I actually think the overall argument is self-evidently correct, actually. You know, I think it is clearly the case that the broader system of global governance ended up being very robust. Right? That if we define the system working as international cooperation, that it did, in fact, create a global meltdown sort of the Great Depression sort. Right? We did not, thank God, have cataclysmic collapse of the global economy. And it seems obvious now. I think human beings are very bad at counterfactuals. Right? I mean, it seems obvious now, but I think probably all of us can remember back to the fall of 2008, listening to NPR, listening to what was going on in the market, seeing your dwindling retirement savings and so on, you know, facing kids going off to college in a few years and thinking, good God, you know, what's going to happen? My money is literally vanishing.

I remember going to the Sachs 5th Avenue in Friendships Heights and the shelves were empty. No Prada shoes. No Versace handbags. It was because there was no inventory. They were not able to actually fund the inventory. So --

MR. DREZNER: So it wasn't panicked people?

MS. MCNAMARA: No. It was actually the system, the American economy was grinding to a halt. Right? I mean, it was scary times. And I think we forget that.

And so I think Dan's book is really terrific at reminding us that, in fact, we did kind of serve and manage to kind of avoid the most horrific outcome of this cataclysmic collapse. And I do agree that international institutions and cooperation played a big role in this; that, in fact, it is this thick level of global governance in institutions that we have today that really fundamentally departs from the last era of globalization 100-plus years ago. That this is a profound difference that has important consequences.

However, but, right?

MR. DREZNER: Let's get to it.

MS. MCNAMARA: I think that inasmuch as the book makes these very important points about the system working, it needs to be read as an opening to a conversation that moves on to a question of the system worked but for whom? And what does that imply for the future of the global economy and for the very future of that system?

Dan's book is very much pitched at the level, as a good international relations scholar would do, at the level of this international system of nation states. And he mentioned himself that there were sort of winners and losers, and it looks like the winners actually from the financial crisis tended to actually be the emerging economies. But I would argue that when we think about winners and losers, we need to look inside these states as well, and we need to think in terms of social classes, and we need to think about the interaction of the last few decades of financialization of national and the global economies, right, the growth of the financial sector. We need to look at that and think about how that has impacted levels of inequality inside states and across different groups in society, and that that is an important discussion that we should have for a variety of political and normative reasons, but also because I think the reason the system has been set up may actually have seeds in that system to its own demise; that there may be actually consequences for the intense focus on liberalizing the global economy and liberalizing the financial system as opposed to putting brakes onto the creation of this very large financial sector.

So that's my kind of take on things. We can sort of talk about very interesting data post-crisis on sort of which sectors of the American economy have done well, which have not, but what I'm concerned about is whether, in fact, the ideas and policies that eliminate the system that you very correctly point to as being incredibly functional after this financial crisis, whether we might actually see those ideas and policies is in the long run not having been taken care of to assure a truly stable international system.

MR. DREZNER: And let me just ask you before I give Dan a chance to respond briefly to that, how much are you concerned about inequality? How much are you concerned about unemployment and its political effects? How much are you concerned about the shape of the American economy? I mean, there's a number of aspects to that.

MS. MCNAMARA: There certainly is, and we can sort of unpack them probably for the rest of the day. But let me sort of give a sort of overview answer, which is simply that I actually think, as a student of international political economy and domestic political economy, I think in the long run, the financial system that has been built in the late 20th century, early 21st century, is not sustainable simply because the financial systems -- you mentioned Kindleberger, right? Financial crises are hardy perennials, right? Kindleberger tells us that in his amazing book. And I think that we need to think about the financial system as something that can direct capital towards market efficiency and investment and be incredible engines of growth and reduce poverty and so on, but only if quite carefully regulated. You know, like the nuclear power industry, for example. There's tremendous potential capacity for good things that can come out of financial liberalization, but I don't think we've actually figured out how to liberalize with the right regulations in place.

MR. JONES: Dan, a quick response?

MR. DREZNER: Well, first of all, I should confess that Kate and I have co-authored stuff on the global financial crisis, so in some ways you're throwing --

MS. MCNAMARA: He's learned a lot from me about ideas.

MR. DREZNER: Exactly. Yes.

MS. MCNAMARA: The former realist is now, you know -- actually, can I say one thing? I mean, in all honestly, I think another great thing about this book is Dan really looks at the interaction between material hardcore interests and ideational factors in a way that I think is really sophisticated and terrific. So, okay.

MR. DREZNER: I'm sorry, in the political science world that's like the best thing ever. Thank you so much.

I would say a few things. First of all, I think on the one hand it's a valid critique. In the closing pages of the book, the thing that does bother me, or my concern is what could really go wrong, and the fact is global governance, just generally, particularly global economic governance, does a lousy job, not necessarily in terms of regulating the status quo or dealing with crisis, it's sort of medium-term to long-term problems. And in some ways, what you're talking about is a problem that doesn't start in 2008; it starts back in 1980 or even earlier. You know, so, I mean, both the sort of financialization of the global economy is not, you know, hardly unique to 2008. It's just sort of the latest version of it. And also, you know, you can argue the sort of sluggishness, particularly in the United States, of economic recovery, that's also not unique to 2008. If you go back to what happened post-9/11, or even the 1991 recession, you're seeing these recessions where the sort of job shift is actually structural in nature rather than just sort of cyclical. And I grant you, and you know, you can throw in things like climate change and so forth, I do worry about whether or not global governance can handle those issues because, again, you're asking politicians to deal with problem that even if they solve them they're not going to get credit for, at least while they're trying to run for office. So I'm certainly willing to grant that issue.

On the other hand, I'm not willing to go Piccadilly as it were, you know, in that I'm not entirely sure I buy the argument that we're just inevitably going to see this rise in inequality. Part of this is due to the extent to which you believe -- there are two issues on this. The first is it's worth remembering that in some ways these sorts of problems affect the developed economies in a different way than the developing economies. You know, we're actually seeing in some ways if you take a look at it globally, you're actually seeing some sort of a narrowing in terms of inequality in terms of social classes because it's, in fact, the poorest of the poor that are, among others, the biggest beneficiaries of this. And it's something that we tend to forget in the United States because we don't have the poorest of the poor here. We have poor people, but relatively speaking, we don't have the people living on one dollar a day.

The second thing is that, again this might be the optimist in me, but really, this is a function of the extent to which you believe, you know, the financialization of the economy does tend to lead to the sort of increase in equality. But even Peakedly acknowledges that technological change does tend to lead to a flattening or a more egalitarian form of growth. And on technological change, again, I'm relatively optimistic. I know there's been a lot of sort of doomsday scenarios being put forward about we've hit a wall and we're not going to innovate, and when I give this talk, you know, it's funny. I often get asked, what's the sources of economic growth? And usually there are certain things that will trigger, like head nods, like yes, that's important. So all I do is say shale gas, for example. Suddenly you get a lot of head nods, like, yeah, that's a big thing. But I think that’s only one dimension where you can potentially see technological innovation that will potentially solve this issue. So it might be one where governance can solve it, but I also think it really, in some ways, depends on the extent to which the private sector actually can engage in innovation.

One last quick word on regulation. On the one hand I agree with you. On the other hand, I cannot stress enough the ways in which regulation can also have equally unanticipated effects on this stuff.

That was interesting when I was interviewing the Basel regulators. The extent to which they differed on micro prudential regulation of the banks, where they were pretty confident what they were doing was the right thing; whereas, with what was called macro prudential regulation, we had to deal with the system, they knew on the one hand they had to move in that direction. They were much more cautious about doing that. And I would argue understandably so because this was sort of, you know, terranova for them. And I don't begrudge them that instinct.

MR. JONES: I want to bring Ely in. I want to give you a chance to respond on this theme about inequality or sort of impacts and the system worked for who. I also want to ask you a different question, which is to what extent in reading the book and listening to the story about the way the system worked in the global financial and economic space, to what extent does that inform your thinking about other aspects of international order and global governance or not?

MR. RATNER: Great. Well, that second question is a big, I think, important question, and I'll get to that in just a minute.

I had a similar reaction to Kate in terms of this question as to whom, but maybe a slightly different cut at it. Let me also say at the beginning, I think this is a really interesting and important and fun book to read, so I would strongly endorse it. As I said when we were talking earlier, it's a good length. It comes in under 200 pages. You can pick it up and read it. It's not going to languish on your bedside table.

But one of the things I liked about it, and it gets at this issue that we were just talking about, is that there's a lot of lazy talk in Washington about global or political discourse more generally over global governance, about the international system. Dan is pretty precise in this book about what the system is, the standards by which he's judging it, who are the actors, and what are the outputs that we're looking at? And one of the interesting things that comes through is actually in some ways how low the bar for success is in some ways. Depending on how you judge it but, you know, he says, you know, basically, it worked because there was international coordination mechanisms that facilitated the provision of liquidity and served as bow works against protectionism. That's largely the argument.

I agree with Kate. The argument -- I have no quibbles with the argument itself, but there's sort of this "but what" question. And I think we have to think about what does that definition of success not include, right? It doesn't include preventing the crisis in the first place, doesn't include even relying on preexisting institutions to manage the crisis. It was an argument about how nimble the system is to be able to manage them, and there's no broader normative agenda as Kate mentioned. There isn't this sense that the international systems should be doing more. And I guess there's a background condition that if there's liquidity and nonprotectionism, that will lead to growth, which will lead to more equality. But those arguments aren't made quite as explicitly. And the line -- I'm hope I'm allowed to quote the book even though -- I know you're at a disadvantage not having it in front. The line that jumped off the page to me -- this is on page 74 -- Dan writes, "International economic institutions have a greater capacity to do harm than good." And I thought that was in some ways a profound --

MR. DREZNER: I said what?

MR. RATNER: No, it's an important statement about what we should expect these institutions to be capable of, whether it's appropriate to even be thinking about what would be cast as a liberal, normative agenda. And I thought that was interesting. And, you know, thinking about what kind of things should we think about global governance broadly doing, global economic governance?

And then what part of international economic institutions should we be cautious of. Is it international? Is that the issue? Whereas, regional economic institutions, you know, we should expect more. Is it the economic part of international economics? Is it economics that make it difficult to do this? Or is it an argument about institutions, that frankly multilateralism as a functionality doesn't really work? So I'd be interested in hearing Dan unpack that a little bit or respond. I'd be happy to get into Bruce's second question, but I don't know if you want to pull on this thread.

MR. JONES: Do you want to run through quickly on this?

MR. DREZNER: Yeah. I mean, in some ways what influence me to write that, and now it's coming back to me, it was this notion -- in some ways this also ties into this question of why there's been such misperception, which is I think there's a tendency, particularly in a globalized economy, to assume that governance also has to take place at the global level. And the truth is that's not true, particularly for large market economies. I mean, we can mock the EU and their language -- I know, I'm sorry.

QUESTIONER: Why would we want to do that?

MR. DREZNER: I know. I know.

But the principle of subsidiary actually applies here. You know, you want governance to be at the lowest level possible. And so, you know, on things like, you know, part of the reason, for example, that both the United States and the European Union have struggled somewhat since 2008, has nothing to do with the global economy. It has to do with domestic policy's ungoals, to lack of a better way of putting it. They've been much more severe on the European side than they've been on the American side, but let's give ourselves some credit. We've committed a couple of ungoals as well.

So, in some ways I think there's a tendency sometimes to believe that if we somehow just shifted to the global level, you know, particularly on things like macroeconomic policy coordination, that will work incredibly well. And you're right that I do set the bar low, but that's only because as somebody who has had to read about the history of the global economy, even if you set the bar low, it's often not met. So again, it's one of these things where the fact that you actually, again, had two years of actually pretty decent macroeconomic policy coordination, again, by some standards it's considered a meager victory. By the history of this sort of thing, it's a tremendous accomplishment.

MR. JONES: Connor Chris O'Brien once wrote that the point of multilateral institutions is not to take us to heaven but to save us from hell, and I think that fits.

But go a little further.

MR. RATNER: Yeah, so the question about generalized ability. I'll credit Dan with being cautious about that in this book, and that clearly wasn't the point of this book. The book is not entitled, *The System Works*, which would have been a very different title. I mean, this is a story. Right? And, you know, there's sort of a methodological -- a couple paragraphs on methodology towards the beginning saying this is a single case study. We're not drawing -- they're going to be looking at causal inferences but they're not necessarily generalizable. There was a line that I have to read that gave me traumatic flashback to my grad school where Dan says, "(Inaudible) strictly paradigmatic approach for a more analytically eclectic treatment with all the epistemological tradeoffs that entails."

So kudos to that. It's sort of the best and worst line in the book.

MR. DREZNER: You had to read the geekiest sentence in the book. God.

MR. RATNER: No, but it makes this point. It makes this point. But at the same time I have to say there is an undercurrent throughout the book that this matters for more than just this. It feels like you want it to be more, and it's hard not to have it that way if you're writing about it. And there are selective quotes. I know you're sort of quoting John Ikenberry, sort of the spokesperson for the broader international liberal order, but doing it in a way such that it sort of says this provides a strong data point for this idea or, you know, the system worked because people didn't expect, as John Ikenberry says, the liberal order is more robust. So there's clearly tension in the book a little bit around this issue. And it wasn't the point of the book, so I think that's okay. It doesn't in any way undermine, again, the argument in the book. But I think it is interesting because thinking about global governance more broadly, how do we situate this event, right? And so I think there are very different ways one could look at this. And when you read the book, I think it is at times a little pejorative of skeptics of global governance. You say, you know, people who way the system doesn't work, they rely on, you know, "a few stylized facts," like the lack of cooperation on climate and trade and whatnot. And it doesn't discuss the security a lot, but does discuss the counter piracy patrols, which are important of themselves, but those would be in the category that Bruce was talking about, about the second tier, lower hanging fruit without reference to what's happening not very far geographically from this mess in Europe and (inaudible) in Syria and elsewhere.

So, again, there's a potential for an alternative narrative here which is despite the fact that the system isn't working elsewhere, that global governance is so weak across the board, look at this shining example, where it actually worked pretty well, or isn't it surprising that it's working, as opposed to what it feels like at times which is, you know what, global governance actually works better than people think and here's an example of that. So again, I know that's not the argument you were making in the group.

You were very explicit about that, but I think the key "so what" question is, how does this fit into the broader question?

MR. DREZNER: I would say a few things about this. First of all, you're absolutely right. I really was trying to be careful in the book and say, look, I'm just focusing on the economics side. I do not want to make -- I don't want to generalize the claim because, you know, I agree with you. You take a look on the security side and it's much harder to make a case. Again, I would say on the security side you can still even now make the case that the worst hasn't happened, which is, again, not insignificant. Kate's right. In the fall of 2008, you had a lot of predictions of we are going to see a renewal of, you know, outbreak of violence, you know, across the world and so on and so forth, and while you can point to Syria and a few other things, if you take a look at the sort of broader-based indices, that actually hasn't happened, which in and of itself is surprising.

In terms of whether I think you can generalize from the global economy to other forms, no, I'm a little dubious about this. I mean, in some ways this goes to again to China's sort of crucial role as a supporter state. You can argue that, again, on the global economy there was a fair amount of cooperation and it was because China decided we've got a lot invested in this system. We're going to act in a form of enlightened self-interest. You then go to the security side. China is one of the veto players in Syria. China is certainly one of the revisionist actors you can argue in the South China Sea and East China Sea. It's not a coincidence that suddenly in that area things don't look quite a stable.

The one -- again, I'm supposed to play the optimist here though, and so I will do so again in the following sentence. I think the most interesting question going forward is the extent to which economic interdependence actually does act as a circuit breaker for dampening what would otherwise be major increases in geopolitical tensions and conflicts. So, you know, take what happens in Ukraine and Russia's annexation of Crimea. That actually constrains both sides. It's very interesting, because my understanding is that within the Obama Administration, there was a relatively fierce debate on the extent to which they wanted to sanction Russia for this. And some of their economic advisors were saying things to the effect of we have just gotten out of the worst recession since the 1930s. The last thing you want to do is bring back a new Cold War, in fact; we can't deal with that.

So as a result, the sanctions were probably more symbolic I think than some of the foreign policymakers would have liked. On the other hand, as much as the U.S. might have been constrained, you know, there was a lot of sort of talk about how Putin was clearly willing to incur economic costs in return for annexing Crimea. I'm actually pretty sure based on the reports I've seen that Putin did not anticipate the actual costs involved with this in the form of hundreds of billions of dollars of capital leaving Russia and the sort of effect on their economy.

The interesting question is going forward what does this mean? Do both sides look at this and conclude we have to prevent, you know, we have to suddenly start hedging against this interdependence to make sure if we want to make more geopolitical moves we won't take a hit? Or do they decide maybe this geopolitical adventurism isn't actually worth it? And this is an ongoing debate in international relations that I don't know if we've -- the question is could Norman Angell be right 100 years later as it turns out? And you can see this in the Pacific Rim as well, which is the extent to which China is willing to probe, but to what extent are they really willing to rupture things to the point where, in fact, you'd see a realignment of economic interests as well? And this is an open question. I hope I'm right, but I'm not, you know, I would have to be -- I suggest I need to be prepared for being wrong on this.

MR. JONES: Do you want to have a quick come back on this?

MR. RATNER: Yeah, sure. I mean, I think, again, sort of the China piece of this is critically important because the Ikenberry quotes in the book are about China being a responsible stakeholder and whatnot. I think the implications of that for U.S.-China policy are incredibly important because I guess there are different narratives around the relationship between China's rise, its behavior, and the role of international economics and the international order and what that means for the future of the system. And I guess the different versions of that, if I could sort of reinterpret what Dan just said, one would be the Ikenberry argument, which would be the system essentially will drive China to be responsible. It will incentivize China to be a responsible stakeholder.

MR. JONES: Even if it doesn't want to be.

MR. RATNER: Right. Even if it doesn't want to be, it'll elbow its way through, things will happen, like the G8 turning into the G20. It wants a seat at the table. But ultimately, the system is going to endure.

Then, there's the arguments about the relationship between the economic system and the security system. Will economics as we say, constrain security behavior? I think that's one potential possibility.

The other argument would be that the economics could potentially exist -- co-exist along a completely different plane than the security. So we could have very fierce competitive geopolitics in the South China Sea, and yet the men and women meeting in Geneva won't be affected. So it would be very interesting, I think, for someone to do a side-by-side narrative of what's happening on the security and political side as this economic cooperation is occurring. How is it filtering in, if at all? And, of course, the other outcome is that it's going to be affected entirely, and if security competition will essentially undercut these economic institutions. I think that's an important thing to know because I think that's what's at stake for U.S.-China policy, is understanding which of these relationships exist because how hard you would push, for instance, on the security side is directly related to which one of those causal relationships you think exists between the geopolitics and the economics.

MR. JONES: Yeah, I'm going to jump in, too.

My own thinking on this, I did a book called (inaudible), which looks at some of these questions, and I have to say I actually think for quite a long time we've been watching these two games play out quite separately and sort of surprising separately. We were in a system of rivalry and competition in the security space and of cooperation and interdependence in the economic space, with transnational issues and energy issues sort of complicating life in both directions.

But I think you phrased it very well about sort of -- and you just (inaudible) what's that going to look like going forward? Right? Sort of how is that going to play out?

I want to bring you in on ideas in a second, but if you want to quickly --

MR. DREZNER: Actually, it goes back to something that happened at your conference yesterday. I thought Vikram Singh from CAP made a really great point, which it to say that in some ways also it depends on what your baseline reference is, and the baseline reference here is that China is a rising power in a region, you know, and in some ways what we know from the past on this is this usually doesn't end well. And so in some ways, part of the issue is that even if you have tensions, you know, if you manage to avoid an actual great power war in no small part because of interdependence, again, I realize it might be setting the bar low, but I think there's a reason you're setting the bar low, which is there are really excellent reasons to expect conflict going forward.

MR. JONES: I'm going to turn to the audience in a minute, but I just wanted to come back to this notion of ideas because one of the things I shared with Kathleen in a sense that one of the really interesting things in the book is the way that ideas play in and interaction with interests and with power. And you make this point that at a moment when it might have been the case that we should have anticipated China sort of proposing something different -- the Russians were trying to kind of at some stages kind of gum things up and the Chinese just knocked them away and did behave responsibly, but one of the things they really weren't able to do was to bring new ideas on the table. And I just maybe thought you might both elaborate a little bit on the question of does China have other ideas about what the international order might look like on these issues.

MS. MCNAMARA: So there's a lot there, but I think, you know, maybe it comes back to some degree to a comment I made earlier about one of the things that strikes me as really important about this book is it really demonstrates the difference between this era of globalization and our last era of globalization, right at the end of the 19^{th} century in the sense that I think international institutions are taken for granted, accepted part of the international political landscape in a way that they had not been before. So in that sense they are sort of part of our kind of social -- the social fabric that we live in, that international political actors live in today. And the question is whether this dense interdependence will actually promote the pacification in conflict situations. And I have to shout out to Montesquieu, even before Norman Angell, who wrote about duko mas, right, the notion that this sort of sweet gentleness of market interactions is moving men away from their sort of passionate, sort of security, zero sum ways of looking at the world.

MR. JONES: Clearly never been to a trading floor.

MS. MCNAMARA: Yeah. It's a nice idea.

Well, I used to be deeply skeptical of -- you know, Friedman calls it the Golden Arches theory. Right? Everybody has sort of a way of talking about this, but I do think that this layering of institutions and the sort of ideational legitimation that has occurred at the level of global governance does actually predict that many of these potential conflicts, great power rivalries, rise of China and so on, are likely to, in fact, play out differently than they did in other eras, which is something that is, you know, very controversial to say for people trained in international politics where you can read lucidities and be done with it, but I really do think that the sort of social logics and the ideational logics and the way legitimation occurs today in the international system is profoundly different.

MR. JONES: By the way, one of the things that's striking about the Norman Angell reference, he basically wrote in 1912, because these economies are globally, financially independent, trade independent, it's impossible to go to war in 1912. But one of the things that's striking, if you look back on that history, they were financially independent, but actually, they were renationalizing production in the 30 years prior to the First World War. They were on-shoring production. They were deglobalizing when you look at it from a trade lens. So he actually got globalization wrong before he got the causal thing wrong. So I actually just think that it's worth remembering that when we think about the current period and whether or not economic interdependence might constrain Chinese behavior or our behavior.

Last word on that?

Okay, so let's go to the audience, and there will be lots of questions.

Garett, kick us off.

MR. MITCHELL: It was a great question. I just have forgotten.

Hi, I'm Garrett Mitchell, and I write the Mitchel Report. And I've been sitting here for almost an hour and nothing in what we've discussed seems to explain Eric Cantor, so I hope we don't come to that.

This notion of whether institutions or nations were the lead dogs on this is probably one that could take up a lot of time. What I'm struck by is we've gotten this far in the conversation and I gather that's because of the nature of the book itself, we haven't talked about individuals. And I'm trying to think of a conversation on this subject that doesn't quickly get to Bernanke or Paulson, et cetera. So I wonder if I could just leave it at that and ask you to talk to -- assume that is a question and talk to it, yeah, comma, what do you think?

MR. DREZNER: Let me just say first of all, the book is clearly a failure. I'm sorry I did not predict the Cantor upset. I love that that was the first question or first comment.

In terms of individuals, I mean, you're right. This is the disadvantage we have as international relations scholars, which is we tend to not think about the individual that much because it's such an idiosyncratic part of it, but in some ways what you can argue is the very fact that there was actually a transition in terms of the United States. There was a transition -- a leadership transition as well in terms of China. And if you take a look at the leadership turnover in the European Union countries, it's been pretty, you know, Angela Merkel is the only constant during this entire period.

Actually suggested individuals didn't matter as much as you would have thought. I mean, I would argue in some ways we were very lucky that Ben Bernanke was the head of the Fed at the time of the crisis because, after all, his area of expertise, as everyone knows, was, in fact, what led to the Great Depression in the 1930s. So, you know, that's one of those instances in which you can argue maybe it mattered. And I think ironically enough, unfortunately, Angela Merkel also played an extremely important role in terms of what happened, but not in a positive way, because you can argue that Merkel, because of her, you know, utter devotion to ordoliberalism, you know, which is this sort of German economic idea, really is responsible, primarily responsible for the disaster that has been the euro zone economy for the last four years. Because if you actually try to think about Merkel and Germany want the rest of the euro zone to act like, it's actually insane. I'm not using that word light. It's actually insane. Because what they want is for the entire rest of the euro zone to be more like Germany, which you would think, well, surely that might be a good thing.

But there's two problems with it. First, it's impossible because you're talking about changing nation states with thousands of, you know, years of very different institutional histories to suddenly start looking like Germany, but even more important, it's actually insane because if, in fact, every economy in the euro zone functioned like Germany, the first thing they would stop doing is buying German goods, because what Germany is an exporter. And if all these other economies started modeling themselves after Germany, all they would be doing is exporting as well. So not only would they stop buying German goods, they'd also compete with Germany with those exports. So that is actually a case where in fact an individual mattered but not necessarily in a good way.

MR. JONES: I was struck, by the way, on this that when you look at the global economic crisis, and I'm a big believer in the way that individuals matter in international politics, but in a crisis of this scale, just take as one point the fact that one of the things that the IMF had wanted for years and years and years is the ongoing right to monitor the U.S. economy, and no U.S. president had ever been willing to grant them that authority. Which president granted them that authority? George W. Bush in the midst of this crisis. And so that's a case where the individual might have gone in one direction but the crisis was of a sufficient scale that events forced them in a very different way.

Stay up front and then we'll go back.

QUESTIONER: (Inaudible) formerly with the World Bank.

Great snappy title. Would you disagree with the idea of an alternative title for what happened would be "The Glass Was Just about Half Full"? You know, in terms of outcomes, yes, we avoided Thirties style collapse, but it's still been a long recession, with slow recovery, with high levels of unemployment, both here and disastrously in Southern Europe. And in terms of the bits of the system working, you know, some worked awfully better than others. You put your finger on one important one, the trade bit. We avoided a collapse into protectionism. One can debate how far that was -- institutions that have far ideas. You know, people are just smart enough not to want to be Smoot and Hawley.

And central banks. Central bank here worked brilliantly. Other central banks avoided being really, really stupid and caught up. But if we've been depending on Keynesian fiscal policy alone, we'd be in a pretty sorry state. I'm suggesting a very mixed picture, parts of the system worked, parts really didn't.

MR. DREZNER: So a few things. First of all, I've actually made that glass half full analogy myself in previous talks, and in some ways actually the other informal title would have been "It Could Have Been So Much Worse," you know, which is the other way I think about it.

As I said, I don't deny that you're right. You take a look, particularly in the developed world. The developed world has not snapped back as robustly. Again, the question you have to ask though is whose fault is that? And again, I would say the fault lies with the national governments. It doesn't lie with the system at large. The one area where I do think the system might be responsible, and this goes back to the ideas point, is the extent to which the sort of faith in fiscal austerity and the sort of macroeconomic policy consensus, perhaps didn't, you know, led to only a very temporary victory of Keynesian for the first two years because you could argue that, you know, you could argue that had, in fact, the Europeans actually been more full throated in their support of Keynesian, and had after 2011 the United States continued to pursue some degree of fiscal expansion, the recovery would have actually even been more robust. But part of the reason it doesn't sustain its health is that in some ways the sort of set of Washington consensus ideas included this faith in fiscal conservatism. And to be fair, the faith and fiscal conservatism actually might be even reasonably well placed during normal times. It's not just, you know, the sort of hard right economists who believed this prior to 2008; it's that when you're in the middle of a crisis, that actually is when you sort of break the glass and pull out the canes. And you only got to do that for about two years, and so that in some ways is a fair critique.

MR. JONES: Kate, do you want to amplify it a little on unemployment?

MS. MCNAMARA: Yeah, one of the things that's been the most surprising to me watching all of this unfold is my early work very much focused on the creation of the euro and European Central Bank and I spent a lot of time hanging out with European Central bankers and so on. I was stunned by the role that the European Central Bank played throughout the crisis in the sense of being such an important actor and people like Mario Draghi saying, you know, we'll do anything that we have to do to keep the system afloat. And walking right up to things that look an awful lot like euro bonds and so on in terms of the various facilities that have been created, I think it's been astonishing in terms of really moving away from what I saw as a very deeply entrenched view that price stability, overgrowth, and so on and so forth, but we've seen in the domestic political sphere that that has not happened, right, that in fact, obviously, the sort of fetishizing of austerity continues in terms of the domestic politics I think in a way is very hurtful.

MR. JONES: By the way, if anybody is tweeting about this, I should have mentioned earlier that the hashtag is #systemworked. So just to cast an optimistic tone.

So let's go to the middle of the room and then we'll work back.

MS. MCNAMARA: In case you want to fetishize austerity here in your tweets.

MR. WEISS: Thank you. Marty Weiss, Congressional Research Service. How are you doing?

So one thing -- I guess one thing that's shocked me over the past couple of years is how easy it is for politicians in the U.S. and Europe to really take these institutions for granted, especially given the legacy prestige that the U.S. and Europe have because we're represented at the 1940-ish level, 1944 levels rather than today. And so where do you see the political capital coming from? Where are the politicians that are willing to invest in the system to maintain its relevance?

You know, you read the arguments from people like Larry Brost financial center. Those are the representatives that are going to be willing to spend the capital, and you still really don't see that. So, kind of given that we're moving towards preferential trade agreements, you know, the IMF is not getting any -- the IMF has been trying to do a liquidity line forever, they're not going to get it, who is going to spend the political capital, make the kind of votes that don't help anyone in their district? Who is going to spend that capital to keep the system shored up?

MR. JONES: And I'm going to piggyback on that question and ask Ely to answer it from a Beijing perspective. So, but Dan, you go first.

MR. DREZNER: It's a great question.

I would say in the book I talk -- in the conclusion I open by discussing TARP and how TARP is in some ways the domestic policy parallel for what happened globally, which is to say that John F. Kennedy used to say that, you know, in politics, victory has a thousand fathers but defeat is an orphan. But the fascinating thing about TARP domestically -- and you can argue to some extent the IMF and the World Bank and the WTO globally is that since 2008, what you've had are policy victories that remain political orphans. There is no way in which you can look at TARP and not decide that it actually worked. It rescued the U.S. financial system and it actually didn't cost anything in the end as these things go. And yet, find me a politician -- a still, real, actual politician in office who will defend it. Not someone who has already retired. And you can't do that.

And so in some ways the problem, you know, you've got the president making these comments, you know, he'll talk nicely about the IMF and the World Bank, and even Susan Rice yesterday at CNAS had a very nice paragraph describing the way these multilateral economic institutions are important, but they're not putting any skin in the game on this. And this is partly Congress, but I would also blame the administration considerably on the fact that they clearly don't want to pony up whatever political capital.

So where will it come from? I think it will come from potentially two sources. The first is, for lack of a better way of putting it, lame duck sessions. It wouldn't shock me if that's, you know, the period when you see these things getting negotiated. And second, hopefully it'll come in 2017 when you have a new president, because this one is clearly very tired. And this is not his top priority. So in that sense it is disconcerting. I grant you that.

MR. RATNER: Well, I think what's interesting from the Chinese perspective is that I guess the motivations for engaging these institutions can be so different from the perspective obviously of a developing economy, which from China's perspective, I think it's interesting when we talk here about the Washington consensus, we think of having a domestic system here that we like a lot, and we set up these institutions to then spread those systems wide. What's interesting about the way that Beijing engages the institutions, it's in part for legitimacy. It's also to provide a mechanism for then domestic reform. And developed economies do this as well. The Japanese are doing it with TPP. It provides a venue through which the top leadership can turn to their people and their bureaucracies and say, "Look, we have to do this to be part of this club." And without that it becomes a much more difficult domestic political problem. So in some ways, given that Dan's exactly right, Beijing is trying to move in this direction of having sort of a more liberal economy and we'll see if they can get there, but engaging the United States on economic issues, engaging these international institutions and thinking about the future of participating in regional trade institutions as well are all sort of mechanisms to do the real hard work of reviving and revising the domestic economy, which in some ways is much more important than what they actually get out of their engagement with the institution.

MR. JONES: I thought it was a very interesting point, and I think it's one that's missed a lot in the discussion of the relationship between major powers and institutions, is the way even major powers will sometimes need the institutions for domestic reasons. Of course, in this capital it tends to work the other way around. You want to do something the IMF endorses, it gets harder. Right?

MR. DREZNER: Although even here, I mean, I talk about this in the book, but you know, the United States was -- you know, even the Obama administration used the G20, for example, as a way to stop Congress from labeling China as a currency manipulator back in 2010. They were also able to use WTO obligations to prevent the absolutely worst, sort of the "Buy American" provisions that were originally passed in 2009. We use it -- I think we do use these institutions, but we use them differently, more as sort of a legal constraint. Say, "No, Congress, I know you want to do this but you actually can't." And surprisingly, it does work on occasion.

MR. JONES: Okay. There were some questions in the back. Let's go to the back, and then we'll do another round.

Well, anywhere. From any part of the room. Okay, in the middle.

MR. HOWARD: Hi, I'm Peter Howard from the State Department. My question does not represent any U.S. government policy but is my own personal view. And I'm going to ask about something that is completely not my area of work interest.

My question is, and this gets to what you were just talking about, how would things, or would things have been different had the balance of power in the international system been reflective of contemporary economic distribution of wealth, more like the G20 and not sort of the old 1944 U.S.-European dominance of this? Because fitting with or in sort of a different way of asking a question is do the new rising powers -- China, Brazil, India -- who want to be part of the G20, share in the ideational consensus about what the system should look like? You know, are they trying to reshape the system as rising powers to rebel against -- not rebel. That's maybe the wrong word -- but to shift what is seem to be something that is set up to be preferential to the U.S. and sort of the U.S.-Western Europeans in general?

MR. DREZNER: I would say the following. The surprising thing is if you take a look at, let's say, the BRICs communiques that have emerged since 2008, you know, the fact that they actually -- you've got to give Jim O'Neill credit. He turned a Goldman Sachs marketing term into an actual international grouping. That's extraordinary. But, you know, they actually started meeting, you know, beginning in

2008. They've had a whole variety of communiques. If you actually read the content of the communiques and compare them to the G20 communiques, you find one difference and one difference only, which is the BRICs, you know, communiques all talk about having a greater voice in these multilateral institutions -- the one thing they actually all agree on.

They actually don't agree on much else, despite a lot of loose talk. And I think in some ways most of these countries were actually caught flatfooted by the crisis in the sense that suddenly they were being asked to actually shoulder the responsibility, and I don't know if they -- they want the prestige but they didn't necessarily want the responsibility. And actually, I think there was a great acronym or great anecdote that Bruce told at one point in your book about Brazil potentially at one point was supposed to host the G20 summit, because the G20 grouping before 2008 was a meeting of finance ministers, and the Brazilians were like, "Look, if we're going to make this heads of state, we don't want to do this. We're not ready to do it. Let's have the British do it." So as a result, the summit was actually held in London. So, in some ways I think they were actually very risk averse in terms of shouldering more of the responsibility.

I should add, however, they also didn't play the spoiler role, and that's not insignificant. So you're right that on the one hand some of them -- China steps up to the plate in some ways, but most of the rest of them did not. But what they didn't do was then take their money and go home and decide we're just not going to cooperate either. Russian does that a little bit and Argentina does it a little bit but, you know, they're not -- it wasn't that big of a deal.

So in some ways they were lukewarm about these structures, but had they been given like more skin in the game in the beginning, it's one of those unanswerable counterfactuals, but you can argue that if that was the case -- in other words, had the ground been prepared to tell these countries, look, you want more responsibility? You know, you want more prestige? Fine, you're going to get more prestige. You also have to have more responsibility as a result of that. The interesting question is what would their response have been to that?

But that said, I don't think they've proposed any -- they really, as I've said, aren't all that revisionist on this. They want a greater voice. I'm not sure they want anything more than that.

MR. JONES: In the Security Council at the U.N., the Indians for a long time were complaining (inaudible) peacekeeping, they're not involved in mandate discussions, therefore, neither a Security Council seat. And when Susan Rice was the ambassador she said, "Well, look. There's a shortcut here. We're simply going to invite you to consult with us as we form the mandates, and you can offer your ideas." And they came to the meeting and were like, "We don't have ideas."

So let's go back to the audience for one more. Okay, right at the back.

MR. MEYER: Ken Meyer.

Are we out of the hole? In many respects, economic growth is rather anemic still. Take a simple example, total electricity generation in the United States hasn't gone up in six years. The European Central Bank is talking about implementing a negative interest policy. Where will we be a couple of years from now?

MR. JONES: Okay. Pause for one second because I'm going to add to that, and I want everybody to answer.

So, are we out of the woods? And here we are five and a little bit years after the crisis. We've seen the elections in Europe. There's nationalism, lots of quarters. Unemployment -- structural unemployment is still a problem. So it's not -- one part of the question is how far out of the woods are we? And the second part of the question is, well, what needs to be done now to continue to deepen the progress or to continue to forestall some of the worst continuing effects? And I would like each of you to answer.

So, you can start.

MR. DREZNER: This falls under the category of what I call yacht questions, which I mean that if I actually really knew the answer to this question, I wouldn't be sitting here; I'd be on my yacht in the Pacific with lots of servants. Not like the Robert Redford kind of thing where like he sinks, but rather like I have actually other people steering the boat for me while somebody is feeding me grapes or something.

So my point is that I'll give you an answer but I'm not putting a lot of weight on it. You know, in this sense, I would say that I like the Reinhart-Rogoff fans are here, and I'm not referring here to the bad 2010 paper but the good 2009 book, where they say, look, when you have systemic financial crises, you know, that start in the center of the global economy, you're going to have six to seven years of very lackluster growth after that. It's going to take a while to get out of the hole."

On the United States side, I'm again relatively optimistic. You know, you're seeing deficits as a percentage of GDP fall at their fastest rate since the end of World War II. You haven't seen -- you know, the thing that I'm actually most cheered by is the sort of kink in the health cost inflation curve where a lot of the claims about we're going to have deficits till -- like massive deficits going forward is based on an expectation of health cost inflation that actually for the last five years has not come to fruition. So there is a reason to be optimistic about that.

So I am actually relatively -- and then you've got the sort of shale gas energy revolution on the U.S. side. So I'm actually relatively optimistic on the U.S. side.

I'm going to defer to Kate on the European side because every time I look at that I get more pessimistic, and the only hope I have is that Europe ceases to be as important as an engine of the global economy. But actually, this does -- you know, if we're going to talk about fears, the other fear I have is of a hard Chinese landing. So I'll defer to Ely on that one. Because my concern is not Chinese strength; my concern is Chinese weakness. And I'll leave it to them.

MS. MCNAMARA: Great. No, we are not out of the hole, and I am much more pessimistic in general about the trajectory of this sort of political economy of the United States and of Europe which are the two areas that I know best. I am optimistic about global governance but I'm not optimistic about the ability of global governance to solve the deep problems that exist. I mean, I think all you have to do is look at the data post-crisis where you have this widening division between the haves in the United States and in Europe who are doing very well. The share of total income going to the top earners has never been as high as it is now this year in the United States, but you also have median family income six percent lower than it was pre financial crisis in the United States after having been stagnating for decades. So I think that this is a very disquieting trend that it's not obvious to me that this is going to improve. I think on the European side you have it just more dramatically. I think, again, austerity is one of the biggest issues on the European side that would be a solution to some of the problems. I think there are big -- talk about governance. We could really talk about European Union governance and the sort of shortfall of having a single currency without the panoply of institutions on the domestic side to support a single currency such as fiscal federalism.

How do we get out of this? Well, again, on the European side, it would be build more robust institutions or roll things back, right, in terms of the euro. I guess on the global governance side I'd be interested in things like a Tobin tax, which Dan mentions in his book, but I think things of that nature, to slow down the workings of the global financial system in ways that do not place any kind of undue burden on an efficient allocation of financial resources but might actually slow down some of the more exotic and potentially toxic types of financial transactions, those are the types of things I'd like to see happen.

MR. RATNER: Well, if I could answer that question, my yacht would be even bigger than Dan's. I'm not going to attempt to answer that question because people much smarter than me who study this very closely come out on very different sides of the future of the Chinese economy.

What I will say about going forward is I think what I would keep my eye on is this question of the sort of ideational consensus on the system as it exists, and I think I would put a big question mark around that on the Chinese side going forward. I think there's still -- because of the global financial crisis, a very deep narrative of American decline in Beijing combined with the belief of the continued rise of China. I think this is, in terms of a long-term view of where these countries are headed, I think that's where the public is being prepared for in some ways. We are seeing China start to flirt with multilateral institutions that are exclusionary of the United States. Even if they're not challenging the system, they're toying around with this idea of talking about Asia for Asians and other types of arrangements, BRICs and otherwise. I think we should, you know, even as they're not necessarily serious institutions, I think we should look at that as experiments of that.

And I think where China is in terms of its thinking on this is that it's not ready yet, and it's happy to free ride until it is. So the ideational consensus is not the result of a pitched battle in which well-developed ideas were fought against each other and it was come out as well, the Washington consensus wins, we're going with that one, it's much more -- (inaudible) which is growing about what Chines leadership might look like, combined with a belief that time is on our side and right now it serves us to wait but that doesn't mean we're going to do so in the same way a decade or two decades from now.

MR. JONES: I have to confess that listening to the debate, one of the questions I have for you is do the leaders that have to act on these issues? Do they understand them at all?

MR. DREZNER: Look, George W. Bush was a master at understanding the complexity -- no, I'm not going to --

Look at it this way. I will say this. George W. Bush was smart enough to recognize, in fact, that he should defer to Paulson and Bernanke on this. That's not an insignificant thing.

I think the central bankers do. You know, this might the difference between the central bank heads versus the actual heads of state. I think the central banks actually do get this. You know, I'm not sure the heads of state do. I don't know -- I have no idea what Xi Jinping is thinking on the economy, although Li Keqiang does seem to actually be more enthusiastic about these sort of reform ideas, which makes me moderately hopeful.

And even someone like Barack Obama. You know, I can't tell you how many times I hear Obama talking about how we need more engineers in this country. That's the real problem. And he starts dissing the humanities as if, you know, that doesn't produce a set of skills or values that God knows might actually be useful in this economy.

So, yeah, it's a fair question to wonder whether or not the economic advisors understand everything. But, you know, twas ever thus. I mean, it's not like you can't point to previous politicians that, you know, only in the West Wing does the president have a Nobel Prize in Economics. So, you know, it's not -- the answer is that I'm less confident that they know that much, and I'm also relatively sanguine about that fact.

MR. JONES: Any final question? Okay.

QUESTIONER: My name is (inaudible). I'm a student at Georgetown University studying political economy. I am actually from Greece. I lived my whole life there. Quite ironically, I'm really interested in reading your book, although I haven't had the chance to do so yet.

My question is the following, and I hope it's specific enough. What is the greatest advice, or rather the most important lesson that European leaders, current European leaders can absorb from the analysis of your book, the analysis of the success of the system, of the global system, concerning always the challenges that most European countries are still facing?

MR. DREZNER: I think the lesson that you can draw looking at the European example in particular is that a state that's willing to engage in leadership with the right ideas can make a big difference. A state with ability to act as a leader role with the wrong set of ideas can be catastrophic. Again, I cannot stress enough the way in which -- part of the reason this goes south is because the Germans are the veto player in the European Union, and in the euro zone, and the set of ideas they wind up articulating, while maybe even making sense during normal times, during crisis period were actually not just wrong, they were so badly counterproductive that they're wreaked far more damage than had they done nothing in some ways. So the ideas actually really do matter because this is not like it's really done well for Germany either. They've done okay, but it's not like it's benefitted Germany all that much. And the remarkable thing again is the resilience of the ideas. And you can see this in the parliamentary elections in Europe where, you know, you talked about the rise of the far right and the far left except for Germany. Germany was the status quo party that did well.

MR. JONES: That wasn't our most optimistic answer.

MR. DREZNER: No, I know.

MR. JONES: Kate?

MS. MCNAMARA: Yeah. No, I'm trying to think, you know, I think that's a great question, and actually, at one point in the book you say something like, you know, IRS scholars don't really know how to treat Europe. Is it an example of international cooperation or is it a proto state? And my kind of tagline on all this is it's in between. It's sort of half pregnant, right? And that's the problem. You can't be half pregnant. And with the euro, you know, historically single currencies have come about as part of larger state building projects which involve a lot of kind of effort towards building national consensus, you know, democratic representation, administrative capacity, et cetera. And so, you know, I think the problem with the EU is it sits uncomfortably between the level of governance that Dan looks at here and what a good comparative politics textbook would tell you.

MR. DREZNER: The frustrating thing writing this book was we're talking about these international institutions and I'd tell people what I was working on. They'd say what about the EU? The EU has failed clearly. I'm like, no, that's not the same thing.

MS. MCNAMARA: I think that's right.

MR. JONES: In Beijing, do people -- are people looking at the European example? Are they looking at the American example and trying to answer that question? Or are they trying to figure out what worked and what didn't and what lessons to take from all of this?

MR. RATNER: Well, I will say maybe not from the Beijing perspective. I think from a long time from the Asian perspective, the EU was held up as -- not necessarily the desired endpoint but an ideal institution, whether from the ASEAN perspective or Southeast Asia. I think that is no longer the case. I think as a result -- no, really. I mean, I think that's one of the results is that the EU is still seen obviously as an incredibly important economic force and people believe that, but as an exemplary institution I think folk are looking elsewhere now.

MR. JONES: In various parts of the discussion, and in this domain as a whole, I'm very frequently reminded of the Old Russian proverb about the difference between optimists and pessimists. A pessimist is somebody who looks out at the world and sees everything as dark and says, "My God, it can get any worse." And the optimist says, "Oh, yes, it can."

So on that cheery note, let me thank our panelists for a terrific discussion. Thank Dan for his terrific book. And thank you for coming.

(Applause)

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