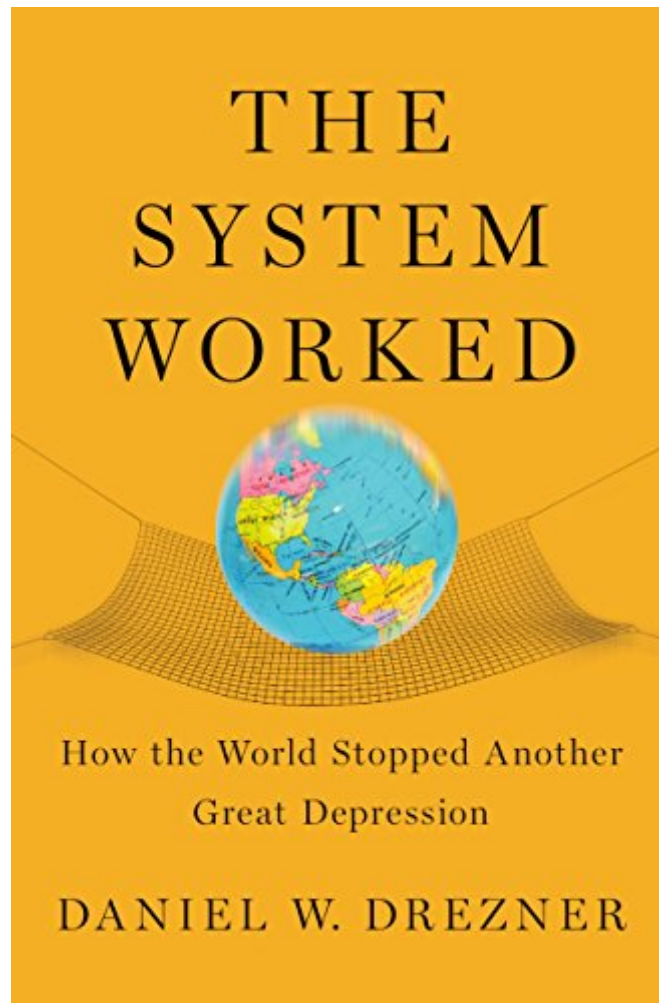


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# The System Worked: How The World Stopped Another Great Depression



## Synopsis

International institutions, from the International Monetary Fund to the International Olympic Committee, are perceived as bastions of sclerotic mediocrity at best and outright corruption at worst, and this perception is generally not far off the mark. In the wake of the 2008 financial crash, Daniel W. Drezner, like so many others, looked at the smoking ruins of the global economy and wondered why global economic governance structure had failed so spectacularly, and what could be done to reform them in the future. But then a funny thing happened. As he surveyed their actions in the wake of the crash, he realized that the evidence pointed to the exact opposite conclusion: global economic governance had succeeded. In *The System Worked*, Drezner, a renowned political scientist and international relations expert, contends that despite the massive scale and reverberations of this latest crisis (larger, arguably, than those that precipitated the Great Depression), the global economy has bounced back remarkably well. Examining the major resuscitation efforts by the G-20 IMF, WTO, and other institutions, he shows that, thanks to the efforts of central bankers and other policymakers, the international response was sufficiently coordinated to prevent the crisis from becoming a full-fledged depression. Yet the narrative about the failure of multilateral economic institutions persists, both because the Great Recession affected powerful nations whose governments managed their own economies poorly, and because the most influential policy analysts who write the books and articles on the crisis hail from those nations. Nevertheless, Drezner argues, while it's true that the global economy is still fragile, these institutions survived the "stress test" of the financial crisis, and may have even become more resilient and valuable in the process. Bucking the conventional wisdom about the new "G-Zero World," Drezner rehabilitates the image of the much-maligned international institutions and demolishes some of the most dangerous myths about the financial crisis. *The System Worked* is a vital contribution to our understanding of an area where the stakes could not be higher.

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## Customer Reviews

The book has a couple of great merits. The first and main one is to leverage the outstanding work of Eichengreen and Oâ™Rourke (A Tale of Two Depressions, a short paper issued in early 2009) to essentially benchmark the Great Recession vs. the Great Depression. The second one is to demonstrate that contrary to everything you read in the press âœThe System Workedâ• actually pretty well. In other words, just about everything you will read in this book is somewhat counterintuitive and counter establishment. That is at least relative to how those various technical subjects have been treated by the Media. No one in the Media conveyed that the onset of the Great Recession was actually much more severe than the Great Depression. The author leveraging Eichengreen and Oâ™Rourke work shows that in the first year of those two economic shocks, the Great Recession actually experienced a marginally more severe downturn in global industrial output, a far more severe decline in global trade flows, and even a drastically more severe downturn in global stock markets! The last one is the real shocker. In the first 12 months of the Great Depression (from June 1929 over next 12 months), the stock market had held up reasonably well and had lost only 6% of its market cap value. It is only over next two years that it will lose eventually 70% of its market value. Meanwhile, in the Great Recession (from April 2008 over the next 12 months, it will lose already 45% of its market value in the very first year (vs. only 6% for the Great Recession)! Back in 2009, Eichengreen and Oâ™Rourke already indicated that the policy response at the onset of the Great Recession was far more rational than during the Great Depression.

This book is reasonably short - under 200 pages, yet it will not be an easy book for the lay reader. It

is akin to a political seminar at the graduate level in international economic politics during the period 2007-2012. While it is not terribly jargon-filled, his analysis is couched in terms of concepts that are apparently standard ways of teaching and talking about political science in the academy = interest analysis; the role of power; etc. The words "paradigm" and "hegemon" come up a lot. Each chapter has at least 100 footnotes. Really, it is a brief, reasonably well argued, for the proposition stated in the title: "The System Worked", meaning that the governments of the major economic powers (US, EU and China), their central banks (really just the Fed) and the principal multilateral economic organizations - IMF, e.g., and , forums-- G20, Basel, etc. -- managed to work together over this period well enough to stop the financial crisis of 2007-09 from metastasizing into another Great Depression globally. There really is no "system" in any designed sense; the term overstates what was on hand. And "worked", as one of the other reviewers astutely notes, really means "avoided global disaster" (not a small achievement). But one needs a pithy attention-grabbing title, I understand. Principally, they adhered to open economies and avoided protectionism; China and the US provided enough Keynesian stimulus; and they all bailed out their financial sectors to keep money and credit moving decently enough. He does not claim great heights were scaled; rather, the response was "good enough", there was no plausible alternative that offered anywhere near the same results; and "the perfect is the enemy of the good".

It's a revelation to find a positive take on world governance action in the 2008 recession. This is very informative and well argued, albeit not quite convincing. I take small comfort in the author's faith in the future performance of these institutions. Regarding perceptions, the public doesn't think actions were well designed. Denzer makes a convincing case that TARP was actually a bargain. What he calls interest misses egalitarian motive of cheapening money to spread the wealth. His ideas section is largely the application and misapplication of Keynes' theories. In comparison to 1929 economic improvement is largely due to what we didn't do. Drezner's concept of "œworking" • apparently means anything short of the Great Depression. The 2008 downturn is compared to 1939 with three measures: industrial output, global trade flow, and global stock market capitalization. Data shows that each dropped more sharply than in 1929 and recovered more slowly. The book is a well organized discussion as to why mitigation worked better in 2008 than 1939: intersection of material interests, enduring American power, European and Chinese support, and adherence to market friendly ideas. Drezner's conclusion may still be premature. Remember that the Great Depression deepened in the years after 1933. It wasn't over until the lend lease spending program prior to WWII. Let's hope history doesn't repeat. Now in 2014 the recovery is limited to Wall Street,

bypassing middle class Americans. Also, his claim to a unique viewpoint may not be valid. It seems to me that there are as many economists that agree with him as not. He claims that pessimism is wrong and explains some concepts that are counter intuitive. In (â œcounter factual reasoningâ •) TARP was a bargain.

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