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24-9 Economic Multilateralism 80 Years after Bretton Woods

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ABSTRACT

The global economic institutions that grew from the Bretton Woods conference of 1944 aimed to create a cooperative policy environment conducive to recovery, development, continuing prosperity, social stability, and democracy. Prominent in the minds of the architects were the macroeconomic and trade policy coordination failures of the 1930s, which accompanied a world depression and the march toward the Second World War. The assumption of "embedded" liberalism' underlying Bretton Woods gave way to a much more market-oriented system by the early 1990s, fueling strong growth in several large emerging markets and a period of hyperglobalization—but also social tensions in advanced economies. The result has been a changed geopolitical balance in the world as well as a backlash against aspects of globalization in many richer countries, notably the main sponsor of postwar international cooperation, the United States. At the same time, global cooperation is threatened despite the emergence of a broader range of shared global threats requiring joint action. The rich industrial countries that dominate the existing multilateral institutions should recognize them as being instrumental for channeling superpower competition into positive-sum outcomes that can also attract broad-based international support. However, leveraging those institutions will require buy-in from middle- and low-income countries, as well as from domestic political constituencies in advanced economies. The future of multilateralism depends on reconciling these potentially conflicting imperatives.

JEL Codes: F13, F52, F6, N40, P16

Keywords: multilateralism, Bretton Woods, globalization, geopolitics

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Introduction

Eighty years ago, negotiators from 44 countries meeting at Bretton Woods, New Hampshire, devised multilateral institutions and rules that they hoped would steer the postwar world economy toward durable peace and prosperity. A key feature of the Bretton Woods rules was a global system of fixed but adjustable dollar exchange rate parities, which the advanced economies abandoned in 1973 after nearly three decades. In many ways, 1973 was a key moment in the transition from the post-World War II world economy to the modern world economy, far beyond the seemingly technical issue of the exchange rate regime. Contrary to forecasts that more variable exchange rates would fragment the international system, as during the period between the world wars, the decades after 1973 saw the world economy reach an unprecedented degree of economic integration. Economic multilateralism adapted and in some respects grew stronger.

Today, a new chapter may have opened. In the wake of financial crises unprecedented since the Great Depression, persistent economic inequality, migratory pressures on Europe and the United States intensifying in the mid-2010s, Brexit, the norm-breaking U.S. Trump administration of 2017-21, the first global pandemic in a century, an accelerating climate crisis, the Russian invasion of Ukraine, and the newest Israel-Gaza war, the world looks to have moved into a distinct era echoing many of the interwar tensions that the post-World War II settlement sought to overcome.[1] And unlike in the 1920s and 1930s when radio first became widely available, modern media display global stresses to everyone visually and in real time and amplify them in a way undreamed of then. How much reversion toward the troubled past is likely, and to what extent will that reversion undermine the global community's ability to address common challenges, some inconceivable before World War II?

As an economist, I will focus mainly on issues related to commerce and finance, but the nature of the current malaise underscores the inherent inseparability of geopolitics, domestic politics, and economics. The destabilizing potential of this interplay was less salient for parts of the postwar period, especially in the quarter-century or so from the collapse of the Soviet bloc over 1989-91 to the mid-2010s. After that brief *belle époque,* however, history has indeed returned, with a vengeance.

In this paper, I start by briefly summarizing challenges the Bretton Woods system's monetary, financial, and commercial arrangements were meant to overcome, and factors that led to the system's unraveling by 1973. I then describe how economic globalization exploded under the newer floating exchange rate arrangements, and how the Global Financial Crisis years 2008-09 appear under various metrics to be a watershed for global economic integration. Geopolitical developments in recent years may have accentuated the disintegrative forces in the global economy—it is still early days. I therefore turn to the links between geopolitics, domestic politics, and economics and the prospects for future multilateral global cooperation on a range of macro-critical common threats.

[1] Garton Ash (2023, p. 28) judges that the 1989-2022 period from the fall of the Berlin Wall through the outbreak of the war in Ukraine can be split into a period of largely "extraordinary progress" through 2007, followed by a period of reversals starting with the Lehman collapse and Russia's invasion of Georgia in 2008. He views the February 24, 2022 Russian invasion of Ukraine as marking the end of the "post-Wall era" and the start of a new era of heightened uncertainty. While his essay appears to have been completed before the Hamas attack on Israel of October 7, 2023, that event and its *sequelae* bear out his thesis and add to the "cascade of crises" that he catalogs.

The backdrop to Bretton Woods

The United States emerged from war in 1945 as the world's undisputed hegemonic power, alongside a junior (and financially subservient) partner, the United Kingdom. In U.S. postwar planning, a new United Nations Organization, supported by the United States unlike the predecessor League of Nations, would be a more effective promoter of global peace. Within the U.N. system, the International Monetary fund (IMF) and World Bank were designed at Bretton Woods to promote global trade, growth, and development while overcoming international economic frictions that bedeviled the interwar period after the revived international gold standard collapsed in the early 1930s: exchange and trade barriers imposed for balance of payments or employment purposes, competitive currency devaluation, and volatile short-term capital flows, sometimes associated with banking crises. Later and separately, a global platform for multilateral trade liberalization emerged in the form of the General Agreement on Tariffs and Trade (GATT).[2] These institutions were intended to foster not only broad-based economic progress within countries, but with it, collaborative and peaceful approaches to meeting international challenges and resolving conflicts. As the influential economist Jacob Viner put it in 1947, "the present effort of the great Western democracies [is] to find a common platform from which to promote a postwar world in which peace, freedom, and plenty can all prevail" (Clavin et al. 2023, p. 33).

The IMF rules mandated fixed exchange rates in terms of gold or the U.S. dollar (which in turn had a statutory gold value). Exchange rates would be adjustable, but only under specified conditions, and the Fund provided credit to support this currency arrangement without recourse to new exchange controls. Fund rules also enjoined members to pursue convertibility of their currencies for current account transactions (largely achieved in Europe in December 1958, and by Japan in April 1964). These provisions for *current account* payments aimed to promote world trade in conditions of price stability and full employment, but in the Fund's Articles of Agreement as originally conceived,

> [t]he same favorable treatment was not accorded to [financial] capital movements. Not only was freedom of international capital movements thought to be unnecessary to achieve the objectives of high income and employment and efficient growth in world trade, but also the experience of the interwar period had indicated that such freedom might actually be harmful and disruptive to the pursuit of those objectives (Cooper 1968, p. 27).

U.S. hegemony (with U.K. collaboration) certainly underlay international adoption of the Bretton Woods institutions as well as the broader U.N.O. system, but there was more to the multilateral assent (which

[2] An International Trade Organization (ITO) might have been a third bedrock multilateral economic institution (Vines 2023). However, the initial Bretton Woods conference took up in detail only monetary/exchange rate and growth/development issues. Proposed rules for international trade therefore were not included in the Bretton Woods architecture, but instead were left to the later Havana Charter of March 1948. The Havana Charter never came into force owing to the United States' failure to ratify it. As a result, postwar trade negotiations were instead conducted for nearly five decades under the aegis of the GATT, which lacked a permanent institutional structure or membership and was originally intended as a provisional forum for tariff-reduction talks pending the establishment of an ITO. This arrangement continued until the birth of the World Trade Organization (WTO) in 1995. Unlike the Fund and the Bank, the WTO is not part of the U.N. system although it does have some cooperative arrangements.

initially included even the USSR) than raw American imposition of its commercial interests. As Ikenberry (1993, pp. 178-9) observes:

> American leaders certainly wanted to promote American interests, and they were willing to use the nation's power capabilities to do so. But one can also detect a desire on the part of many officials to promulgate a postwar system that would have a normative appeal to elites in other nations. American officials realized that building the international economic order on a coercive basis would be costly and ultimately counterproductive. This is not to say that the United States did not exercise hegemonic power; it is to say that there were real limits to the coercive pursuit of the American postwar agenda.... American officials paid more than insignificant attention to the normative bases of the postwar settlement and ... they were willing to make adjustments along the way to give the system a certain legitimacy.

Key among these "normative bases" was the consensus among U.S. and U.K. economic policymakers, based largely on John Maynard Keynes's writings, on the potential effectiveness of macroeconomic management in conditions like those that the Bretton Woods rules envisioned. (That consensus would fray by the 1970s.) As for "legitimacy," a set of rules to which the United States also promised to adhere may have served U.S. interests (as well as the world economy's) over the longer term by persuading smaller countries, especially vulnerable to coercion, to participate more freely in global trade.

From an analytical point of view, the postwar international institutions represented a deeper appreciation of the need for multilateral economic cooperation. In a pioneering and prescient exploration of foreign trade policy as an instrument of national political power, Hirschman (1945, chapter 1) drew a distinction between the mercantilistic perspective—in which trade is a zero-sum game that surplus countries win and deficit countries lose—and the perspective of later classical economists, that while trade between two countries is mutually beneficial in principle, countries might attempt to raise their shares of the gains from trade through trade restrictions. A corollary is that when all countries restrict trade in an attempt to improve their terms of trade, all may lose in the resulting equilibrium as global trade collapses—and it was this type of coordination failure that the GATT system aimed to overcome. The architecture of the Bretton Woods financial institutions reflected, however, a new appreciation of a distinct Keynesian coordination problem. If too many countries adopted restrictive monetary policies to remain on the gold standard or fiscal austerity to stem capital flight, global depression could result.[3] Accordingly, the Bretton Woods institutions aimed to preserve full employment in a context of trade liberalization through occasional exchange rate adjustments, limits on private capital transfer, and official multilateral lending.[4]

The United Nations Organization and its agencies did not spring fully formed from the heads of Allied planners. They had important antecedents, both in the multilateral institutions and in the "muscle memory" developed in the interwar period and even before World War I (Clavin et al. 2023). Prime among these antecedents was the League of Nations itself and lessons learned from its mixed record. Many U.N.O. agencies built on related interwar initiatives, such as the League's Health Committee, the

[3] Gustav Cassel was the most prominent interwar exponent of this view, which Keynes endorsed (Irwin 2014).
[4] Hirschman's (1945) book was mainly about another interwar problem, the use of trade policy as an instrument of national power and the negative economic repercussions of trade discrimination in the pursuit of foreign policy goals. The GATT's foundational MFN principle aimed to prevent trade discrimination except in specified special cases, hopefully avoiding a global economic fragmentation injurious to all countries.

precursor of today's World Health Organization. Even in the specialized financial sphere, the Economic and Financial Office (EFO) of the League contributed to stabilization efforts in several post-World War I financial crises. It also assembled economic data and analyses in a way that presaged later activities of the IMF, in the process employing many of the most distinguished economists of the day. Among other important scientific initiatives, the EFO commissioned the classic Nurkse (1944) study on *International Currency Experience: Lessons of the Inter-War Period*, with the (substantially realized) goal of influencing the design of postwar economic institutions (Clavin 2013).[5]

The failure of the post-World War I settlement highlighted key linkages among prosperity, domestic political extremism, and peace. The immediate years after World War I saw an expansion of democracy in former belligerents as labor movements gained political power and franchises were extended. The Depression reversed this progress in important countries, bringing fascism and another world war. As the earlier quotation by Viner indicates, "freedom" was also an objective of many of the Bretton Woods planners. By combining a degree of economic openness with macroeconomic stabilization and social protection, conditions would be favorable for democracy to flourish—where it was allowed to take root.[6] As Ikenberry (2020, p. 196) notes, in devising the Bretton Woods system, "[p]olitical leaders on both sides of the Atlantic embraced [a] compromise between open markets and social stability." The late political scientist John Ruggie (1982) famously called this approach "embedded liberalism."

Successes and instability of the Bretton Woods system

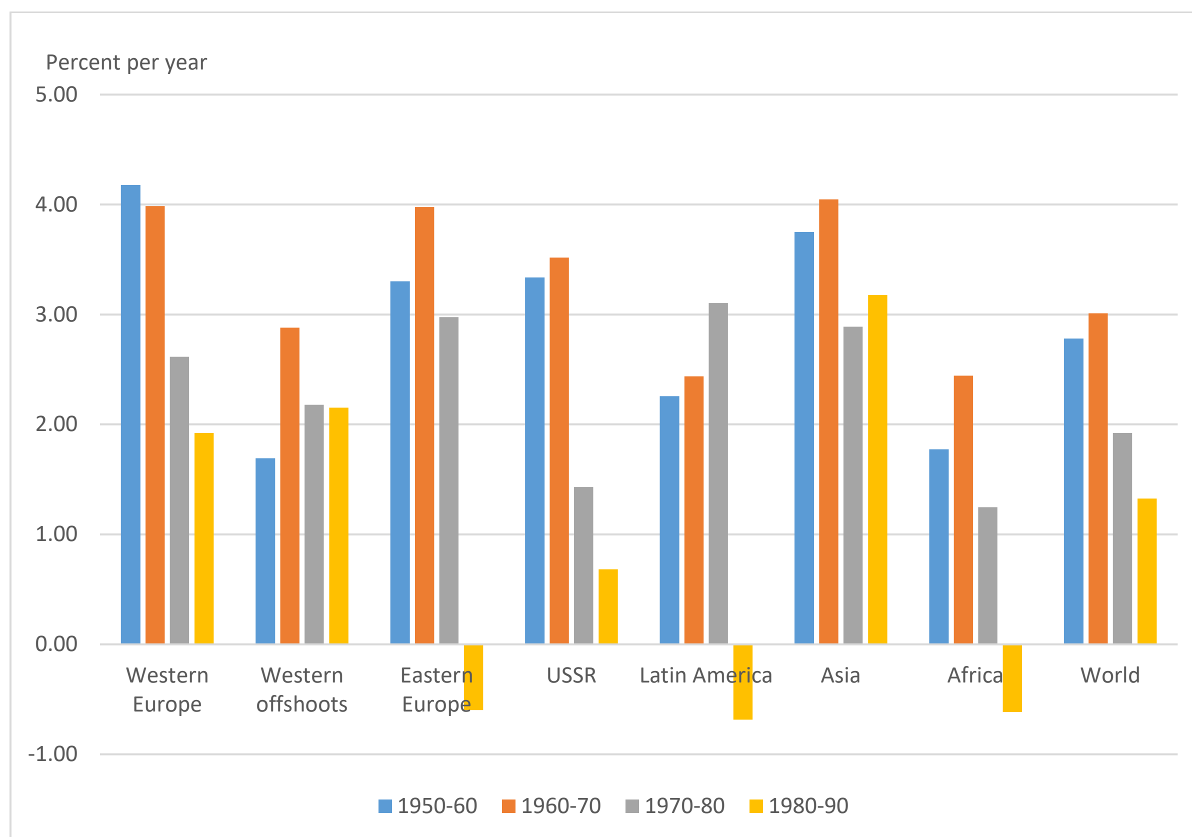
Lingering currency inconvertibility and economic controls even in richer countries implied that the IMF-based international trade and financial system did not really begin functioning as foreseen in the Bretton Woods agreement until the late 1950s at the earliest. Moreover, some credit for the pace of global recovery after World War II must go to U.S. reconstruction efforts, including the Marshall Plan and accompanying initiatives, as well as to the evolving European integration project.

The pace of global recovery was impressive, however. Figure 1 shows per capita real GDP growth rates across the world for the decades from 1950 to 1990. The period from 1950-70 stands out as one of generally strong growth, followed by more uneven performance across the world, notably in Western Europe. The rapid postwar recovery benefited from convergence dynamics, of course. Indeed, the regions most directly devastated by war, including those not within the Bretton Woods system, grew relatively more over 1950-1970. But one can interpret Bretton Woods as a framework meant to mobilize and amplify the forces of convergence.

[5] Another influential book of 1944, published under the auspices of the Royal institute of International Affairs, foreshadowed the need for global financial institutions more explicitly than Nurkse did. Arndt (1944) argued that to avoid another global depression, "there is an inescapable need for international co-operation, if not supranational economic authorities" (Vines 2014, p. 3).

[6] The Soviet Union was a totalitarian dictatorship in 1944, but some in the West may have entertained the hope—similarly to many advocates of trade liberalization with China decades later—that even a Communist state, once prospering within a rules-based trading order, would evolve toward democracy. Harry Dexter White asserted wishfully that "the Russian constitution as adopted in 1936 but never put wholly into effect" called for "a high degree of democracy ...." (Steil 2013, p. 42). Although the Soviet Union participated in the Bretton Woods Conference and signed its Final Act, it ultimately refused to join the IMF and World Bank.

Figure 1: Global real per capita GDP growth by decade, 1950-90



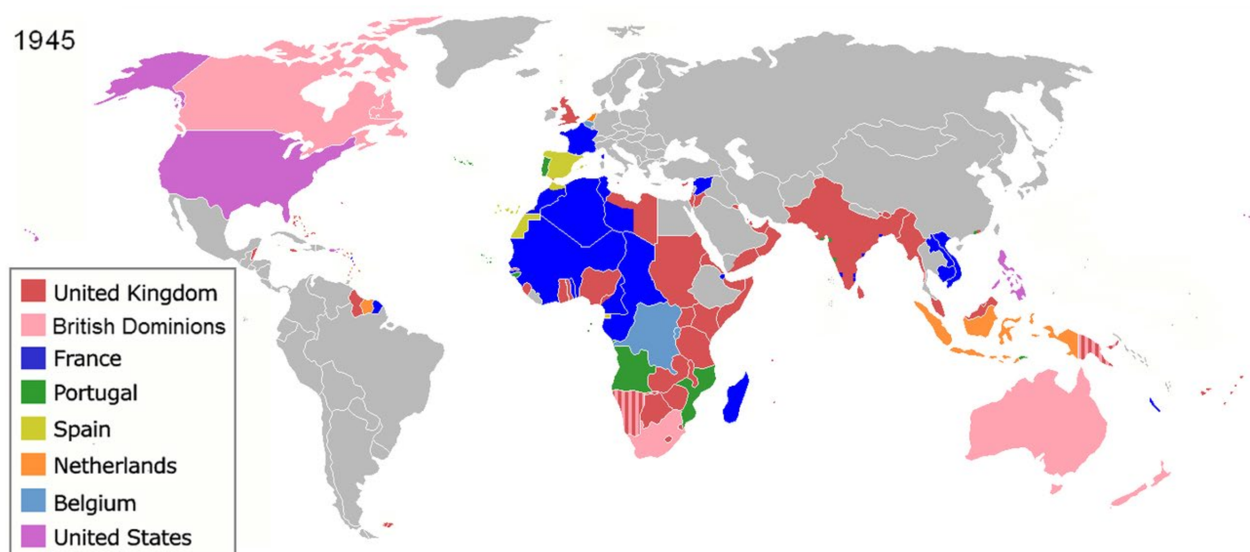
Note: The figure shows the growth of real GDP measured in 1990 international dollars (and therefore adjusted for international price level differences). "Western offshoots" are Australia, Canada, New Zealand, and the United States. "Asia" includes the Middle East. "Africa" includes northern (Saharan) Africa.
Source: OECD, *The World Economy, 1950-2001*.

Not only was postwar growth high in the rich economies, until at least the 1970s, it was also more broadly shared within countries than would be the case after the 1980s. This did not, however, prevent distributional struggles from breaking out in the early 1970s as supply shocks hit the world economy.

Developing countries, too, saw per capita incomes grow during the Bretton Woods years, albeit often less dramatically than in richer countries. Growth in parts of the developing world tumbled dramatically after 1980, however, amid a widespread sovereign debt crisis. Conversely, growth had been buoyed in some countries during the 1970s by relatively easy global credit conditions. While Reinhart, Reinhart, and Trebesch (2016, appendix) classify the entire period 1946-81 as an upswing (trough to peak) of a cycle in global capital flows, they characterize 1951-61 as a bust period in commodity prices (after the peak of post-World War II reconstruction demand and the start of the Korean War), followed by a partial recovery over 1961-66.

An additional headwind to growth in many developing countries during much of the Bretton Woods period was the sometimes turbulent process of decolonization, mostly affecting Africa and parts of Asia. Figure 2 indicates the extent of continuing colonization as World War II ended. By the mid-1960s, former colonies were taking their places as independent members of the IMF and other global bodies.

Figure 2: Indicator of goods exports relative to GDP, 1830-2008



Source: Map by Aris Katsaris, reproduced without changes from https://commons.wikimedia.org/w/index.php?curid=350016 under the Creative Commons Attribution-Share Alike 3.0 Unported license.

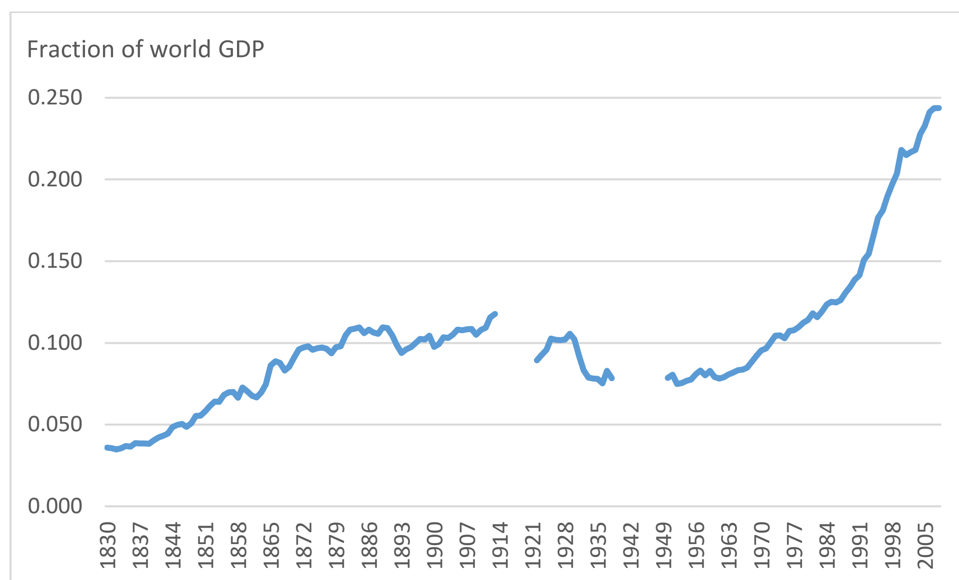
Today, colonial pasts lie several generations behind us, but they continue to influence developing countries' attitudes toward former colonial or occupying powers, as well as to the United States.

Early in the postwar period, independent countries in the developing world sought to position themselves relative to Cold War tensions between the United States and the USSR. Their approach has echoes today as U.S.-China tensions have escalated. The Bandung Conference of 1955, organized by Burma, India, Indonesia, Pakistan, and Sri Lanka, brought together 29 developing countries (including Communist China), most of them newly independent, with the goal of agreeing on principles for peaceful coexistence. The approach ultimately had little success in creating a coherent developing-country bloc, and the capitalist West and the Soviets continued to vie for influence in poorer countries.

A prime goal of the Bretton Woods institutions was to promote world trade, viewed by their designers as key to both economic prosperity and a more peaceful world. How well did Bretton Woods succeed in this respect? To put the answer in a long-term perspective, figure 3 shows data on exports as a share of GDP from 1830 to 2008, as assembled by Tena Junguito and Federico (2018).[7]

[7] The sample of polities for this dataset expands from only 18 in 1830 to 51 in 2008, but still falls far short of the entire world economy. The data also cover goods only, not services. Later on I will report more comprehensive World Bank data from 1970-2021 (though still based on a somewhat expanding sample of countries). While therefore quite imprecise, the data nonetheless do give a rough impression of the dynamics of world trade over a long historical span. The data in figure 3 are based on export prices held constant at 1913 levels.

Figure 3: Indicator of goods exports relative to GDP, 1830-2008



Source: Tena Junguito and Federico (2018).

The figure is suggestive of the great expansion of world trade during the "first great globalization" that began in the first half of the 19th century and came to an end with World War I. It also shows the partial recovery of trade under the restored gold standard of the mid-1920s, as well as sharp and persistent trade collapse accompanying the onset of the global Great Depression. Starting in 1950 and especially in the 1960s we see a notable expansion of trade, driven by buoyant and stable economic growth, high investment, and successive GATT rounds of multilateral tariff reduction. With respect to trade, the Bretton Woods package was effective. However, the trade growth of that period is dwarfed by the ascent that began in the mid-1970s after the Bretton Woods fixed exchange rates among industrial countries—in 1944 deemed to be essential to promote world trade—were scrapped. I will return to this "second great globalization" in the next section.

The reasons for the Bretton Woods system's demise are several and have been discussed in detail by several scholars (for example, Eichengreen 2019). One can make a strong case that the very factors that drove the successes of the system generated destabilizing political and economic forces. One of these was the rapid recovery in Western Europe and Japan, which challenged the competitiveness of U.S. traded goods industries and led to an overvalued dollar. However, the United States could not remedy this unilaterally though devaluation. A second destabilizing force was the expansion of global trade, including through the activities of U.S. multinationals, which opened conduits for capital movements that became disruptive once markets began to suspect the need for changes in exchange rate parities. A third mechanism was the expansion of foreign official claims on the United States, a foreseeable consequence of the need for growing international liquidity but ultimately incompatible with the U.S. commitment to maintain an unchanged value of those claims in terms of gold. Finally, it was politically inevitable that as the world recovered from its immediate postwar devastation and as the borders of Soviet influence hardened, the center of U.S. political gravity would shift in a more inward-looking direction, implying less willingness to provide certain global public goods (see, for example, Garten 2021). A symptom was growing inflationary pressure in the United States by the end of the 1960s, some

of which spilled abroad through fixed dollar exchange rates. Maintaining those rates obliged U.S. trade partners to buy dollars (and thereby swell their own money supplies) in the face of growing U.S. balance of payments deficits. The oil price shock of 1973-74, arriving just after the abandonment of fixed exchange rates, set the stage for years of inflation and demonstrated the practical impossibility of returning to fixed exchange rates. Over the 1970s, the main industrial economies embraced the new exchange rate reality, overseeing amendments to the IMF Articles of Agreement that allowed Fund members to choose their preferred exchange rate regimes, subject to avoiding currency manipulation. In general, however, many developing countries would not move toward greater exchange rate flexibility until the 1990s.

One striking development of 1945 was the testing and deployment of the first nuclear weapons. For the first time in history, mankind confronted its capacity to eradicate itself as well as much other life on the planet. The *Bulletin of the Atomic Scientists*, which debuted in December 1945, introduced its "Doomsday Clock" in 1947, placing it at 7 minutes to midnight. By 1973, the clock stood at 12 minutes to midnight—an improvement, to be sure, but still indicative of the background of nuclear risk under which the generally favorable economic developments of the Bretton Woods years played out.

Globalization under floating exchange rates

Given the interwar experience, the move to more flexible exchange rates led to apprehension in some quarters that the postwar recovery in international trade would falter and possibly reverse. A main premise of the Bretton Woods arrangements had been that businesses would be deterred from international activities without exchange rate predictability, while governments might be more prone to adopt mutually self-defeating mercantilistic policies if not committed to fixed par values. Instead, trade growth, if anything, accelerated after the system's collapse, even when measured at constant international prices (see figure 3).

One reason was the progress of technology. For example, container shipping, originally introduced in 1956, began to be adopted more widely in the late 1960s and its use accelerated in the mid-1970s thanks to strong network effects (Rua 2014). By the 1990s, the Internet emerged as a further accelerant, facilitating more finely articulated global value chains.

In addition, several Asian countries successfully adopted export-oriented growth strategies: China would change the face of the international trading system after it, too, adopted this approach early in the 1990s. Other reforming emerging markets besides China contributed to the growth of trade, including those that entered the world market economy as a result of the collapse of the Soviet bloc. The dismal 1980s growth performance in Eastern Europe and the Soviet Union (figure 1) contributed to that collapse.

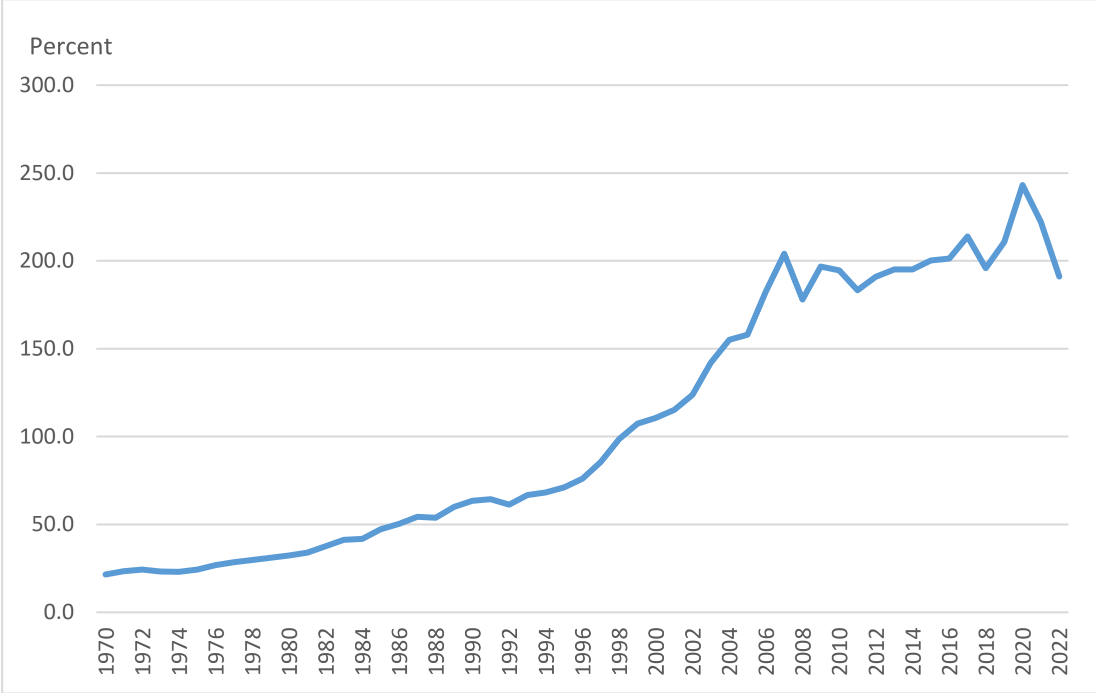
But another important development had been predicted correctly by economists like Friedman (1953), Meade (1955), and Johnson (1969). Freed of the need to restrict international payments to manage foreign exchange reserves, countries would have more scope to relax barriers to international trade and capital movements. Moreover, an enhanced ability to deploy monetary and fiscal policy in pursuit of domestic macroeconomic objectives made international payments restrictions much less tempting as a solution to the open-economy macro-policy trilemma (Obstfeld and Taylor 2017). Irwin (2024) concludes that "the move from fixed to floating exchange rates a half century ago has not impeded trade liberalization but has often facilitated it," although he notes the protectionist pressures that have arisen

at times of severe currency misalignment, such as at the height of dollar strength in the mid-1980s. As more of the less prosperous countries (some attaining the label of "emerging markets") moved to more flexible exchange rate regimes in the 1990s, they felt better able to liberalize trade and other international payments.

Much more dramatic than the evolution of international trade flows after 1973 was the evolution of international financial flows. As I have noted, the original intent of the Bretton Woods agreement was not friendly toward international capital movements, and a reader of Nurkse (1944) might have predicted that governments would be very cautious in liberalizing cross-border financial flows in a world where exchange rate expectations could set off sharp and erratic exchange rate swings. This is not what transpired. International asset transactions have exploded, far beyond the growth of global trade in goods and services.

The macro-policy trilemma implies that with more flexible exchange rates, countries need not restrict financial flows to enjoy macro policy autonomy: in essence, the Friedman-Meade-Johnson argument. The question of *why* countries would *choose* to liberalize is, however, a different one. The answer is complex, involving changing ideologies and epistemic frameworks surrounding economics, domestic financial reform policies, political forces including industry lobbying, and international financial diplomacy, comprising European regional initiatives. Across the world, "embedded liberalism" was giving way more generally to freer markets and slimmed down social safeguards (Obstfeld 2021; Clavin et al. 2023). By the early 1990s, less prosperous countries were joining in opening their economies further to trade and even finance as they flexed their exchange rate regimes. Figure 4 shows one possible (global) measure of cross-border financial integration, based on the average level of

Figure 4: Average of global external assets (excluding gold) and liabilities as a percentage of GDP



Note: The sample of countries included in the indicator is nonconstant over time.
Source: Milesi-Ferretti (2022), based on Lane and Milesi-Ferretti (2018) and author's calculations. URL: https://www.brookings.edu/articles/the-external-wealth-of-nations-database/, accessed April 3, 2024.

countries' external assets and liabilities to GDP. The numbers are higher still if the data are restricted to rich countries, but now reach substantial levels even for the emerging markets. The explosive growth from the late 1990s to the late 2000s is notable.

The growth of finance itself was likely complementary with the growth of trade. Deeper foreign exchange markets reduced trade costs, as did the expansion of forward and futures trading—a consideration Friedman and Johnson had stressed—along with the development of more complex derivative instruments. But finance complemented trade in other ways, with deeper and broader global banking networks providing trade credit more elastically. Furthermore, extensive credit availability has encouraged roundabout production methods via global supply chains, which, in turn, have elevated (gross) trade flows relative to GDP (Kim and Shin 2023). Global liquidity was especially ample during the 2000s leading up to the financial crisis.

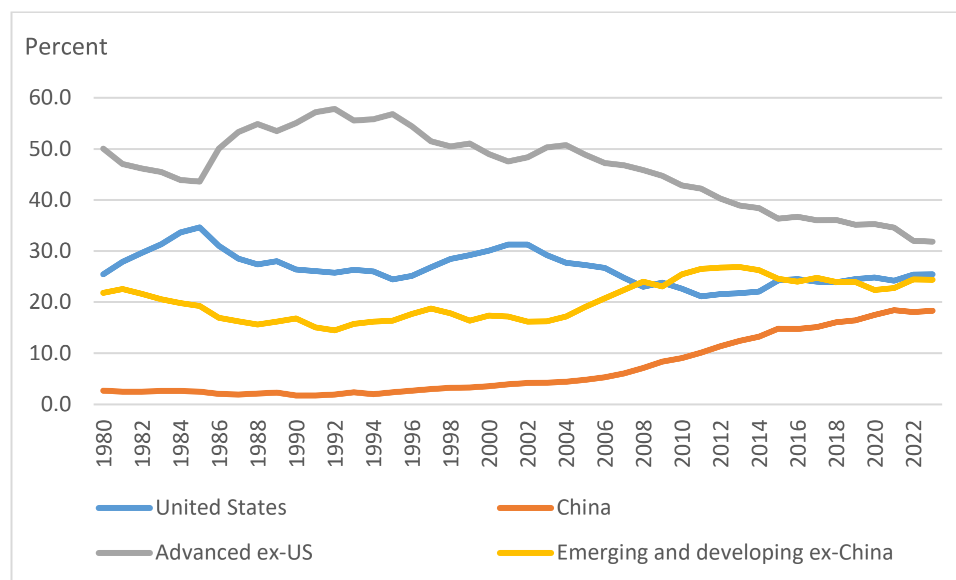
A factor that may have mitigated trade fragmentation due to multiple fluctuating currencies is the international role of the dollar—which serves as a kind of global unit of account, medium of exchange, and store of value (in short, as an international money). The Bretton Woods institutions and the system's imbalance of economic and political power conferred a special role on the dollar, as well as on U.S. policy. According to Steil (2013, p. 128), Harry Dexter White of the U.S Treasury, who, with Keynes representing the United Kingdom, negotiated the Bretton Woods plan, wished "to elevate the status of the dollar to that of the word's surrogate for gold, such that cross-border gold movements would no longer have the power to dictate changes in U.S. monetary policy." In other words, of all the IMF's members, only America would have the prospect of a truly independent monetary policy.

In 1973, few predicted this asymmetry would survive, but it has become only more pronounced over the past half century. Probably the greatest threat to dollar ascendancy was the U.S. monetary disarray of the 1970s during the Nixon-Ford-Carter years under Fed chairs Arthur Burns and then G. William Miller. By the end of the 1970s, the IMF had proclaimed the goal of making its synthetic currency basket, the Special Drawing Right (SDR), "the principal reserve asset of the international monetary system," and international discussions were underway to create an IMF "substitution account" by which countries would trade their dollar FX reserves to the Fund in return for SDR-denominated assets.[8] That plan foundered and became much less compelling as Paul Volcker restored price stability to the U.S. economy. Paradoxically, the Reagan fiscal deficits, while alarming to some observers (such as Council of Economic Advisers chair Martin Feldstein), may have promoted the dollar's international role by pumping an abundant supply of safe dollar-denominated Treasury assets into global markets. U.S. financial liberalization moves also supported global dollar use.

The dollar remains dominant in the global economy as a reserve currency, vehicle currency, invoice currency for trade, and a funding currency in global markets (Bertaut, von Beschwitz, and Curcuru 2023). U.S. government liabilities come closest to being the world's principal reserve asset. The joint growth of trade and finance enhanced the network externalities attached to the various international roles of the

[8] The IMF goal was stated twice in the 1978 second amendment to the IMF Articles of Agreement, which, as noted above, also regularized the new global exchange rate arrangements. The first amendment, effective July 28, 1969, created the SDR in response to concerns about the adequacy of international reserves and the dollar's preponderance in the existing global holdings of reserves. See Gold (1978).

Figure 5: GDP shares at market exchange rates, 1980-2023



Source: IMF, World Economic Outlook Database, April 2023.

dollar (Gopinath and Stein 2021). Dollar dominance fed global trade and financial integration, and vice versa—in a self-reinforcing circle whose degree of virtue remains contested. Also supporting the pivotal role of the United States is its consistent weight in the global economy: since 1980, the U.S. GDP share in world GDP at market exchange rates has averaged around 25 percent, with the fluctuations around that mean level driven strongly by fluctuations in the dollar's real exchange rate (see figure 5).[9] The rising share of emerging and developing economies, mostly at the expense of non-U.S. advanced economies, is notable. Much of that growth is driven by one very populous country, China.

Given the centrality of America's financial markets and currency, fluctuations in the dollar exchange rate and in the Fed monetary policies that are one of its principal drivers have an outsized effect on global financial and economic conditions (Obstfeld and Zhou 2022). True, flexible exchange rates give countries more scope for independent monetary policies today, but global payments barriers are much lower than in the Bretton Woods days and the dollar itself is a potent indicator of global financial stringency or ease.

During the Bretton Woods years, a focus of international macroeconomic cooperation was the operation of the fixed-parity system itself—through IMF consultations but, as strains on the system escalated, through central bank swap lines, cooperative intervention in the London gold market, the design and launch of the SDR, and forums such as the Group of Ten (established in 1961) and the Committee of Twenty (set up in 1972 to consider reform of the international monetary system).

The move to floating exchange rates did not remove the need for episodic international cooperation on exchange rate issues—witness the Plaza Accord of September 1985, or the resurrection of swap

[9] The U.S. share has fallen when GDPs are compared at PPP exchange rates, but the market exchange rate measure is a better indicator of global macroeconomic influence.

facilities among central banks in December 2007. Moreover, the new and relatively unfamiliar international financial landscape worried national financial regulators and led to new areas of inter-governmental coordination and even new coordinating institutions. The 1974 collapses of Franklin National Bank and Bankhaus I.D. Herstatt owed to the heightened perils of currency trading and the settlement gaps that might arise from trades between internationally active banks located in different time zones. Risks linked to petrodollar recycling through the Euromarket added to the concerns. A result was the Basel Committee on Banking Supervision, which met for the first time in February 1975. Later came the Financial Stability Forum (which became the Financial Stability Board in 2009). The "soft law" promulgated in these bodies has no doubt helped avoid some financial risks, but also has supported what some claim is excessive financialization of the world economy. Despite three waves of Basel reforms, with a fourth on the way, regulators continue to play catch up with evolving market innovations and significant supervisory gaps remain, notably relating to the activity pushed into unregulated sectors by previous reforms. Another venue for continuing international cooperation was in the area of sovereign debt crises and treatments—initially for poorer countries but later for advanced economies during the euro crisis.[10]

Multilateral trade liberalization negotiations continued under floating rates. The Tokyo (1973-79) and Uruguay (1986-94) Rounds reduced trade barriers further, and the latter finally achieved the creation of a WTO. In 1994 the United States, Canada, and Mexico launched NAFTA, notwithstanding mutually fluctuating currencies. China's accession to the WTO at the end of 2001 was a major development for the world trading system, but the momentum for broadly inclusive and comprehensive trade agreements has dissipated considerably, notably in the United States, which was once a leader in this area (Posen 2021). Among other setbacks for big trade deals, the Doha Round, which began in 2001, has never concluded, and the United States declined to pursue the Trans-Pacific Partnership in 2017 even though the Obama administration had completed the entry negotiations and (narrowly) secured fast-track trade promotion authority from Congress. These outcomes are related more to structural changes in the world economy and their interactions with domestic politics than to exchange rate developments. This was obviously the case in the Brexit referendum of 2016, which channeled backlash against the EU–free movement of people in particular—but also, a more general frustration with Britain's deindustrialization and regional disparities. Current political realities, not to mention geopolitical considerations, provide an unfavorable environment for expanding economic globalization.

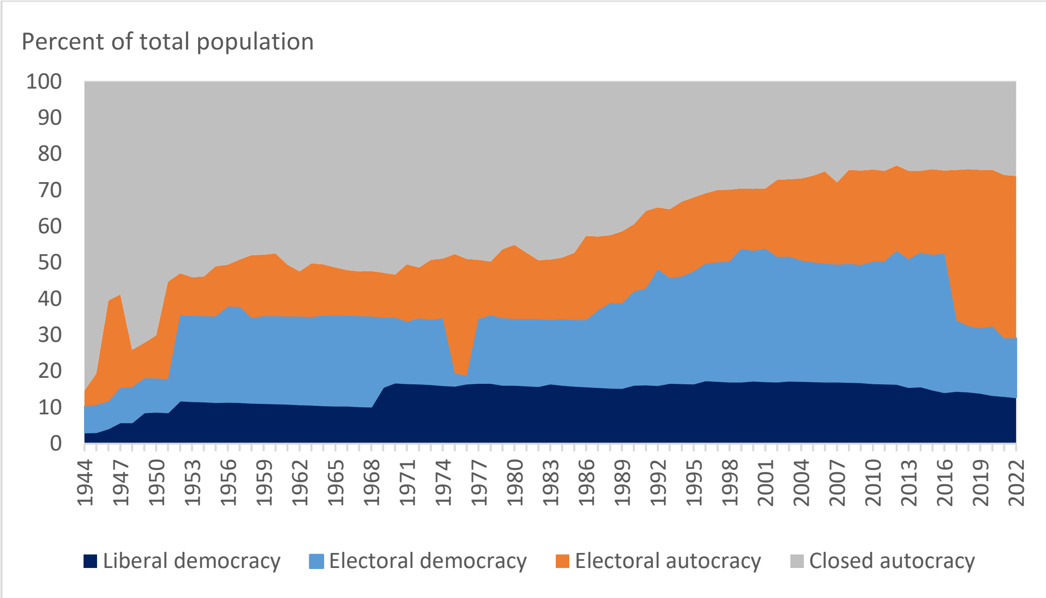
At the global level, these setbacks for economic integration have been accompanied by growing nationalistic populism and a broad retreat in democracy. An underlying, if often implicit, goal of the Bretton Woods architects was to create economic conditions supportive of economic inclusion, social stability, and democracy. Figure 6 shows the V-Dem Project's broad indicators for four types of political systems: liberal democracy, electoral democracy, electoral autocracy, and closed autocracy. The reach of democratic government rose in the early 1950s and remained stable through the end of the Bretton Woods period. The collapse of the Soviet bloc starting in the late 1980s brought another upward movement in the scope of democracy. By 2016, nearly 53 percent of the covered world population lived in some form of democracy—a high-water mark historically.

[10] The Paris Club of bilateral creditor governments, for example, began in 1956 but has continued its operation ever since. China's absence from the Paris Club is an impediment to debt restructurings in the Global South, as discussed further below.

This aggregate population share in democracies conceals that, starting around the 2008-09 Global Financial Crisis (GFC), *liberal* democracies began a pronounced decline, from covering more than 17 percent of the world in 2008 to around 13 percent in 2022. Liberal democracies protect basic individual freedoms and institutional guardrails such as press freedom, making them more robust to potential subversion than electoral democracies. When liberal democracies transition into electoral democracies owing to factors such as incursions on judicial independence, they become more susceptible to further decay. In 2017, the population coverage of electoral democracies fell sharply and it has not recovered. According to the V-Dem Institute (2023, p. 9), "More than 35 years of global advances in democracy have been wiped out in the last decade."

Generalizations about these political trends are hazardous, since the V-Dem Project's classifications rely on an array of indicators, and country experiences differ. What is indisputable is the heightened economic and social turbulence of the post-GFC period, with ramifications reaching across continents.[11] Also indisputable is the persistent and often rising within-country inequality that became more salient in the post-GFC environment of slower economic growth. The GFC marked another watershed as well: it followed and brought to an end a period of exceptionally rapid globalization.

Figure 6 Global evolution of political regimes since 1944



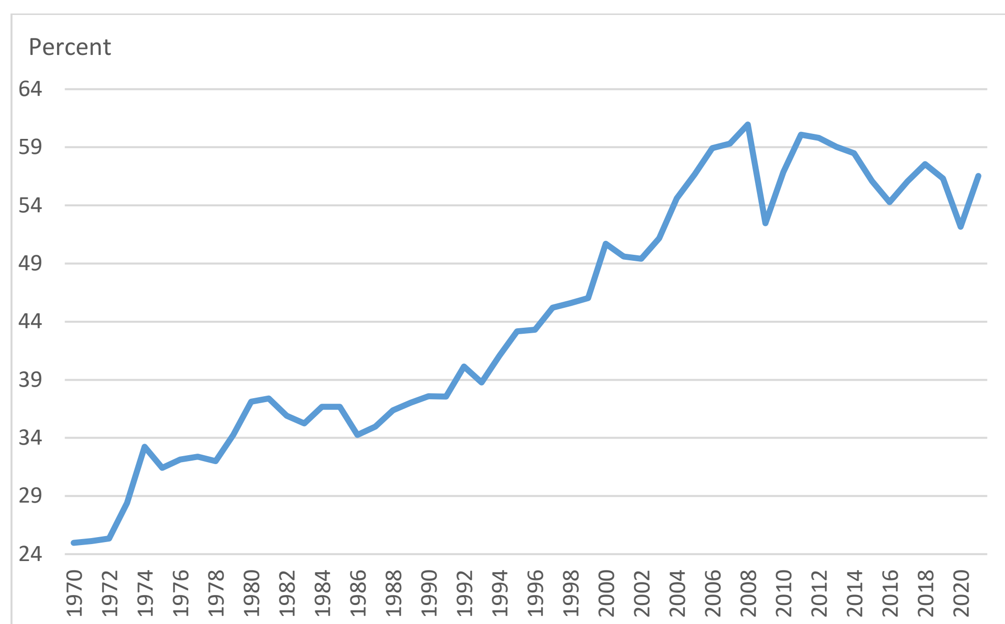
Note: Excluding countries with no regime data.
Source: V-Dem Project via Our World in Data.

The recent slowdown of globalization

Subramanian and Kessler (2014) and DeLong (2022) have characterized the decade from the late 1990s to the GFC of 2008-09 as one of "hyperglobalization." Its torrid pace of real and financial globalization was not indefinitely sustainable. The end could have been gradual but appears in the data to be rather sudden. The financial crisis marks the end of rapidly increasing global economic integration and cross-

[11] Relevant recent analyses include Judis (2016), Eichengreen (2018), Tooze (2018), and Wolf (2023).

Figure 7: World exports plus imports of goods and services as a percentage of GDP



Source: World Bank.

country economic convergence—arguably, it is a political watershed as well. Subramanian, Kessler, and Properzi (2023) document aspects of the globalization slowdown and speculate on the drivers.

Figure 4 illustrates that, for the world as a whole, financial integration continued to expand after 2008, but at a much slower rate. However, the increase is accounted for largely by portfolio and banking flows, as foreign direct investment has generally declined since the GFC (see IMF 2023a, 2023b).[12]

Regarding trade, figure 7 shows that the ratio of trade in goods and services (exports plus imports) to global GDP has stalled and perhaps even declined since its last peak in 2008.[13] It is notable that this stagnation has taken place notwithstanding an environment of extremely low interest rates, which, by themselves, should have encouraged the expansion of more roundabout global production, and thereby a higher trade/GDP ratio. Data show that the expansion of supply chains (though possibly not for services) slowed after 2010, and that the elasticity of trade with respect to world GDP accordingly fell after 2010 (Timmer, Los, Stehrer, and de Vries 2021; and Mancini, Taglioni, and Borin 2022). To some degree, these developments could simply reflect the articulation of supply chains reaching natural limits.

While globalization slowed but did not reverse after the financial crisis, genuinely disintegrative forces in global trade spiked in 2020. For the United Kingdom, the consummation of Brexit broke long-established trade links with Europe (although some decoupling had been underway since the U.K. referendum of

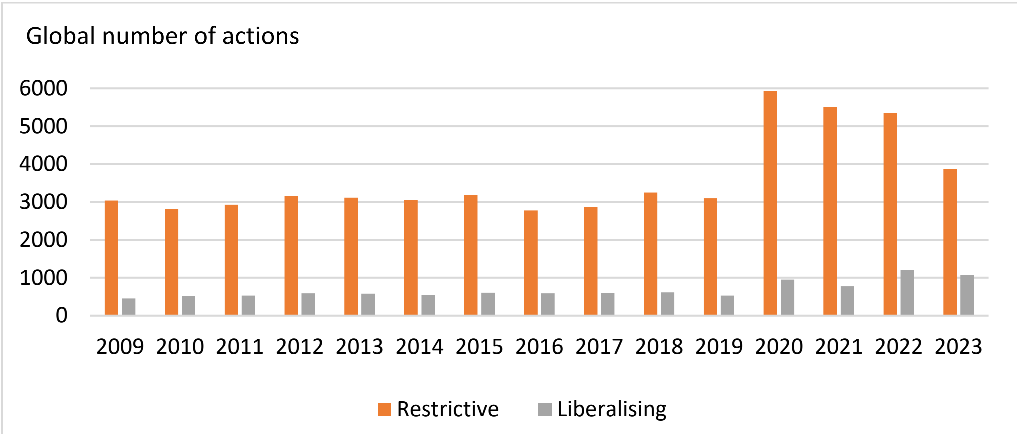
[12] Part of the FDI decline owes to accounting conventions, however, as some of what balance of payments statistics include in FDI consists of debt transactions, sometimes motivated by tax avoidance strategies like corporate inversions, which came under increased governmental scrutiny in the 2010s (Lane and Milesi-Ferretti 2018). A related factor was the U.S. corporate tax reform included in the December 2017 tax cut bill. Thus, the postcrisis FDI decline does not map unambiguously into a decline in socially beneficial international transactions.
[13] Unlike in figure 3, the activity measures in figure 7 do not hold prices constant. This is evident, for example, in the bulge after 1973, which is related to suddenly higher energy prices.

June 2016). The COVID-19 pandemic—following actions of the U.S. Trump administration to protect several domestic industries, reduce net imports from China, and disable the WTO appeals process—was a broader global shock, political as well as economic. At various times, some governments impeded global trade in foodstuffs and medical goods including vaccines.

Those events seem to have traumatized trade policymakers, convincing many that extended cross-border supply chains are a source of vulnerability, and not only for medical goods. The trauma was not eased by the 2022 counterexample of a *domestic* plant closure crippling the *domestic* supply of baby formula in the United States. Figure 8 shows a measure of trade policy actions since 2009. Restrictive actions continued at a higher rate, even after the pandemic eased, due to ongoing trade tensions and sanctions against Russia after its invasion of Ukraine in February 2022.[14]

Coming into office in January 2021, the Biden administration did not roll back the Trump tariffs on China, although it later did suspend some tariffs on EU exports of steel and aluminum pending further negotiations. Moreover, the Biden administration increasingly elevated security concerns to motivate a range of further trade actions against China. Already pursuing its own industrial policies aimed at self-sufficiency in several high-tech areas, China retaliated, including by banning some U.S. semiconductor

Figure 8 Trade policy actions 2009-2023



Source: Nonadjusted measure from Global Trade Alert, URL: https://www.globaltradealert.org/global_dynamics, accessed April 3, 2024. CC BY-NC 4.0 license.

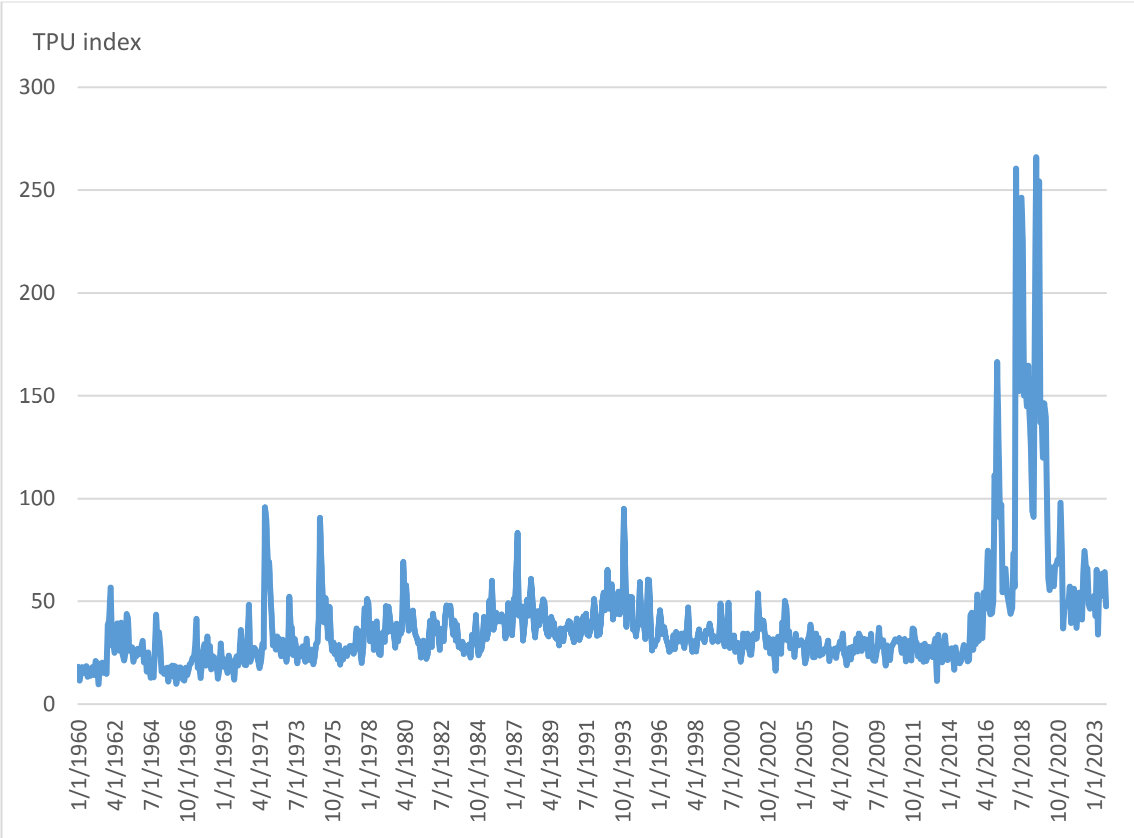
imports and restricting exports of key elements essential to the electric vehicle battery supply chain. The cycle reinforced U.S. and other countries' fears about supply-chain vulnerability and choke points, spurring further efforts at re-shoring, near-shoring, friend-shoring, de-risking, and diversification. Like the United States, the European Union has been taking steps in this direction via various industrial policies. These trends were amplified across the world by the sanctions that followed Russia's invasion of Ukraine in February 2022—western sanctions on Russia and Belarus, related pressures on other

[14] In practice, trade measures can enter the Global Trade Alert database years after they are implemented, so the reported number of interventions for 2023 is surely an underestimate and the same is likely true for some of the immediately preceding years. "Liberalizing" measures can also reflect global trade stresses and have beggar-thy-neighbor effects, as when countries lower food import tariffs in the face of global food supply disruptions.

countries with commercial ties to Russia, and Russia's own weaponization of its energy exports. "Just in time" has moved from "just in case" to "just friends."

The more turbulent trade policy environment is reflected in news-based measures of trade policy uncertainty (TPU), assembled using the methodology of Baker, Bloom, and Davis. Figure 9 shows the U.S.-based measure reported by Caldara et al. (2020), which spikes during the pandemic but thereafter remains around twice its pre-pandemic level. Figure 10 shows an analogous measure drawn from Chinese news sources, which behaves similarly to the U.S.-based measure (Davis, Liu, and Sheng 2019). Given the tensions between the U.S. and China, it is not surprising that trade between those two countries shows some of the more striking shifts. U.S. imports from China have stalled even in nominal terms since the start of the "trade war" in 2018 (see figure 11), while U.S. exports to China have also suffered dramatically (Bown and Wang 2023). While long-term evolutions were already pushing some U.S. import demand toward lower wage producers like Vietnam, tariffs on Chinese imports and security concerns have clearly played a role.[15] It is not yet clear how far trade fragmentation trends extend

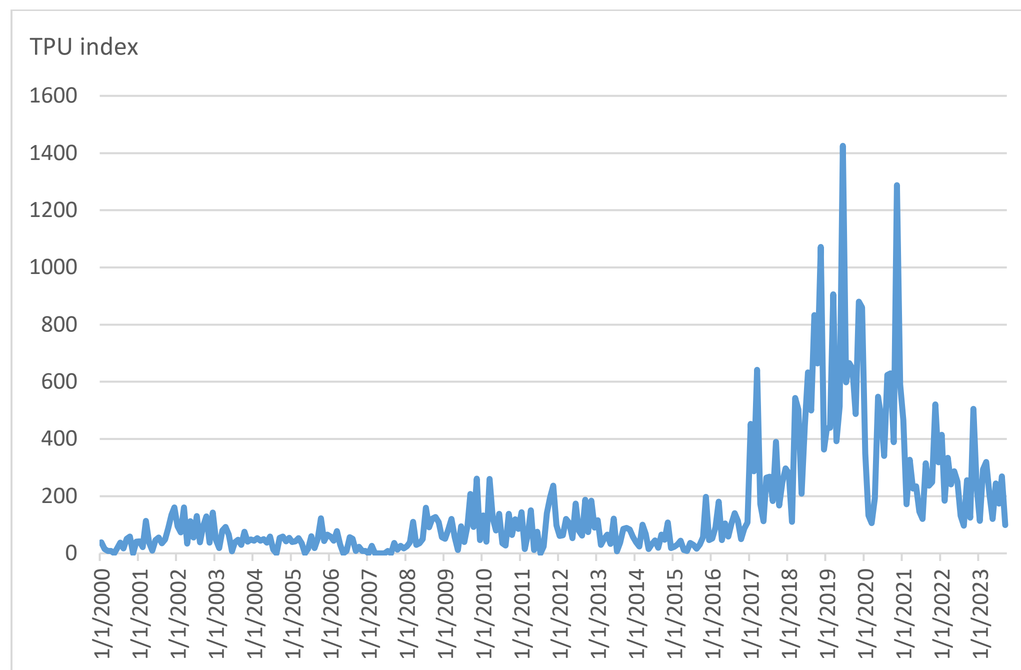
Figure 9 Trade policy uncertainty reflected in U.S. news sources



Source: Aggregate TPU index from Caldara et al. (2020), URL: https://www.matteoiacoviello.com/tpu.htm.

[15] U.S. imports from China have also fallen sharply as a share of total U.S. imports. Freund et al. (2023) show, however, that for Chinese exports to the U.S. subject to tariffs, U.S. import demand is shifting to countries closely intertwined with China's supply chain. Alfaro and Chor (2023) reach a similar conclusion.

Figure 10 Trade policy uncertainty reflected in Chinese news sources



Source: FRED series CHNMAINLANDTPU, based on Davis, Liu, and Sheng (2019).

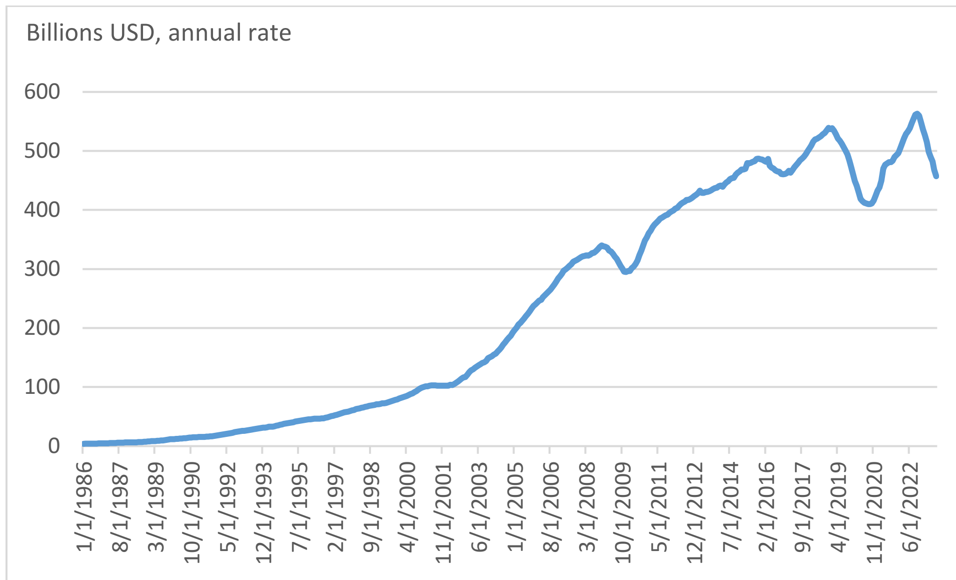
beyond the U.S.–China bilateral relationship (Pierce and Yu 2023), but the prospects are discouraging in view of current and prospective trade-relevant policies. Very recent IMF analyses indicate that global trade, while not contracting, may be reallocating along geopolitical lines, where, following the political science literature, geopolitical proximity is measured by similarity of U.N. General Assembly votes (Gopinath 2023).

Financial markets have not experienced the same onslaught of administrative actions as markets for traded goods and services. Figure 12, taken from IMF (2023a), shows that explicit restrictions on cross-border financial trades (what the IMF calls capital flow measures) generally did not become significantly stricter after the GFC. However, macroprudential measures aiming to make large international banks more stable financially (notably those associated with Basel III) have had the effect of limiting cross-border arbitrage, and therefore dampening the stratospheric levels of capital flows that characterized 2000s. Those excessive flows, often motivated by tax arbitrage strategies, lax regulation, and myopic price expectations, were socially unproductive and even socially damaging, as the eventual global crisis showed (Obstfeld 2021).

The imprint of geopolitics can be seen in financial flow data, however. FDI into China has plummeted (Lardy 2023). IMF (2023b) shows that FDI flows in general have been reorienting along geopolitical lines. Using the same methodology, Miao and Fan (2024) reaffirm this result and show that it extends to cross-border equity holdings.

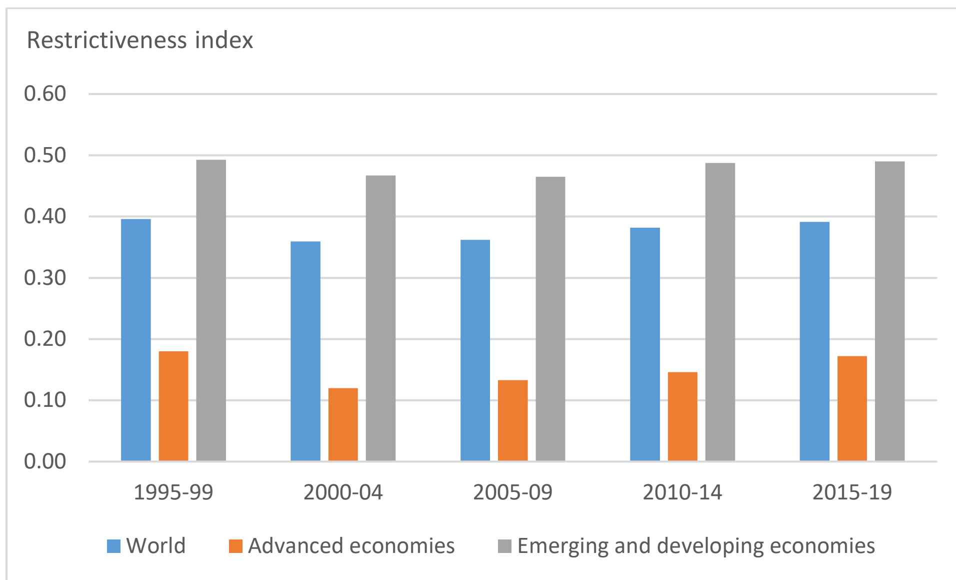
The recent slowdown in globalization raises the question of whether rapid globalization can create forces that lead to an anti-globalization reaction, in that they undermine the internal and external political conditions that promoted globalization in the first place (O'Rourke 2019; Obstfeld 2020). As I

Figure 11 U.S. imports from China, 12-month moving average of monthly data



Source: FRED, series IMPCH.

Figure 12 IMF index of capital account regulatory restrictiveness



Source: IMF (2023a, figure 3.4).

have argued, something like this happened during the Bretton Woods period.[16] In the realm of finance, the historical pattern of financial excess leading to crash and retrenchment is longstanding (Reinhart and Rogoff 2009; Aliber, Kindleberger, and McCauley 2023). In the realm of trade, too, globalization can generate economic shifts that raise the need for government support policies, while simultaneously

[16] Earlier examples of globalization's self-limiting tendencies come from the end of the "first great globalization" following the Napoleonic Wars and from even earlier episodes, starting with the disintegration of the extensive trading networks established under the Roman Empire, which is well-documented in the archaeological record (O'Rourke 2019).

undermining the efficacy of government action and provoking backlash. Rodrik's (2000) political economy trilemma speaks to this point. Indeed, one can interpret the original Bretton Woods architecture as a response, not only to the macro-policy trilemma—capital controls and periodic currency realignment allowed for some degree of domestic monetary autonomy despite pegged exchange rates— but as a way to navigate Rodrik's inconsistent triad of openness, mass democracy, and national policy sovereignty. Colantone, Ottaviano, and Stanig (2022) marshal evidence on the economic roots of the globalization backlash, although they also highlight the role of cultural factors (which in practice can be closely related to economic trends).

An account that links globalization backlash to trade alone is simplistic, however, in that many of the economic or social grievances that are commonly blamed on trade would occur even in its absence because of broad technological trends. However, trade and technology may be closely linked in practice, with trade hastening technology diffusion, development, and adoption, while technology facilitates lower-cost trade and new kinds of trade. Trade and technology can work together to generate change more rapid than what society can easily accommodate, absent targeted and timely government interventions that are difficult to implement in practice (a theme of DeLong 2022). Judt's assessment in 1997 drew more on European (and especially U.K.) experience than on U.S. conditions at the time, but was prescient: "It is the gap between economic change and social adjustment, a gap that has already lasted half a generation and will probably endure for years to come, that is causing the current dilemma and has ... become the critical issue of our time."

Globalization may ultimately weaken itself through other, geopolitical channels, as successful development in initially less-favored countries enhances their governments' ambitions and undermines the hegemonic structures that may have enabled globalization in the first place. Hegemonic benevolence becomes less sustainable over time as other countries rise closer toward economic parity with the leader, which internalizes a smaller share of the public goods it provides (Gaspar, Hagan, and Obstfeld 2018). Alternatively, a hegemonic power may find it optimal ex ante to commit to a rules-based system when this convinces smaller and more vulnerable countries to embrace open markets. Once those countries become strong enough through trade and development to bargain effectively with the former hegemon, however, the latter may find it optimal to abandon rules, resulting in trade conflict and inefficient global outcomes (Staiger 2022, chapter 12.2).

Even worse, benevolence may transform into rivalry or even hostility. Interdependencies vital to mutual gains from trade can come to be viewed increasingly (and not always without reason) as sources of economic and national security vulnerability or levers for foreign blackmail. The result is pressure for "friend-shoring" or "de-risking" that distorts international supply chains rather than promoting healthy diversification. As suspicion of trade partners' motives grows, military buildup may be viewed as complementary with economic security measures. This worrisome dynamic is at work in U.S.-China relations today, but it has ample historical precedents (O'Rourke 2019).

In the highly networked world that globalization has produced, hegemonic decline enhances incentives for the diminished hegemon and its rivals to weaponize nodes or choke points in trade, finance, or information networks for purposes of surveillance, influence, or coercion (Farrell and Newman 2023). Defensive actions then lead to economic fragmentation.

An underlying premise of the Bretton Woods and ITO negotiations, and indeed of the European project as well as the Uruguay Round negotiations that birthed the last great multilateral institution, the WTO,

was that shared economic prosperity within a context of internationally agreed multilateral governance would promote peace, and perhaps even peaceful political convergence. The roots of this view can be found in seventeenth- and eighteenth-century writers who believed that the emerging capitalist system would moderate states' as well as individuals' aggressive propensities; or as Montesquieu put it in 1748, "the natural effect of commerce is to lead to peace. Two nations that trade together become mutually dependent ...." (Hirschman 1977, p. 80). The prediction that commercial cooperation is a guarantee of peace has been falsified time and again. However, some degree of orderly and open commerce can improve the odds of good outcomes if managed well.

The question is how best to do so to minimize possibly destabilizing intrinsic dynamics. The founders of the Bretton Woods system believed that multilateral institutions and cooperation were an important part of the answer. They also believed, following the traumas of the Depression and World War II, that political stability rested on governments being able to achieve a judicious balance between global policy commitments and domestic economic needs. All this is even truer in light of today's challenges, but multilateral cooperation and domestic policy frameworks will need to adapt and evolve in several respects.

The future of multilateralism

Historically, new global challenges and opportunities have led to new forms of international cooperation, even in times of stress. During the Cold War, for example, U.S.-Soviet collaboration led to development of the oral polio vaccine and, a much more difficult task, to the eradication of naturally occurring smallpox worldwide by 1978 (Hotez 2014). The campaign against smallpox required joint action across the developing world, supported by contributions of supplies and money from the United States, the Soviet Union, and 40 other countries, and by personnel from even more. The World Health Organization played a central coordinating role (Bristol 2023).

This experience carries at least two important lessons for today. First, universally perceived challenges can prompt productive collaboration between competing superpowers. Second, existing multilateral institutions that are widely viewed as legitimate and more politically neutral are instrumental for channeling superpower competition into positive-sum outcomes that can also attract broad-based international support.

But geopolitics is not the only cause of stress in the multilateral order. Multilateralism is also contested in the domestic political sphere owing to warring ideologies and interests. These conflicts are sharpened by geopolitical tensions and, in turn, may exacerbate those tensions.

The geopolitical challenge

The current global landscape, dominated by geopolitical and economic tensions between the United States and China, threatens to undermine coordinated action on common threats—including climate change, pandemics, cyber risks, economic instability, and nuclear proliferation. It may also weaken the precious institutional architecture of international cooperation that was fortuitously established in unique historical circumstances at the end of World War II.

In its drive to contest U.S. dominance, China is promoting its own vision and leadership aspirations for middle- and lower-income countries, backed up by economic diplomacy and sponsorship of alternative international institutions. Unlike during the Cold War rift between the Americans and the Soviets,

however, China's economic interdependency with high-income U.S.-aligned countries is extensive, raising the costs of conflict for both sides but also creating shared incentives for more cooperative solutions. And, it must be said, almost all other countries, whether in the West or elsewhere, would welcome a pivot from conflict to more constructive competition.

China has worked to amplify its political and commercial power through country groupings like the expanded BRICS, bilateral financial arrangements, and regional projects like RCEP. However, it still participates actively in the key multilateral bodies and values its status and influence within them.[17] It does not seek to secede from the broader mechanisms of international governance for now, because no high-income countries would follow and China would simply cede its ability to influence the global multilateral agenda from the inside.

For advanced economy governments that wish to save multilateralism, the best course is to raise, not diminish, their investment in the multilateral institutions, leaving less of a void for China to fill with alternative structures and visions. Financial investments are vital, of course, but more support of the institutions in their missions of global public good provision is also necessary. The recent agreement for a 50 percent increase in IMF quotas is welcome, but the World Bank needs more capital, the World Health Organization is woefully underfunded by governments, and the WTO has been sidelined, its appellate body disabled, as the United States takes a leading role in flouting rules that it previously espoused. If the advanced economies want to promote a "rules-based international order" credibly, they must respect its institutional pillars and act to strengthen them, with widely acceptable reforms if needed. The long-run benefits from supporting a functioning multilateral system outweigh outcomes that may sometimes go against rich countries' interests in the short run.

Several observers have suggested that this approach could bind China more tightly into the multilateral framework, making it hard to abstain from participating in favor of the bilateral approach that it has often pursued. As Hass (2023, pp. 136-7) argues:

> For all its imperfections, the existing international system has contributed to preventing major-power conflict and enabled millions of people around the world to rise out of poverty in the decades since World War II. If China decides to chip away at that, it should pay a reputational price .... China's leaders will need to decide whether they can better reach their goals by integrating into the global economy or by turning toward self-reliance and limited partnership with developing countries.

Brown (2023) advances a similar argument.

Complementary with this approach, the high-income countries will build global support for multilateral solutions only if they engage more systematically to address the major concerns of the rest of the world. This is another aspect of "competitive cooperation" with China, in Bergsten's (2022) words. The differing responses between advanced countries and others to Russia's invasion of Ukraine illustrates the credibility problem high-income countries have faced in elevating Russia's transgression of international rules, and the need to invest heavily in punishing it, above other pressing global needs that impinge immediately and directly on the welfare of less prosperous economies. As Miliband (2023) observes,

[17] China has the third biggest IMF quota and voting share (after the United States and Japan), although arguably, the size of its economy would justify a larger quota and voting share.

“The West has failed since the financial crisis of 2008 to show that it is willing or able to drive forward a more equal and sustainable global economic bargain or to develop the political institutions appropriate to manage a multipolar world. This failure is now coming home to roost.” The Israel-Gaza war has exacerbated the problem.

The Bretton Woods institutions face a special credibility challenge, given the dominating influence of high-income countries. The situation is unsustainable unless those institutions become more focused, with additional resources, on the problems of particular concern to emerging-market and developing countries. There should not be such a stark resource tradeoff as now between, for example, climate mitigation in poorer countries and poverty reduction. In addition, richer countries will also need jointly to cede some voting power to middle- and low-income countries.

Key areas for further multilateral efforts backed by high-income countries include:

- To slow climate degradation is the most pressing and salient global public goods problem, as world temperatures touch new highs, more extreme weather events occur, and even the Paris emissions goals remain elusive. Climate action presents a leading opportunity for U.S.-China collaboration. As in the case of U.S.-Soviet cooperation on smallpox, it would be pursued most comfortably through multilateral frameworks, including through the multilateral development banks. Also analogously with the smallpox eradication drive, a constructive approach to competition would allow China and the West to highlight their own distinctive capabilities (Bristol 2023). One current example of climate cooperation is the series of climate-related projects jointly supported by the Asian Infrastructure Investment Bank (AIIB) and the World Bank in the last few years. To go further, the joint climate platform suggested by Gallagher (2023) has promise. If large-scale institutional innovation remains possible—which seems doubtful for now—the World Carbon Bank proposed by Rogoff (2023), or a similar construct, deserves consideration. It is important for rich countries to realize that while the promotion of emissions *mitigation* serves their own interests, many poorer countries are in need of more assistance for climate *adaptation*. Moreover, while mitigation actions in richer countries, such as carbon pricing, have global benefits, actions they may simultaneously take to offset the external competitiveness effects—such as the EU’s CBAM—may adversely affect poorer trade partners. Much more worrisome is the protectionist carbon content tariff that has been proposed in the United States Senate. The EU’s Deforestation Regulation, however well intentioned, raises similar concerns for developing-country exporters.
- The COVID-19 crisis demonstrated not only how unprepared the world was to counter pandemic threats, but how unequal are the public health resources available to rich and poor countries. Public health is a global public good, however, because attempts to bottle microbes up within borders will fail as long as countries remain interconnected. The WHO needs far greater resources and staff, as well as an update to its health regulations that takes account of recent failures. But even more is needed. Many of the ambitious global health initiatives proposed in 2021 have so far come to less than one would have hoped, as the world has moved on to new crises and SARS-CoV-2 has become endemic. Yet the next pandemic could be on the horizon—next time, perhaps the variant of avian flu that seemed most likely before 2020—and it could be more deadly than the last one. The threat of antimicrobial resistant microbes, including fungi, demands much more energetic global action. Encouragingly, the entire Group of Twenty (G20),

including the United States and China, cooperated effectively in setting up the Pandemic Fund at the World Bank in September 2022.

- As debt distress intensified at the start of the pandemic in 2020, the G20 launched its Common Framework for Debt Treatments beyond the DSSI (Debt Service Suspension Initiative). Even with its limited country coverage, the framework has not had a big impact, although the participation of the biggest bilateral lender to the developing world, China, has been essential to the slight progress achieved. One major problem is that middle-income countries are not covered—although fortunately, these countries have mostly proven resilient to recent shocks, the notable exception being Argentina. The other major problem is that only official creditors are involved. The recent experience of Zambia, where official creditors have contested the terms Zambia subsequently negotiated with private-sector creditors, is a case in point. A more unified sovereign debt framework encompassing both official and private sector involvement would speed the process of restructuring unsustainable sovereign debts (Hagan 2023). Here too, it is essential for China and Western creditors to cooperate in their joint interest. More efficient debt restructuring is essential to enhance the resource envelope for developing countries' investments in climate, health, and other global public goods. Helpful also in expanding developing countries' resources is the AIIB's willingness to back some World Bank loans with its capital, a practice that may be extended to regional multilateral development banks.

The preceding list is partial. Other priorities include food security, poverty reduction, refugees, and fighting state-sponsored and nonstate terrorism. While existing multilateral institutions should be built upon where possible, less formal modes of cooperation, sometimes falling short of universal participation, will also be useful, as suggested by Pisani-Ferry (2019).

The domestic political challenge

Domestic political divisions pose a distinct challenge to multilateralism, though these stresses often reflect geopolitics and, in turn, can incentivize political leaders to act in ways that exacerbate geopolitical divides. Particularly in many of the advanced economies, domestic political polarization worsened after the GFC, also placing pressures on democratic institutions (recall figure 6) and souring voters' attitudes toward economic globalization.

Intense skepticism about globalization comes from both the extreme Right and extreme Left. They fear that multilateral commitments will constrain the domestic government from pursuing the policies they favor, instead empowering foreign forces. In their populist incarnations, the Right and Left both oppose the alliance of domestic and foreign elites. The Right is against political and cultural "globalists" while the Left opposes financial and business interests that maximize profits by operating freely across borders. Even these distinctions between Right and Left should not be overdrawn: Right populists, too, are wary of global financiers (hence the obsession with George Soros), and can share with the Left a dominating concern for the common people, provided the definition of "common" excludes disfavored groups, notably recent immigrants.

Those wary of globalization fear that constraining national action to solve global coordination problems may restrict national sovereignty. This returns us to Rodrik's (2000) trilemma. A high degree of international economic integration inevitably leads to domestic economic effects that democratic processes might decide to offset, often by departing from open markets. The neoliberal mindset coming

down from writers of the interwar era like Ludwig von Mises, Friedrich Hayek, and William Rappard envisioned a solution that distrusted popular democracy but favored open markets and a version of national autonomy presumably driven by entrepreneurial elites. Instead, the Bretton Woods settlement, as originally conceived, built on more limited integration with safeguards (especially in finance) and domestic policy autonomy under broadly democratic governments. The new populist Right is comfortable with restrictions on global economic integration, as the Left has long been, but sometimes (notably in the United States) favors a more limited domestic tax regime and welfare state, in part because the latter is viewed as too supportive of minorities. However, the distinction between new Right and Left now falls more along cultural than economic lines, with some economic issues (climate mitigation, immigration, income support) playing salient additional roles as cultural flashpoints. Thus, the Left favors multilateral action on climate, while the Right downplays the threat. The two groups generally can have different views of what the democracy in "democratic sovereignty" entails, with liberal democracy increasingly threatened.

Ultimately, however, progress on addressing global challenges will depend on reducing the polarization that gives extremists of Right or Left outsize political power. How to do so, given a social media ecosystem that encourages disinformation and ideological sorting, is a major challenge for our time but beyond the scope of this paper. Meanwhile, it would build support for multilateral approaches if governments promote global projects that can command relatively widespread domestic political support, even in a polarized setting.[18]

The appropriate domain for multi-country action

An important question is the appropriate reach of agreed international constraints on national economic policies. The range of international coordination failures facing governments today goes beyond those that the Bretton Woods twins and the GATT aimed to overcome. Which international governance mechanisms are vital for avoiding these, and which trespass excessively on national sovereignty? Answering this question convincingly is critical to obtain the electorate's support for multilateral agreements.

Rodrik (2020) has proposed one answer.[19] For him, there are only two justifications for global agreements to constrain national policies. One is to prevent beggar-thy-neighbor outcomes, as when countries agree to refrain from imposing tariffs that are intended to improve individual terms of trade but collectively succeed only in reducing global trade below the optimal level. The second is to address a "tragedy of the commons" such as climate change. In other cases, he argues, policy spillovers may not be inefficient, or may primarily be due to national policy failures that should be addressed through domestic reforms rather than through international agreements. Thus, a minimum corporate tax could appropriately survive under Rodrik's beggar-thy-neighbor test. A domestic subsidy to correct a domestic

[18] Wolf (2023) presents a detailed and comprehensive program for supporting liberal democracy within a context of open capitalism. Kirshner (2024) gives a pessimistic assessment of the prospects for multilateral cooperation given the current polarization in American domestic politics.
[19] Bagwell and Staiger (2018) explore alternative definitions of policy sovereignty and the extent to which international trade agreements impinge on sovereignty. Tucker's (2022) theme is the reconciliation of international governance with domestic political legitimacy.

distortion would be a purely internal matter, however, although any associated domestic content requirements would be beggar-thy-neighbor and legitimately subject to internationally agreed rules.

One area where Rodrik disputes the need for international coordination is in financial regulation (for example, the Basel process). If a country is lax in its regulations, any ensuing financial crisis will hurt trade partners, but the policy failure is of a beggar-thy-self nature that should be corrected by domestic measures, not by internationally agreed rules and standards. Indeed, in Rodrik's telling, international regulatory harmonization may have mainly served to promote the objectives of industry lobbyists while enabling excessive global financialization.

The problem with a national approach is yet another trilemma, the financial trilemma that Schoenmaker (2013) describes. With open capital markets, financial stability cannot be achieved by national measures alone due to regulatory end-run and arbitrage by globally active financial institutions. So the only way to achieve domestic financial stability without international coordination is to limit capital movements across borders. This is a sharp departure from what economists aspire to for goods and services trade. However, there is a strong case to be made that the level of international financial trade has at times gone beyond what is socially productive. For some countries, capital flow measures could even be a necessary part of the macroprudential toolkit. The problem is that restrictions powerful enough to allow autonomous national regulatory policies, even if targeted, could reduce the genuine gains from international diversification and other types of productive financial flows.

The other argument in favor of arrangements like the Basel accords is that they represent a commitment mechanism that helps governments resist domestic financial interests and others pressing for dynamically inconsistent behavior. Indeed, one notable hazard is that of a race to the bottom in supervision and regulation. In the context of trade policy, Maggi and Rodríguez-Clare (2007) show analogously that international tariff agreements help governments resist pressures from domestic protectionist lobbies.[20]

Rodrik's guideline would clearly allow some concerted global actions against corruption—for example, eliminating offshore financial havens—but not so obviously others. If my country allows rampant bribery, that harms foreign countries but is beggar-thy-self as well. At the same time, no one country can limit corruption on its own without the help of foreign enforcement authorities—that is, as long as there is cross-border commerce. (One can perhaps discern a fourth trilemma here, a variant of the financial trilemma.) Perhaps there is a global commons at stake here, definable in terms of adherence to the rule of law, and so anti-corruption efforts can be considered a global public good.

To build domestic support for cross-country initiatives—multilateral, plurilateral, or mini-lateral—national leaders need to promote areas where the need for coordination is clear and where political support is likely to be high. The first of these desiderata requires governments to avoid over-reach and focus on "the big stuff." Otherwise, attempts at multilateral coordination could backfire, as Rodrik (2020) suggests, and undermine the political feasibility of even essential projects. Regarding the need for political support, there seems to be no shortage of areas that could inspire widespread domestic support for multilateralism with the right messaging, including climate, pandemic safeguards, corporate tax, corruption abatement, terrorist financing, and financial regulation. Other emerging or re-emerging

[20] Rodrik (2020) contests delegation arguments for international agreements, partly on the ground that global rules setters themselves are vulnerable to capture by special interests.

issues, such as governance of AI, cyber-security, and nuclear proliferation, should also be compelling to voters. Some of the threats that warrant collective international action today are truly existential, yet were unknown at the end of World War II. As noted above, the Doomsday Clock of the *Bulletin of the Atomic Scientists* stood at 7 minutes to midnight when it as introduced in 1947. It now stands at 90 seconds to midnight. Such assessments of danger are highly subjective, but it is hard to deny that time is indeed running out.

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