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The End of an Era

RESEARCH

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ABSTRACT

The post-war international economic order was based on American leadership tempered by multilateralism. History and theory suggest that regimes change when major actors are no longer willing to fulfil the expectations others have of their behaviour. Over the past decade and more, socio-economic and political trends have eroded American domestic support for international economic engagement. The second Trump Administration has used its 2024 electoral victory to take the country far down the path of changing the nature of American leadership and revising or rejecting American commitments to multilateralism. Regime change is underway.

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Contemporary geopolitical and economic turmoil raises the question of whether we are witnessing the end of an era of international economic and political relations. Are we experiencing a regime change or a regime disturbance? I try to answer the question in three steps. First, I review the history of the rise and fall of an earlier globalising regime; second, I clarify what we mean by regime change and explore some examples; and finally, I summarise the current state of factors affecting the stability of the current regime. In short, I do believe that the current international economic order is coming to an end, although it is not clear what might replace it.

HISTORY: THE COLLAPSE OF THE CLASSICAL ERA

The world economy became economically integrated over the course of the nineteenth and early twentieth centuries. By some measures, it may have been more tightly tied together than it is now: the gold standard connected all the world's major economies, and Europeans could immigrate almost entirely freely, living and working across Europe and the rest of the world.

This first era of globalisation was, by most measures, an extraordinary success. The world economy grew at an unprecedented rate, poor countries caught up with middle-income countries and middle-income countries caught up with rich countries. To be sure, this first globalisation was also an age of colonial imperialism, horrific working conditions within industrialising nations, and an agrarian crisis in Europe. But governments broadly agreed that the system worked well and should be preserved.

Yet the first age of globalisation collapsed with World War One, and efforts to restore it failed throughout the 1920s and 1930s. Why could the classical era not be revived? There were many reasons, but political ones were primary.[1] Countries in the nineteenth and early twentieth centuries had either very limited democracies or none at all. Farmers, workers and the middle classes, who bore the brunt of adjustment measures, had little or no say in whether and how their countries should manage their relationship with the world economy. globalising economic and political elites could impose the sacrifices necessary to sustain their international economic commitments on their politically powerless compatriots.

Conditions changed fundamentally with World War One. Democracy had been advancing in Europe and elsewhere starting in the 1890s, but the Great War was a turning point. During the war, many governments made concessions to labour movements and Socialist parties to enlist their support in the war effort. After the war, unsettled conditions, labour strength and the threat of Bolshevism all contributed to lead governments to dramatically increase the suffrage. By the early 1920s, almost all European countries had universal suffrage; labour unions and Socialist parties, along with parties representing farmers and the middle classes, were influential practically everywhere, participating in government throughout the continent. Traditional elites could no longer impose gold-standard rigour on societies where workers, farmers and the middle classes were politically powerful. The British return to gold in 1925 provoked a massive general strike, but the full import became clear after 1929, when all the traditional economic nostrums either failed or were rejected by voters. John Maynard Keynes had been warning since 1919 that '[t]he forces of the nineteenth century have run their course and are exhausted' (1), and he was proved right as the world spiralled into the greatest economic catastrophe of modern times. Trade wars and currency wars broke out almost immediately and undoubtedly contributed to the eventual shooting wars.

THE NEW REGIME

Out of the wreckage of the classical age came a new system for Western capitalist democracies. This system, planned at Bretton Woods, rested on a compromise meant to combine what had been valuable about the old regime with what had been learned about its failings. The new consensus accepted the desirability of international economic integration – to be achieved gradually – and also of a social welfare system that could cushion shocks coming from the world economy, and from the vagaries of capitalism more generally (2).

1 There were also important economic changes. The Victorian economy, with its family firms, family farms, disorganised labour and flexible wages and prices, had given way to modern economies with huge national corporations, powerful labour unions, and much less wage and price flexibility – all of which raised the cost of adjustment measures.

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This striking regime change marked the creation of the post-World War Two international economic order, the Bretton Woods system writ large. It is worthwhile remembering the definition of a regime, as 'principles, norms, rules, and decision-making procedures around which actor expectations converge' (3). This makes it clear that a regime is characterised by *expectations* of the behaviour of others. The formal rules only matter to the extent that they help structure those expectations. There was much talk of the 'rules of the game' of the classical gold standard, but in fact, there were no rules *per se*, only expectations of how governments were expected to perform their duties. The same was true of the new, Bretton Woods, order.

The post-war order was based on two principles: American leadership and multilateralism. The United States, with the United Kingdom as a junior partner, designed the contours of the system – and designed it, of course, in line with American interests. The Bretton Woods institutions reflected American preferences and gave the United States an effective veto over their operations. However, American predominance was tempered by a rich array of multilateral agreements and organisations. These served, in effect, to restrain the United States from exploiting its supremacy unduly. As a system of global (or at least Western) governance, the logic was clear. The United States was willing to lead the way in providing a range of global (or Western) public goods, so long as their provision was largely structured in line with American preferences. The rest of the (Western) world was willing to go along with this plan because the multilateral structure of the system served as protection against excessive American exploitation. Put more rigorously, the United States would provide global public goods because it expected to internalise enough of the benefits to make the effort worthwhile, and others went along so long as they expected the United States to satisfy the participation constraint.

HOW REGIMES END

A regime depends, as the definition cited above suggests, on expectations about the behaviour of its members. The set of combined expectations defines the regime's equilibrium and delimits the range of accepted (equilibrium) behaviour (4). If enough members – or a crucial member – violate these expectations and do so often or substantially enough, the regime is likely to end.

Two examples from modern international monetary history illustrate the point. The first is the fate of the Bretton Woods monetary order. This regime was built around a US dollar pegged to gold at a fixed rate ($35/ounce), with most of the rest of the world's currencies linked to the dollar with fixed but adjustable exchange rates. The international monetary system relied, along the broader lines of the post-war order, upon the United States and its currency as an anchor. This went along with an implicit commitment on the part of the United States to provide a reliable, stable, safe monetary anchor.

The regime began to fray in the mid-1960s, as American inflation started to rise substantially above that in the country's principal trading partners. This was, in context, a violation of the implicit commitment to monetary stability in the anchor currency.

Europeans, and in particular the French, complained bitterly that the United States was exploiting its 'exorbitant privilege', effectively violating their expectations. Treasury Secretary John Connally is said to have told European finance ministers, 'The dollar is our currency, but it is your problem', further confounding expectations of an American commitment to policies consistent with the regime in place. The issue came to a head in August 1971, when President Richard Nixon called his advisers together at Camp David to discuss options. Told that maintaining the link to gold meant austerity measures to cool off the economy, Nixon remarked that he remembered 1960, when 'we cooled off the economy and cooled off 15 senators and 60 congressmen at the same time'. Not incidentally, Nixon narrowly lost the 1960 presidential election (5). This was not acceptable in the run-up to the 1972 election, and Nixon instead opted to take the dollar off gold, thereby destroying the Bretton Woods monetary regime. The Bretton Woods monetary order was brought down by the domestic political reality in the anchor country, which drove it to violate the expectations of other regime members and eventually to formally break the rules of the Bretton Woods game.

The second example, in this case of a regional monetary regime, comes from the course of the European Monetary System (EMS). Created in 1979, the EMS's Exchange Rate Mechanism quickly became a Deutschemark peg. This was to some extent expected, and generally

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accepted, inasmuch as the Bundesbank was expected to maintain stable and low inflation in an environment of monetary stability. But in the aftermath of German unification in 1990 and its massive fiscal cost, and in light of the German public's historic aversion to inflation, the Bundesbank was concerned with inflationary pressures and began increasing interest rates. Eventually, the German central bank drove the benchmark repo rate from under 4% to over 9%. This pushed much of Europe into recession – Spanish unemployment reached 25%.

Again, the anchor country of a monetary regime, driven by domestic political economy concerns, had violated the expectations of its partners, breaking the implicit rules of the EMS game. After 2 years of attempting to keep the system together, several of its members broke the Deutschemark peg and brought this chapter in the process of European monetary integration to an end.[2]

In both cases, a powerful anchor country – a global or regional hegemon, if you will – led the way in creating a monetary regime that served its own interests, but that included an implicit commitment on the part of the anchor country to take the concerns of other regime member countries into account. In both instances, domestic political–economy forces in the anchor country drove its government to violate the terms of the agreement and bring down the system. In both regimes, the disruption of expected behaviour disturbed the preexisting equilibrium and led to the emergence of a new one.

DOMESTIC POLITICAL ECONOMY AND THE FUTURE OF THE INTERNATIONAL REGIME

Domestic politics, especially in the great powers, have always been central to the nature of the international economic order. At the end of World War One, the United States was poised to receive the mantle of global leadership from the United Kingdom. President Woodrow Wilson led the former belligerents toward the Versailles Treaty and the League of Nations. But Wilsonian internationalism was resoundingly repudiated by American voters in 1920 in favour of isolationism, a choice that many [such as Kindleberger (6)] have blamed for the coming catastrophic course of interwar international economics and politics.

America's global hegemony after World War Two was based on the reverse – the decline of domestic political support for isolationism. Both economic and political factors caused this decline, but the incipient Cold War was crucial. As tension with the Soviet Union grew, national security concerns helped convince a reluctant American public of the necessity of international economic engagement. The Truman Administration had to, in the words of the chair of the Senate Foreign Relations Committee, Republican Arthur Vandenberg, 'scare the hell out of the country' to rationalise the turn toward global economic leadership (7, p. 166).

Trends in the American domestic political economy have more recently led the country away from the international role it has played since World War Two. Since the turn of the century, popular scepticism has grown about the socio-economic impact of globalisation. Much of this has to do with the loss of well-paying manufacturing jobs, for which international trade and investment are often blamed. This concern is concentrated in the country's more industrial regions, especially the Midwest and the upper South, and it is amplified by the fact that states in these regions have often been 'swing' in presidential elections, with a rough balance between the two parties. This makes voters in the regions most affected by manufacturing job loss something akin to the national median or pivotal voters.

The 2016 presidential election was a watershed in the American turn away from the global economy. Candidates for the presidential nomination of both political parties ran on platforms that were explicitly hostile to international trade, international finance and international investment. Indeed, the stump speeches of Bernie Sanders and Donald Trump on the topic were virtually indistinguishable, as journalists noted (8). Both Sanders and Trump did particularly well in the formerly industrial regions and among working-class voters.

2 This was not, of course, the end of the story. The 1992–1993 ERM crisis, in some ways, catalysed the broader process of Economic and Monetary Union in Europe. The devaluations made clear to German producers that the Single Market might be compromised if governments were free to devalue at will; and the Bundesbank's single-minded pursuit of German goals made clear to non-German members that they needed a seat at the institution making European monetary policy.

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In 2016, American voters therefore elected Donald Trump on a platform wary of America's traditional international role. This reflected both economic concerns and geopolitical ones as well. The Cold War justification for American global reach was gone, and disappointing experiences with 'forever wars' left many voters sympathetic to the notion that the United States was overcommitted. The Biden Administration, which followed the first Trump presidency, tempered some of the anti-globalist rhetoric but continued most of the policies adopted. And when Trump returned to the presidency in 2025, his second administration redoubled its efforts to fundamentally alter America's role in the world.

Socio-economic concerns about globalisation are reminiscent of some of the tensions that helped undermine the classical gold-standard era. Then as now, there was a widespread perception that too many of the benefits of international economic engagement were going to a narrow urban elite, and that too much of the burden of adjustment to the global economy was being borne by workers, farmers, and the middle classes. In the interwar years, elites insisted that the constraints of the global economy were inconsistent with more generous social programmes and equally inconsistent with extreme forms of nationalism. The result was that as conditions worsened, most people and most countries turned away from the global economy and towards either socialism and communism, which promised extensive social programmes, or towards fascism, which promised extreme nationalism. Eventually, a compromise emerged with social democracy and modest integration, but it took a long time.

Today's elites have argued that international economic constraints require greater limits on social policies and restraints on national sovereignty. These arguments have become increasingly unpopular, and populists of both the right and left have insisted on the need for governments to 'take back control', in the language of the Brexit movement, to restore sovereignty, and to protect desired domestic policies from the intrusion of international economic or political pressures. The backlash against economic and political integration is a common thread that runs through politics in virtually all advanced industrial countries, and it has disrupted politics and party systems all over the world. It is not just the United States that finds its traditional foreign policy stance increasingly questioned by its own people. However, the backlash in the United States has taken a particularly anti-globalist direction – in Europe anger is largely directed at the European Union, not other multilateral institutions – and this has important international consequences.

THE TRUMP ADMINISTRATION TAKES ON MULTILATERALISM

The upsurge in populist sentiment has led to a variety of government policy responses around the world. In the United Kingdom, it led to Brexit. In many member states of the European Union it has fed resistance to the Union's social policies, legal strictures and external and internal immigration. In the United States, the Trump Administration and the Republican Party have seen the 2024 election as a mandate to remake the country's relationship with the rest of the world.

This restructuring has largely taken the form of questioning or rejecting the multilateral order that has prevailed since 1945.

The rise of China since it re-joined the world economy in 1979 has accelerated a rethinking of America's role in the world in some quarters. The fact that the United States now faces a formidable economic, and increasingly geopolitical, rival with a domestic order and international goals that clearly diverge from those of the United States has led the Trump Administration, along with some other Americans, to reconsider the extent to which the United States is willing and able to play the role of global hegemonic leader.

Recall, in this context, that the basis of the post-war order has been American leadership tempered by multilateralism. It is precisely this tempering that provokes dissatisfaction and opposition from the Trump Administration. Multilateral institutions constrain the use of American economic and political power. Indeed, they are meant to do so, to provide other countries some degree of assurance that the United States will not unduly abuse its position as *primus inter pares* (and thus satisfy the participation constraint). For some in the Administration, these constraints are binding enough that they would reject multilateralism wholesale. For others, it appears the desire is to reform multilateral institutions and expectations so that they conform more closely to American desires.

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Either way, the Administration has largely abandoned existing commitments to multilateral principles and expectations.

The abandonment of multilateralism is most clearly seen in the Trump Administration's signature trade policy. Successive American administrations, going back at least to the Obama administration, have had objections to some aspects of the WTO's operations.[3] Donald Trump's long-standing disdain for the WTO is at a higher level, with continual threats to pull the United States out of the organisation. At this point, that would seem superfluous, as American policy seems to have all but ignored the country's membership in the WTO.

The Trump Administration's declaration of 'reciprocal' tariffs in April 2025 was an explicit violation of the most basic principle of modern international trade relations, Most Favored Nation status or MFN (called in the US Permanent Normal Trade Relations). MFN has been central to trade policy for hundreds of years, and the post-war system of the GATT and WTO was built around it. It commits governments to non-discrimination among trading partners, providing the same trade treatment to all GATT or WTO members. This means that a tariff on men's sneakers, for example, will be the same for all imports of men's sneakers, no matter their origin (there are exceptions, but clearly defined ones). There are well-understood reasons for MFN, among them that it avoids having separate tariff lines on thousands of products for hundreds of countries, and limits trade diversion in favour of trade creation. More importantly, for our purposes, the post-war trading system is based on expectations that governments will extend MFN status to their trading partners, and that their trade policies will be in line with MFN principles. The 'reciprocal' tariffs differed substantially among countries, and presumably ongoing tariff negotiations will result in tariffs that similarly violate MFN commitments.

Violations of MFN are hardly new, but the current administration is different in that it has made clear that it is dissatisfied with the current multilateral system on many dimensions. As Treasury Secretary Scott Bessent put it approvingly, 'We are going to have to have some kind of a grand global economic reordering' (9). Some members of the Administration appear to believe that American policy should downplay or abandon multilateral commitments in favour of a unilateral (or bilateral) approach that they feel will allow the United States to achieve its goals more effectively. Other members of the Administration appear to believe that multilateralism and multilateral institutions can be sustained but that they need to be fundamentally reformed to accord more fully with American interests. Either way, governments around the world must revise their long-standing expectations of full-fledged American support for the multilateral economic order.

This, then, suggests that regime change is underway. The Trump Administration's policies have defied the established expectations of the country's interlocutors. Other governments need to reconsider their own policies in light of a new set of expectations of American policies, and more broadly of a new American approach to international economic policy. What will come after depends both on American policies and on the response and adaptation of the rest of the world.

CONCLUSIONS

The post-war international economic order has been in trouble for over a decade. National electorates have lost faith in their nations' existing political parties, political leaders and political institutions. Meanwhile, they have expressed increasing discontent with the constraints imposed by the international economy, regional institutions and other perceived restrictions on sovereignty. A global financial crisis and a global pandemic have excited fears about excessive reliance on countries and markets seen as undependable.

The Trump Administration's turn toward unilateralism has brought all these tensions to the fore. The government of the world's most important country has defied expectations about its behaviour. The rest of the world will have to adjust its expectations and adapt its policies. Whatever the US government does, and however other governments react, we are at the end of an era of international economic history.

3 The main ones are the controversy over 'zeroing' in anti-dumping calculations, and the allegations that the Chinese have not abided by the commitments they made when they joined the WTO.

COMPETING INTERESTS

The author has no competing interests to declare.

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