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Reform or Realignment? The Geopolitical Lessons of Bretton Woods

Matthew Hamilton

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Carnegie Endowment for International Peace
Publications Department
1779 Massachusetts Avenue NW
Washington, DC 20036
P: + 1 202 483 7600
F: + 1 202 483 1840
CarnegieEndowment.org

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Introduction

The international economic order is in a period of upheaval. Since the beginning of the second Donald Trump administration, slow-moving pressures have given way to a full assault on the norms and laws that structure the global economy. Meanwhile, this transformation threatens to rework the durability of alliances, interdependencies, and shared values that have kept great power conflict in abeyance since the end of the Second World War. The consequences of ongoing developments—including trade wars, the weaponization of economic interdependence, a renaissance of industrial policy, and challenges to the dollar’s centrality in the global economy—are impossible to predict. But there is little doubt that they both reflect a more unstable world and risk destabilizing it further. The history of the post-1945 international economic order suggests that it need not be this way.

These recent developments should not come as a surprise. Pressures on the international economic order intensified over recent years. The China shock and 2008 financial crisis deepened both domestic inequalities and global economic imbalances—each of which the preexisting international system lacked the capacity to manage. Industrial policies proliferated in response to escalating challenges like climate change, all the while adding more strain to the rules governing international trade. The resurgence of geopolitical tension also quickly emerged as a supervening consideration relative to the potential gains of further market integration. Amid these mounting pressures on the international economic order, calls for a so-called new Bretton Woods moment grew louder. Resetting the terms of economic multilateralism became an increasingly compelling option for alleviating the strains of a globalized economy and shifting geopolitics. But alongside the demands for reform, another possibility remained: the choice to reject economic multilateralism altogether.

Scott Bessent's framing turns the focus away from actively resetting the terms of economic multilateralism to implying that the international economic system must simply adjust to changes that are already underway.

The history of Bretton Woods provides a common reference point to those seeking to reform the international economic order. However, as a prior essay by this author demonstrated, these gathering calls for a new Bretton Woods moment reflect diverse understandings of the postwar order and, in turn, different views as to how the original postwar agreement might guide any new reform.¹ Such calls for reform have been delivered from varied quarters—ranging from the Joe Biden administration to some of the most prominent leaders in the Global South, as well as heads of the International Monetary

Fund (IMF), World Trade Organization (WTO), and World Bank. To these different figures, Bretton Woods offers competing lessons and resources: ideas for structuring the international economic order that were never fully implemented,² institutions that provide a vehicle for organizing reform,³ norms for state-market relations that can be revitalized through renewed coordination between like-minded states,⁴ and rules for underwriting further trade liberalization with managed international financial flows to make multilateral cooperation more sustainable.⁵

Across each interpretation of Bretton Woods, there is nevertheless overlapping consensus as to the basic purpose served by the postwar international economic order. First, there is a broad understanding that it helped shape geopolitical dynamics. Second, there is a widely held view that it did so by reorganizing the role of the state to ensure its capacity to manage key economic governance challenges. As the prior essay by this author argued, any meaningful reform must attend to these interrelated goals.

Since Trump's election, however, the calls for a new Bretton Woods moment have shifted dramatically. In November 2024, now Secretary of the Treasury Scott Bessent drew much attention for his suggestion that this is a period of "Bretton Woods realignment."⁶ His framing—forcefully taken up by the new American administration and indeed echoed elsewhere in the world—turns the focus away from actively resetting the terms of economic multilateralism to implying that the international economic system must simply adjust to changes that are already underway. This outlook suggests that the structure of the global economy follows geopolitical dynamics, particularly the arrival of a more multipolar world, rather than holding out the potential to meaningfully shape those dynamics.

This is not a mere rhetorical shift. It reflects a transformation in the possibilities associated with economic multilateralism. Stephen Miran, current chair of the Council of Economic Advisors and nominee to the Federal Reserve Board, advances a similar view in comparing unilateral and multilateral approaches to international economic policy.⁷ Miran's analysis centers upon trade-offs between America's economic and security interests. He implies

that the U.S.-led international economic order served the country's security—such as the ability to project power through control over global financial flows—while undercutting its economic interests, by rendering American firms less competitive and workers less well compensated in global markets.

Miran's view casts America's position as zero-sum with respect to both its interests and partners. It suggests that the United States simply needs to decide how to recalibrate its economic and security interests as it asserts itself vis-à-vis both trading partners and geopolitical rivals. This implies that American policy is only capable of reacting to new realities: it needs to cede some ability to project political power, so that the economy works better for the working class.⁸ Such a perspective denies that the United States can simultaneously advance its security and economic well-being—an ambition that should be at the heart of visions for reform to the international economic order, and one that is now being abandoned by the growing calls for realignment.

The Trump administration's reciprocal tariff regime, announced in April of this year and enacted at the beginning of August, takes the logic of realignment to a further extreme.⁹ Meanwhile, the response continues to be characterized by uncertainty, collapsing trust among allies, and a scramble to prevent deepening geopolitical tension between competitors. These developments show that realignment is poised to remake the world in the image that it claims to be diagnosing. As this vision guides the new administration's policies, it is also being accompanied by a drastic shock therapy delivered upon the American state (and its other core institutions of research, innovation and economic dynamism). Instead of rewiring the international economic order to ensure that the state can effectively respond to pressing governance challenges, this approach seems fixated on destabilizing the international economic order to force other countries to solve America's economic discontents—particularly to correct long-standing trade imbalances that work to the detriment of U.S. manufacturing.¹⁰ This forsakes the possibility of a renewed economic multilateralism that creates the enabling conditions for states to solve their own governance challenges. In so doing, this outlook abandons a key foundation of a sustainable international order.

This is the stark difference between current calls for “reform” as opposed to “realignment.” The following considers the stakes of this difference. First, it returns to the history of Bretton Woods to show why economic multilateralism should be viewed through the lens of reform rather than realignment. This history demonstrates that Bretton Woods did not merely emerge as a downstream product of geopolitical change after the Second World War. Instead, it set out to influence the organization of the postwar world by shaping the core features of statehood, particularly among the major industrialized economies in the West. This, in turn, sustained a common approach to governance across the leading powers in the Bretton Woods system and shaped the organization of the Cold War's balance of power. After explaining how this arrangement managed various economic challenges, the essay takes up the critical challenges facing the world today and draws on the history of Bretton Woods to begin sketching out how they might be conceived as part of a reformed international economic order. This clarifies the choices that must be made to help secure

a more stable form of multipolarity through a reworked economic multilateralism. More fundamentally, it shows why reform—not realignment—is essential to any meaningful renewal of America’s interests in a fast-changing world.

“Winning the Peace” or the Economic Causes of World War?

The Bretton Woods system emerged from the wreckage of total war. It goes without saying—but is nevertheless worth emphasizing—that its architects shared an overriding mission: to prevent another global conflict. In the aftermath of two world wars, they were tasked with “winning the peace.”¹¹ A similar project followed the First World War, although it focused on a considerably different set of issues. With the Treaty of Versailles, League of Nations, and Kellogg-Briand Pact outlawing war as an instrument of national policy, the goal of constraining high politics through law largely elided consideration of the economic determinants of conflict. As Patricia Clavin suggests, this led to significant course correction by the end of the Second World War, when “economic and financial issues were first when it came to imagining and building the peace, unlike in the First World War, when they had come last.”¹²

The Bretton Woods institutions thus assumed their essential role in the broader postwar order. Oftentimes, this arrangement is characterized as U.S.-led and rules-based.¹³ In addition to the structures of international economic cooperation, it involved the birth of the United Nations organization, a transformation in international law, the end of formal European empires, and America’s acceptance of a central role on the global stage. By and large, this order held in the decades following the end of the Second World War. Today, the otherwise conflicting views of reform and realignment agree that it needs to be remade.

In the last decade, there has not only been deepening skepticism as to the continued efficacy of the liberal international order—there is much debate as to whether it ever served as a means of generating peace, stability, and broadly distributed well-being. Political scientist Graham Allison has opposed the so-called “conventional wisdom” that the structure of the postwar order secured these benefits.¹⁴ Instead, he argues that stability emerged as a “byproduct of the dangerous balance of power between the Soviet Union and the United States.” In his view, this geopolitical reality led the United States to “do what was necessary to preserve liberal democracy at home.” Put otherwise, the international economic order developed as a function of the balance of power. It did not create the basis for peace; instead, it merely reflected it.

Allison's view sets up a crucial debate. Did the American-led order shape the balance of power that countervailed an encroaching ideological and geopolitical rival? Or should the postwar liberal international order, and the distribution of costs and benefits that it organized, be viewed as largely derivative of the underlying cause of peace? On the latter view, the international economic system did not play a significant role in setting the terms of postwar peace. Instead, peace (or, at least, the absence of total war) emerged from the risk of great power conflict and the strong deterrent effect of a potential conflict that neither major power felt confident it could win. On the view of those like Allison, the international system aligned with global realities, but it did not meaningfully shape them.

Alternatively, historian Charles Maier argues that the Cold War's "dangerous balance of power" is better understood as a cost that came in the form of "discarded alternatives."¹⁵ His suggestion is that there were other conceivable ways to organize the postwar peace, rather than through generations held "hostage" amid the constant threat of nuclear war and the many conflicts that struck the periphery of a divided world. On Maier's view, these were costs that a different international structure could have defrayed.

This divide between Allison and Maier not only pertains to the history of the postwar order—it also carries implications for today's debate over the future world order. In fact, their divide is at the center of the difference between visions of reform and realignment. Proponents of reform suggest that the structure of international economic governance can shape the configuration of international power and conditions of any sustained peace. Those who advocate realignment imply that international economic relations must adjust to an increasingly multipolar reality.

Putting aside today's debates for a moment, it is first helpful to ask how the architects of the postwar economic order envisioned its role in shaping peace. What did they consider to be the economic determinants of conflict? How did multilateralism offer to manage these dynamics, and thus influence the structure of peace after the Second World War?

Even though economic concerns occupied a far more central role in the construction of postwar order than during the interwar period, the Great Depression was not necessarily viewed as the proximate cause of the Second World War. As a leading British architect of the postwar arrangements suggested, "economic motives have been exaggerated as causes of war, at least in modern conditions."¹⁶ Instead, economic factors were considered an accelerant of a population's

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willingness to support international aggression, as well as a spark of the “rapid deterioration in international political relations” that followed a surge in protectionism. Economic downturn—and the rise of unilateral measures to manage it—pressured these underlying triggers of conflict. In this way, sustaining peace required an international system organized to prevent economic downturn and through rules that provided states with latitude to respond to their particular economic governance challenges without tearing down the multilateral system altogether.

Different views of the origins of the Second World War shed further light on the economic factors that the postwar system addressed. By and large, these factors can be categorized in terms of whether they primarily focus on the external relations between states or the internal dynamics within the state. In externally focused accounts, states led each other toward bellicosity. John Maynard Keynes, for instance, famously indicted the Treaty of Versailles as the basis for renewed conflict. He condemned the program of economic punishment imposed by the victors of the First World War.¹⁷ From his perspective, this bred many countries’ desperation to escape the punishing impositions of international economic relations across the interwar period. More recent history suggests that the intensification of economic sanctions—not the foreclosing of economic possibilities after Versailles, but the growing threat that existing economic interdependencies would be weaponized—pushed countries toward preventative action that eventually spiraled into conflict. The prospect of economic coercion pressed states to secure continued access to both production inputs and export markets that remained vital to their economic model (and, in turn, the sustainability of their established mode of governance).¹⁸

This raises the role of the economy in the internal drivers of conflict. Another strand of thought focuses on economic factors that allowed states to legitimize alternative models of domestic governance through international aggression. For instance, one such analysis considers the growing concentration of economic power within countries, and its role in triggering a shift to systems of domestic governance that sustained themselves principally through bellicosity rather than internal legitimation. This perceived cause-and-effect relation explains substantial postwar efforts to spread antitrust policies across the world, as well as the attempt to structure the International Trade Organization (ITO) to guarantee that trade took place between firms operating within competitive markets.¹⁹ Preventing a spiral of corporatism and concentration would stave off forms of governance that tended toward international aggression.

In short, many economic factors came to be viewed as contributors—even if oftentimes indirect—to the Second World War. These developments made it easier for states to come into conflict and created the domestic circumstances that legitimated a lurch toward such conflict. The postwar international economic order aimed to manage both factors: first, by enabling like-minded states to solve their most pressing economic governance challenges, which then maintained the rationale for sustained cooperation and the legitimacy of a common approach to governance that prioritized managing such challenges. In this way, the internal and external drivers of conflict could be addressed in a coherent and reinforcing fashion.

Postwar Peace and the Initial Jurisdiction of Bretton Woods

Building a postwar order that avoided repetition of interwar mistakes meant prioritizing macroeconomic stability through full employment. Bretton Woods was organized to guarantee that states could successfully enact their full employment policies. It also aimed to ensure that any response to economic downturn—and a corresponding rise in unemployment—would not trigger a self-defeating spiral of protection. In this way, a form of economic multilateralism structured around full employment offered to allay both the internal and external drivers of conflict. This shared goal dictated the organization of international monetary and trade relations. It also shaped how the Bretton Woods institutions set various other economic governance norms that are not as commonly associated with the postwar order.

International Monetary Coordination

The architects of Bretton Woods realized that the international monetary system could no longer ensure the continuity of international trade at the cost of unemployment. To adjust to shifts in the balance of payments, the gold standard had imposed deflationary pressures on countries running a trade deficit. The expansion of democracy throughout the West made this preexisting element of the international monetary system untenable.²⁰ Democratic governments would not tolerate such a punishing mechanism of adjustment. Any similar form of international monetary relations only risked their defection from the multilateral system. Instead, the new order needed to be structured around alternatives to deflationary pressure as the means of adjusting imbalances between nations without collapsing trade altogether. In the first instance, the postwar international economic order needed to be refashioned to work with democracy, instead of against it.

Ragnar Nurkse, a leading economist who evaluated the failures of the interwar monetary system, put it plainly when he said that “experience has shown that stability of exchange rates can no longer be achieved by domestic income adjustments if these involve depression and unemployment.”²¹ This might seem intuitive enough to today’s reader, but it meant that for the first time countries needed to actively coordinate “policies aiming at a stable level of good employment” while maintaining a steady system of international exchange to buoy the trading regime. Much of this responsibility initially sat with the IMF. It would manage the adjustment of exchange rates in response to structural changes in international economic conditions. Furthermore, it was tasked with extending sufficient liquidity to ensure member states could enact macroeconomic policies that diminished the likelihood of any need for such adjustment in the first place.²²

The system's architects also sought to ensure that surplus nations bore some responsibility for trade imbalances that emerged. The initial plans for Bretton Woods offered to essentially tax countries' surpluses and thus reapportion the costs of adjustment so deficit nations would not end up suffering deflation, unemployment, and its attendant risks for both domestic governance arrangements and international relations. Shifting the costs of economic adjustment onto a subset of nations imperiled the entire system; instead, it would be more sustainable to automatically share the burdens of adjustment. This offered to disincentivize the types of economic policies—like indiscriminate uses of industrial policy and financial repression—that gave rise to economic imbalances in the first place.²³

Capital controls also formed a key part of this new arrangement, providing a further way to ensure the viability of each member state's full employment policies. Each state retained the ability to enact their own restrictions on cross-border capital flows. This meant that domestic economic policies would not be undercut by hot money fleeing the country. Financial regulation thus sat outside of Bretton Woods' initial remit; rather, it remained a power that states could exercise unilaterally to ensure the success of their own macroeconomic policies. In short, different responsibilities sat with the level of government most proximate to the people, such that full employment could be maintained across the membership of the multilateral system. This basic principle shaped which issues came within the jurisdiction of the international system, and which remained fully in the hands of member states.

Managed Trade Liberalization

The design of international monetary coordination under Bretton Woods underwrote a reorganized international trading system, which served as another essential guarantor of full employment. As legal scholar Sanny Das has detailed, the goal of full employment functioned as the fundamental objective of postwar international trade—uniting its structure with the rest of the Bretton Woods system and broader postwar order.²⁴ For instance, the 1944 White Paper on Employment Policy framed the United Kingdom's economic recovery plans around the commitment to full employment. Keynesianism and wartime economic conditions first showed full employment to be a tenable goal for domestic economic policy. But the influential white paper begins by explaining that its continued viability depended upon the need to “create, through collaboration between the nations, conditions of international trade which will make it possible for all countries to pursue policies of full employment to their mutual advantage.”²⁵ The guarantee of expanding trade—in addition to managing the risk of its sudden contraction through international monetary coordination—was considered necessary for mitigating the economic drivers of conflict.

The interwar period revealed that states could not go it alone by shielding themselves from the potential volatilities of the international economy. But, more than that, it showed that a system allowing for the expansion of international trade would enable the continued pursuit of full employment, thus forming another essential component of the postwar architecture. An international economic regime rooted in the evenly distributed expansion of trade proactively facilitated each member state's common interest in full employment.

This commitment to full employment also meant that even the most avowed free traders recognized liberalization of trade flows as secondary to the possibilities that it unlocked. In fact, the postwar view of free trade was, in crucial ways, far narrower than more recent understandings of the concept. It focused on finished goods and did not extend to important sectors of the economy like trade in agriculture or raw materials—let alone services, intellectual property, or various nontariff barriers to trade, as under the WTO. Even so, in reviewing the initial proposals for the postwar trading regime, noted Chicago economist Jacob Viner famously remarked that “there are few free traders in the present-day world, no one pays any attention to their views, and no person in authority anywhere advocates free trade.”²⁶ Rather, a steadily expanding trading system—one organized to facilitate full employment—required limits on the extent of trade. Strictures to promote trade liberalization would be bound by the circumstances when its rules failed to further the underlying full employment objective associated with liberalization and shared by all its member states.

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By way of example, Article III of the proposed Havana Charter for the ITO concretized plans for a trading regime that elevated full employment above all else.²⁷ It established that a state's trading obligations would never be interpreted to restrict their ability to pursue full employment policies. Instead, a trading system built around steady liberalization offered a means to this overriding goal—and its consequent effects for social democracy and peace—rather than an end that could simply secure peace through heightened economic interconnection.²⁸ In other words, peace turned upon member states' ongoing commitment to an international system that helped them pursue a shared priority for economic governance. Meanwhile, states would respect each other's invocations of economic sovereignty insofar as they were oriented toward maintaining full employment and, in turn, the system that facilitated it.

Organizing Key Governance Norms

The traditional focus on trade and monetary relations minimizes the way that various other economic governance challenges fit into an international regime tethered to full employment, the cooperation it maintained, and the peace it thus helped to secure. This included, for instance, a commitment that prevented member states from using “unfair labour conditions” to generate competitive advantage in trade relations.²⁹ Instead, postwar plans tasked the International Labor Organization (ILO) with coordinating the “improvement of wages and working conditions”—something understood to be in the “common interest” of all member states.³⁰

In fact, full employment implied the Atlantic Charter's deeper commitment to advancing social security through rising labor standards.³¹ This clarifies how the orientation around full employment advanced social democracy and, in the process, averted modes of governance rooted in aggression. Full employment ultimately meant improving living standards across the middle class—particularly among the major economies in the transatlantic world that composed the core membership of the postwar regime. Trade liberalization alone would not secure peace, but the dividends of a carefully organized international economic system supported member states in maintaining a form of governance that tended toward peace. In so doing, states would remain invested in an arrangement of international cooperation that enabled them to achieve their shared goals for economic governance—structuring an alliance essential to the broader balance of power in the Cold War.

Conversely, elements of today's international economic order were disavowed in the initial construction of the postwar order. This also reflected the understanding of full employment that emerged in response to depression and world war. While states could not use regulation or taxation as an underhanded way to “afford protection to domestic production,” this did not preclude transparent “payment of subsidies exclusively to domestic producers.” Likewise, the effort to eliminate quantitative restrictions in trade did not extend to policies designed to “prevent or relieve critical shortages of foodstuffs or other products essential to the exporting Member.”³² The point being that the reduction of tariffs formed the core of the proposed trading regime. This allowed international trade to continue its steady expansion without imperiling states' full employment objective. Each member state retained the capacity to relax other commitments to the multilateral system in favor of policies that maintained full employment, as well as the essential bases of full employment, like a healthy population.³³ On this basis, various issues would be organized in and out of the international economic order.³⁴

These structures hinged on the assumed connection between full employment, sustained social democracy and the prevention of another total war. The architects of the postwar system viewed full employment as a means of sustaining social democracy. Furthermore, they created interdependencies that helped member states to secure full employment. This kept like-minded states invested in an alliance that advanced—and thus maintained—their shared commitments. This arrangement centered on industrialized Western economies, and anchored the balance of power as the Cold War emerged (which, in time, undermined the Bretton Woods system by not sufficiently accommodating other states as the Cold War became an increasingly global contest). Its core members' interest in full employment shaped the terms on which the jurisdiction of the international economic order was organized, while other economic governance issues remained within the sole control of each member state. Even if the entirety of this initial vision for Bretton Woods did not take hold—particularly with the scaling down of the IMF and the substitution of a narrower GATT for the ITO—its orientation provided the basis for sustained cooperation throughout the postwar decades. In fact, its underlying norms guided many adaptations in the system as new economic governance challenges emerged.³⁵

This history of postwar economic multilateralism, and particularly the initial jurisdiction of Bretton Woods, is significant to present debates. It offers a data point to adjudicate between today's advocates of reform and realignment, suggesting that international economic cooperation can be structured around shared political aims in such a way that helps to secure a more peaceful world. It also clarifies the questions that need to be asked to determine whether this possibility continues to hold in a much different world, which is where this analysis concludes. How might a reformed international economic order organize a new peace, as opposed to one that merely realigns and, in turn, risks delivering a more chaotic form of multipolarity?

Toward a Reformed International Economic Order

Today's global economy presents many stresses that demand global cooperation. States are increasingly confronting economic governance challenges that no one state can address through unilateral means. These global collective action problems include mitigating climate change, managing public health risks, governing migration flows, ensuring financial stability, narrowing inequality, and safely regulating emergent technologies. Each entails significant consequences for structuring the economy and shaping the outcomes it produces. For many states to achieve their core objectives with respect to these challenges, there is a need for broad international cooperation.³⁶

At the same time, prospects for such cooperation continue to dim. Geopolitical change threatens many preexisting dimensions of economic multilateralism. Today's emergent governance challenges also make it clear that the current organization of international economic relations is unfit for present purposes. It is unable to advance the shifting priorities of many states, and the people they represent. This is the best case for why steps toward realignment suggest a need to turn away from multilateralism altogether. But recent months offer a reminder that this view is likely to become self-fulfilling prophecy—just not one that allows for governments to secure the interests they claim to represent.

Even if a diminished vision of realignment resounds today, the pathway to reform is not foreclosed. In fact, ongoing developments are making its importance even clearer. Meanwhile, the foundations for reform continue to be laid down. The European Union is

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moving toward an embrace of the policies outlined in the Draghi Report and its earlier Industrial Strategy.³⁷ Other major countries—ranging from Brazil to the United Kingdom—are articulating a similar vision. They are taking a more expansive view of the governance challenges that must be addressed to maintain their legitimacy in the near term and ensure a peaceful world over the longer term.³⁸

Much like the vision that first animated Bretton Woods, these strategies are built around the need to guarantee that states can respond to the urgent challenges they face. While the range of today's economic governance problems are more extensive than the postwar need to maintain full employment, the basic lesson of Bretton Woods still holds: the international economic order must create enabling conditions for the success of today's industrial strategies and for resolving the economic governance challenges they seek to address. A viable structure of peace runs through the effectiveness of the state, and the interdependencies that help states to manage their most pressing challenges.³⁹ The following draws from this lesson to begin sketching what is needed—and how to deliver—a reformed international economic order in a world beset with new economic governance challenges and shifting geopolitical dynamics.

The Necessary Foundations of Reform

The history of Bretton Woods sharpens questions about the issues and interdependencies that can provide the basis for any such arrangement. First, there are growing questions about the future of labor in the economy. A declining share of manufacturing is characteristic across developed economies that do not run a trade surplus through their substantial use of industrial policies.⁴⁰ This trend is also facilitated by domestic laws, which permitted the rise of fissured firms and concentrated industry so long as the consumer benefits in the form of lower prices. At the same time, these trends feed off much deeper technological change that is reshaping the demand for labor itself. The economic governance challenges facing the state today are thus irresolvable through any simple guarantee of full employment. This means that the ambitions associated with full employment in the postwar period—that it would ensure social democracy through rising living standards for the middle class—cannot be secured through an international system that is organized to help states maintain full employment. In other words, any new Bretton Woods moment cannot simply return to the old Bretton Woods.

Second, there are urgent questions about the shifting structure of the state. Following last year's "global election supercycle," liberal democracy is under deeper strain than at any point since the Second World War.⁴¹ Take one stark example: after decades of being reshaped, the American state is now being slashed. Other institutions that underwrite the country's dynamism are also under attack. No less than the role of the state in managing the market is now being contested—a trend that predates the new administration in the United States, even if it is now accelerating under its policies. This means there is even less clarity about the mode of governance that economic multilateralism can be reorganized to support. For this reason, any reformed international economic order requires a renewed view of the state that it will help to legitimate.⁴²

These two sets of questions raise a third about the necessary foundations of a peaceful future. The world will likely become more multipolar, all the while the success of governance becomes more dependent upon broad cooperation. This suggests the content of a multipolar world is up for grabs in the ongoing restructuring of economic multilateralism. Is a new balance of power the only way to stabilize a world veering into multipolarity? If so, can the international economic order still shape the operation and outcomes of any such balance of power? Or are alternative geopolitical formations tenable, such as smaller clubs of like-minded partners that engage with each other to generate broader cooperation on certain global collective action challenges?

In answering these codetermined questions, consideration should be given to how different potential arrangements offer to defray the costs that came with the Cold War's balance of power (including, but not limited to the range of man-made disasters that struck in the process of avoiding another global war). The postwar history considered here reveals that the answers to these questions will shape the power that must be balanced, and construct the interests of states that will keep any reformed international system afloat.

Lessons to Avoid Realignment

Reviewing the history of Bretton Woods also surfaces lessons that can help to answer these questions about the possible structures of a reformed international economic order. First, it shows that the construction of the international economy is always closely related to political circumstances. There is no natural set of issues that fall within the jurisdiction of the international economic order as opposed to those that should be managed independently by states. The universe of pressing governance challenges could plausibly be part of a reformed international economic order. In fact, this is largely the view that dominated in the aftermath of the Cold War with calls for a global economic constitution managed under the auspices of the WTO. As the history of Bretton Woods shows, that does not necessarily mean it is desirable to do so. The issues within the remit of any new economic multilateralism must be selected in light of the overall goal of the international system.⁴³ In the case of Bretton Woods, this meant the issues that were part of the postwar international economic order aimed at sustaining social democracy through the maintenance of full

employment. This is because such an arrangement offered to manage various potential economic causes of world war—in large part by keeping like-minded states invested in a form of cooperation that, in turn, maintained their like-mindedness.

Second, meeting the foundational goals of the international economic order will require changes in the means through which its basic aims are secured. The perceived economic determinants of conflict (direct and indirect) changed throughout the postwar period. As the understanding of peace changed, so did the way in which the international economic order worked to manage its various determinants. This speaks to the way any new system should be instituted. Economic multilateralism must set out to secure certain ambitions that require broad cooperation. This means ensuring flexibility with respect to the way these anchoring ambitions are realized, alongside some rigidity in guaranteeing that states do not easily defect or free ride from the primary goals to which they subscribe.⁴⁴

Third, there is a need to decide whether the postwar framers set their sights too high or too low. Does the foundational goal of peace need to be refined? Should it be considered something other than the absence of great power conflict? This could invite greater emphasis on ensuring that the dividends of peace are distributed more fairly, thus helping to sustain a broader multilateralism than the Bretton Woods system organized around the industrialized economies of the postwar period. It might also best be effectuated if a goal other than the absence of great power conflict formed the overriding aim of the international economic order. Such alternative organizing principles could include distributive justice, sovereign equality, or a more ambitious view of peace that is tethered to a common vision of prosperity that comes with it.

Delivering Reform: What is Next?

The questions that must be resolved to form a new economic multilateralism are not ones that can easily be answered. Furthermore, the lessons distilled from Bretton Woods should not be applied absent a more robust process of democratic legitimation for the answers that they help to produce. Such legitimation is crucial for any form of economic multilateralism that is reorganized to ensure the effectiveness of the state. Indeed, as this paper suggested, if a more stable geopolitical arrangement can be secured through reforms to the international economic order, it will be done by identifying how today's urgent economic governance challenges can be resolved by shaping a new role for the state. This can support the broader ambitions for a reformed international system—one that helps to prevent total war, but one that ideally does so by securing a more just and widespread peace than that which came before.

In fact, any such future can only come with a reformed economic multilateralism. Initial steps toward this end—like the expanded pursuit of industrial policy to address climate change, or growing coordination around tax policy to help states address domestic inequalities—are necessary, but insufficient for an international economic order that secures a stable multipolarity. In time, like-minded states will need to commit to further cooperation with one another to underwrite their common approach to governance.

At the same time, the current world is very different from the post-Second World War era, when the United States and fellow democracies, including in Western Europe, dominated the world economy. Today, many states seeking to solve common economic challenges do not necessarily share the same underlying values or governance commitments. This suggests the need for a more complex system of global economic governance that includes not only universal (or large membership) organizations, but also smaller clubs of like-minded states that can both cooperate and compete in response to the different challenges they face. Such an approach is nascent in many plurilateral arrangements and regional trade agreements that have begun to emerge in recent years.

This raises the prospect of a new international system built around parallel tracks of economic ordering. States with shared core values should prioritize close cooperation with each other. More universal agreement—between different clubs of states—can then center on common challenges that necessitate broader coordination. This suggests a system where a narrow subset of issues related to the economy will need to be managed under the auspices of global economic institutions, while smaller membership organizations like NATO and ASEAN might take on a greater role in mediating both international political affairs and economic priorities of like-minded states.

As these parallel tracks of international ordering evolve, both the United States and China will need to anchor such a system. They can set the terms on which some economic governance challenges are addressed through competition between groups of states, while others are addressed through broad, if not universal, cooperation. For instance, competition over industrial policy might accelerate the climate transition while coordination around monetary governance is needed to ensure that one state cannot offload the consequences of such policies onto their trading partners.

None of this will be realized immediately. In fact, if a new multilateralism evolves to help prevent conflict—instead of emerging in its wake—it is unlikely to unfold in any single moment of reform. Instead, the initial success of cooperation between narrower groups of states is the most likely way to build consensus around shared governance commitments and to structure the deeper forms of cooperation that are needed across time. In other words, the ambit of like-mindedness will expand when it is shown to be an effective way of organizing the state to solve today's urgent challenges. The success of a new multilateralism can beget more success.

Admittedly, the world that awaits at the end of this pathway to a reformed international economic order is still far from clear. But each week provides new reminders of the urgent need for the world's main economic powers to chart this course. The successes of the postwar multilateral system were imperfect, but they contributed to an enduring peace. The alternative course of realignment risks taking us in a more dangerous direction, reminiscent of the fateful spiral of the interwar years.

About the Author

Matthew Hamilton is working on a PhD at University of California-Berkeley and a JD at New York University School of Law. He is focused on the relationship between law and globalization, as well as the history of the postwar international order.

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Notes

- 1 Matthew Hamilton, “What is Bretton Woods: The Contested Pasts and Potential Futures of International Economic Order,” Carnegie Endowment for International Peace, October 22, 2024, <https://carnegieendowment.org/research/2024/10/what-is-bretton-woods-the-contested-pasts-and-potential-futures-of-international-economic-order?lang=en>.
- 2 See, for example, Zhou Xiaochuan, “Reform the International Monetary System,” People’s Bank of China, March 23, 2009, <https://www.bis.org/review/r090402c.pdf>.
- 3 See, for example, Ngozi Okonjo-Iweala, “Delivering on New Global Challenges: How can we keep multilateral coherence whilst re-imagining the multilateral trading system?,” World Trade Organization, October 26, 2024, https://www.wto.org/english/news_e/spno_e/spno51_e.htm.
- 4 See, for example, Janet Yellen, “Next steps on the Russia sanctions and ‘friend-shoring’ supply chains,” Atlantic Council, April 13, 2022, <https://www.atlanticcouncil.org/news/transcripts/transcript-us-treasury-secretary-janet-yellen-on-the-next-steps-for-russia-sanctions-and-friend-shoring-supply-chains/>.
- 5 See, for example, Michael Pettis, “Can Trade Intervention Lead to Freer Trade?,” Carnegie Endowment for International Peace, February 23, 2024, <https://carnegieendowment.org/china-financial-markets/2024/02/can-trade-intervention-lead-to-freer-trade?lang=en>.
- 6 Peter Rudegeair and Gregory Zuckerman, “Scott Bessent sees a coming ‘global economic reordering.’ He wants to be part of it,” *Wall Street Journal*, November 25, 2024, <https://www.wsj.com/politics/policy/scott-bessent-sees-a-coming-global-economic-reordering-he-wants-to-be-part-of-it-533d6e71>.
- 7 Stephen Miran, “A User’s Guide to Restructuring the Global Trading System,” Hudson Bay Capital, November 2024, https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf.
- 8 This is not to say this goal is being advanced through the new administration’s policies.
- 9 America’s new tariff regime abandons its core commitments to the postwar trading system—namely, nondiscrimination with respect to foreign producers and Most Favored Nation (MFN) status—while leaving significant uncertainty about their macroeconomic effects, legal permissibility, the sustainability of bilateral deals with trading partners, and, as this paper stresses, the geopolitical consequences of designing a system around a view of realignment instead of one built around a path toward reform.

- 10 This is reflected not only in the tariff debate, but also in calls for reclassifying foreign-held American debt into one-hundred-year bonds, as well as in discussions over the tax treatment of American firms and persons operating in foreign markets (and vice versa).
- 11 This popular phrase traces back to Field Marshal Bernard Montgomery.
- 12 Patricia Clavin, *Securing the World Economy: The Reinvention of the League of Nations, 1920-1946* (Oxford University Press, 2013). While there was less attention on the economic causes of conflict after the First World War, Clavin shows how the League of Nations provided the institutional infrastructure for shaping post-Second World War arrangements.
- 13 Various theories exist as to how the postwar liberal international order functioned, particularly with respect to its economic dimensions. Some suggest it required American hegemony. See, for example, Charles Kindleberger, *The World in Depression 1919-1939* (University of California Press, 1973). Others suggest that a set of shared rules anchored expectations and thus provided the norms by which states acted, even without any hegemonic power in place. See, for example, Robert Keohane, *After Hegemony* (Princeton University Press, 1984).
- 14 Graham Allison, “The Myth of the Liberal Order,” *Foreign Affairs*, June 14, 2018.
- 15 Charles Maier, “The world economy and the Cold War in the middle of the twentieth century” in Melvyn P. Leffler and Odd Arne Westad (eds.), *The Cambridge History of the Cold War* (Cambridge University Press, 2010), 64-5; Karl Polanyi, *The Great Transformation* (Rinehart & Co., Inc., 1944), which offers explanation for how the organization of the international economy shaped the nineteenth-century balance of power.
- 16 Lionel Robbins, *Economic Planning and International Order* (MacMillan, 1937).
- 17 John Maynard Keynes, *Economic Consequences of the Peace* (Harcourt, 1919).
- 18 Nicholas Mulder, *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press, 2022).
- 19 Laura Phillips-Sawyer, “Jurisdiction Beyond Our Borders: United States v. Alcoa and the Extraterritorial Reach of American Antitrust, 1909-1945,” in Daniel A. Crane and William J. Novak (eds.), *Antimonopoly and American Democracy* (Oxford Academic, 2023), 278-318.
- 20 Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton University Press, 1996), 3.
- 21 Ragnar Nurkse, *International Currency Experience: Lessons of the Inter-War Period* (League of Nations, 1944), 229.
- 22 The U.S. government and Federal Reserve assumed much of this role as the initial ambitions for the IMF diminished, and as the dollar took on its central position in the global economy.
- 23 This is also reflected in the planned Havana Charter, which stipulated that “Members shall seek to avoid measures which would have the effect of creating balance-of-payments difficulties for other countries.” Havana Charter for an International Trade Organization (Havana Charter), Article III, March 24, 1948.
- 24 Sannoy Das, “Giving Peace a Chance? Decolonization, Development, and the Foundations of the GATT,” *Yale Journal of International Law* 49, no. 1 (2024), 53-92.
- 25 “White Paper on Employment Policy,” Government of the United Kingdom, 1944, 2.
- 26 Jacob Viner, “Conflicts of Principle in Drafting a Trade Charter,” *Foreign Affairs*, July 1, 1947, 613. Compare with Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (University of California Press, 1945).
- 27 The Havana Charter established that “Each Member shall take action designed to achieve and maintain full and productive employment and large and steadily growing demand within its own territory through measures appropriate to its political, economic and social institutions.” Even if it was not enacted, scholarship stresses that the early GATT was interpreted through the broader aims of the agreement. Havana Charter, Article III.
- 28 This latter vision is the more commonplace one of *doux commerce*—or peace through heightened economic interconnection—that prevailed in recent decades. In contrast, this history shows a vision of peace that runs through heightened interconnection in solving shared economic governance challenges.

- 29 Today this is referred to as labor arbitrage.
- 30 Havana Charter, Article VII.
- 31 The Atlantic Charter formed the basis of Anglo-American cooperation during the Second World War—its principles shaped the Bretton Woods institutions and their relationship to the broader postwar order. The Atlantic Charter, August 14, 1941.
- 32 General Agreement on Trade and Tariffs (GATT 1947), Article III, XI.
- 33 This view can be traced back to Friedrich List and his idea of productive powers as the necessary prerequisite for any nation to ascertain the potential benefits from free trade. Friedrich List, *The National System of Political Economy* (Longmans, Green and Co., 1909).
- 34 One further example is the initial division of responsibility between antitrust regulation meant to create competitive international markets for goods, and international coordination to ensure the supply of commodities that were necessary inputs for each economy to have its own core industry and to guarantee its population's basic needs.
- 35 John Gerard Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36, no. 2 (1982): 379-415.
- 36 Failure to cooperate will even undermine the ambitions nominally claimed by those in America who now reject the constructive possibilities of economic multilateralism—eroding standards for labor, imperiling the centrality of the dollar in the global economy, and maybe even foreclosing the global markets wherein emerging policies seek to make American manufacturing more competitive.
- 37 Mario Draghi, "The Draghi Report on EU Competitiveness," European Commission, September 2024, https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en.
- 38 Mariana Mazzucato, "The Broken Economic Order," *Foreign Affairs*, February 25, 2025, <https://www.foreignaffairs.com/south-africa/broken-economic-order-mariana-mazzucato>; Keir Starmer, "The industrial strategy will provide certainty for business," *Financial Times*, June 22, 2025, <https://www.ft.com/content/a0334c63-ccc0-4a65-8fcf-3e2999d718ef>.
- 39 See, generally, David Singh Grewal, "The Domestic Analogy Revisited: Hobbes on International Order," *The Yale Law Journal* 125, no. 3 (2016): 618-680.
- 40 Michael Pettis, "Which Country Should Design U.S. Industrial Policy," Carnegie Endowment for International Peace, July 16, 2024, <https://carnegieendowment.org/china-financial-markets/2024/07/which-country-should-design-us-industrial-policy?lang=en>.
- 41 David Singh Grewal, "Democracy vs. Democracy?: Elections after Neoliberalism," *American Affairs Journal* 8, no. 4 (November 2024), <https://americanaffairsjournal.org/2024/11/democracy-versus-democracy-elections-after-neoliberalism/>.
- 42 "The Cornwall Consensus: Build Forward Better," Group of 7 (G7), October 2021, <https://www.mofa.go.jp/files/100200092.pdf>. This offers one statement of multilateralism oriented around a renewed vision of statehood.
- 43 "Supply Chain Agreement," Indo-Pacific Economic Framework (IPEF), February 2024, https://www.ipef.gov.sg/files/ipef_supply_chain_agreement.pdf. This agreement provides a recent example of an approach to economic multilateralism that is tailored to specific goals for governance, rather than further market liberalization.
- 44 This does not require a juridical arrangement as under the World Trade Organization, but rather member states' shared investment in both the rules and in permissible derogations from the rules to maintain the system's underlying objective.

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