EconoFact Chats: Retreat from Globalization? Current U.S. Policies and Historical Precedents
Jeffry Frieden, Columbia University
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Michael Klein:
I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:
President Donald Trump claims his policies put America first. Some critics say this is leading to a damaging isolationism, and the result is America alone. The country is clearly on a different path with respect to international economic relations, than had been the case over the past decades. Tariffs, and threats to effectively expropriate returns on U.S. treasury bonds, are two examples of reversals of prior efforts aimed at greater globalization and more economic integration. This reversal has not just occurred in the United States: Brexit stands as a prime example. What have been the forces driving a splintering in globalization? Are there historical precedents for this? What type of international economic regime is likely to emerge? To address these questions, I am very pleased to welcome back to EconoFact Chats Professor Jeffry Frieden. His influential research demonstrates the linkages between politics and economics, a topic of great interest in the current environment. Jeff, welcome once again to EconoFact Chats.

Jeffry Frieden:
Always my great pleasure, Michael.

Michael Klein:
Well, it is great to have you on once more Jeff. In June 2024, Scott Bessent said, “We’re going to have to have some kind of a grand global economic reordering.” This clearly resonated with President Trump, who then selected Bessent to serve as treasury secretary. The statement implies that there is an ordering to the global economy: if you will, an international economic regime. What would characterize this type of regime?

Jeffry Frieden:
Well, typically when we think of an international economic order, we think of the way in which people are, or are not, allowed to trade, invest, borrow, lend, even migrate across borders, and also, the extent to which countries either cooperate with one another on economic relations, or compete or go into conflict with one another. For example, during the mercantilist era that ran from the 1500s up to the early 1800s, people expected that countries would be very closed. They had closed empires, they were not trading with one another, they were not investing in one another, and they were in constant conflict, including military conflict. But we have had two eras of globalization in which the expectation is people will be more or less free to trade, invest, lend, borrow, and to a lesser extent, migrate. I have to say, we often talk about the current era, or the post-war era, as a regime of rules-based international economic order. But, you know, there is no world government, and there is no world police force. So, there is no one there to enforce the

rules. Really, what it has to do with is the expectations of the behavior of other countries. Do we expect countries to cooperate? Do we expect countries to allow foreigners to invest, borrow, lend?

Michael Klein:
So, let's talk about some of these regimes. In the late 19th and early 20th century, there was the gold standard period. What characterized this regime along the dimensions you discussed?

Jeffry Frieden:
Right, so this is sometimes called the classical era, that runs from about the 1850s until World War I and maybe a little after. The two pillars of that era were free trade, and the gold standard. Free trade, led by Great Britain, where countries, like Britain, were completely open to imports, and many countries dramatically reduced their trade barriers. So, lots and lots of trade. Then the gold standard was, simplifying it a little bit, was a little bit like having a common currency among all the major economies of the world. By 1900, almost every economy that mattered economically was on the gold standard, which meant that their money was equivalent to other people's money. As I said, a little bit like a single currency. Also, there was, more or less, free immigration for Europeans. People could leave Europe, like our ancestors Michael, and come to the New World, come to the U.S., with pretty much no papers. This led to extraordinarily rapid growth: the most rapid growth in 75 years that the world had ever seen. The world grew in those 75 years more than it had in the previous thousands. And, [there was] a lot of convergence, a lot of countries catching up: poor countries catching up with middle-income countries, middle-income countries catching up with rich countries. Now, it wasn't all peaches and cream, there were lots of economic crises, lots of unemployment, terrible conditions in the factories, and this was an era of colonial imperialism. But compared to what had come before, and to some extent, what came later in the inter-war period, it was a pretty good time. Rapid growth, convergence, and international economic exchange was, more or less, free.

Michael Klein:
So, you alluded to the fact that there were problems during this period. But, a striking thing is that the gold standard parities survived the entire period, and in other fixed exchange rate regimes, like the European monetary system, there were a lot of realignments. You've argued, Jeff, that this was possible because of a lack of democracy. What did you mean by that?

Jeffry Frieden:
Right, so, the basic principle, going back to the rules of the game, of the gold standard was that governments were expected to do whatever was necessary to maintain their commitment to a fixed exchange rate against gold. There was a term used at the time saying, "Fit the economy to the exchange rate." So, if your economy was getting out of balance, the government was expected to impose austerity measures to get it back into balance. And those austerity measures could be extremely painful–they could mean driving your economy into recession, or even depression, pushing wages down, pushing profits down–adjustment had costs. It was feasible in this period, because almost none of the countries in question were democracies. So, the people who were bearing the costs really didn't have a political voice.

Michael Klein:
What do you mean the United States wasn't a democracy?

Jeffry Frieden:
Well, the United States–well, by contemporary standards, of course, Black people in the South couldn't vote, women couldn't vote. So, the United States, and to a lesser extent Great Britain, were probably the most democratic of the countries of the day. But, most of the other countries didn't even aspire to be democracies. And even in the U.S., the fact that the U.S. had a more democratic system than, say, Russia, is indicated by the fact that there was powerful opposition to the gold standard. It didn't succeed, but we know about William Jennings Bryan and the "Cross of Gold" speech, and things like that, it didn't succeed. But, as I say, the fact is that most of the countries on the gold standard were not democracies.

Michael Klein:
I always have one of my classes in the fall talking about how the Wizard of Oz is an allegory for the election of 1896, which students can then take home and talk about over Thanksgiving dinner. So, Jeff, if we think about this more broadly, does that imply that there is a tension between the maintenance of an international economic regime on the one hand, and sovereignty and democracy on the other?

Jeffry Frieden:
Well, there may be. A lot of the issue, like in the gold standard era, which is a good indicator of this, is who is going to have a voice in how the government responds to international economic problems. And, democracy or none–even in the U.S., labor unions were very weak in the period before World War I, and farmers were not well organized, so the people who were primarily being asked to bear the burden of adjustment really didn't have much voice. After World War I, that changes, which is part of what happens. So, I think that the secret, if you want to put it that way, or the tension is, on the one hand, people have to be willing to support the measures necessary to sustain a commitment to their international economic engagement. If they're not, then they are going to object to the country trying to impose costly measures on them.

Michael Klein:
And, in fact, there was a view at the end of the 19th century and into the 20th century, that governments weren't really responsible for economic performance. In fact, the term macroeconomy only was coined by Keynes in the 1930s. So, I guess, you can't blame somebody if you think they don't have any control over anything.

Jeffry Frieden:
Right, so the view at the time was markets will adjust costlessly and–maybe a little bit of cost–but markets adjust, they're very flexible. If we have a recession wages go down, employment goes back up, and everything is fine. Keynes was adamant all through his career, and especially during the inter-war period, that this was a misguided view, given how modern economies have evolved. He continually took his fellow economists to task for trying to impose Victorian era policies on economies that were no longer like those of the Victorian era.

Michael Klein:
So, you mentioned the inter-war period. That was kind of a mess, that's the technical economic term I guess. Can you describe what happened in the inter-war period?

Jeffry Frieden:
Right, so, again, the pre-war period, pre-World War I, has been characterized by a lot of cooperation among countries, and among the major economic powers. During the inter-war period after World War I, there were two fundamental problems. The first was that that cooperation just collapsed. France and Germany were constantly at each other's throats; they were trying to work out in economics what had failed on the battlefield. The British were, again, both somewhat unable and unwilling to play a cooperative role, and the U.S. had turned isolationist and basically removed itself from international economic affairs, so there was a failure of leadership. But, equally important I think was, domestically, in virtually every major country, there was more and more skepticism about whether the world economy was good for people in the national economies. There were people saying, "Look, you keep telling us globalization, or international economics, or the gold standard is good, but all we see is high unemployment, costs being imposed on us, austerity measures", and eventually, in a sense, the peoples of the major economies revolted against international economic integration.

Michael Klein:
So are there some lessons from that era for today? Some of the things you're saying sound very familiar.

Jeffry Frieden:
Yeah, I think so. The first lesson, in some sense, is that you can't sustain a country's engagement with the international economy — at least, you can't sustain democratic country's engagement with the international economy — if the people of the country aren't willing to undertake the measures necessary for that. If they don't feel that the world economy is doing *them* any good, why would they want to make sacrifices to maintain their position in the world? So, if people sort of lose faith that international economic engagement, trade, investment, finance, is good for them, why would they support a government that wants to maintain those things? So, domestic support for international engagement is crucial. The second thing is leadership. International economic integration depends, has always depended, on cooperation among the major powers. If you want to talk about what is happening today, the post-war international economic order was based on two fundamental pillars. Just like the first era of globalization was based on the gold standard and free trade, there are two pillars of the post-World War II order: American leadership and multilateralism. And I think both of those, in ways that we can and should talk about, are threatened today.

Michael Klein:
Yeah, Keynes said that during the gold standard period, the bank of England was, as he put it, the conductor of the international orchestra, and after the devastation of World War I, as you suggested, Great Britain could no longer play that role, or chose not to. And, in a post-World War II period, the United States took up the mantle, or maybe we should say the conductor's baton, during that era. So, do you think that we need a hegemon, we need a central country, for an international economic regime to be maintained and to flourish?

Jeffry Frieden:
I don't think we necessarily need one country, but we certainly need cooperation among the major powers. Of course, cooperation among smaller numbers is always easier, if there were a hundred countries trying to cooperate, that is difficult, but two, three, four major powers have been able to cooperate in the past,

including, towards the end of the gold standard. The problem in the inter-war period was the U.S., which was the dominant economic, commercial, and financial power, was essentially absent from any discussions of what was going on in the world economy. That was not true after World War II, for important reasons, but the question today is, is the United States, and other major countries, willing to undertake the measures necessary to cooperate to maintain that economic order.

Michael Klein:
Yeah, we know that in the 30s there was great isolationism in the United States. The rise of the America First party, which, you know, is being echoed today, and so on. What domestic political considerations made the United States willing to take on the role of the conductor of the international orchestra after World War II?

Jeffry Frieden:
Well, some of it is economic. There had been a lot of protectionists in the U.S., the U.S. was very protectionist really from the Civil War until the 1920s and 30s, but most of our competitors were in shambles, and so American industry was much more interested in exporting, and American firms could go multinational. So, there was a lot more interest in international economic exchange. But, probably the most important thing was not economic, but diplomatic, national security. Americans in the 1940s and 50s weren't that enthusiastic about international trade and international economic integration, but, the Truman administration, and after it, the Eisenhower administration, made the argument that the only way we could support our allies in Europe and Japan was by giving them access to the American market, to American capital, to American technology. So, economic integration in the West was seen as part of a broader battle against the Soviet Union during the Cold War, and I think that is what convinced most Americans who weren't that enthusiastic about free trade that trading with our allies was a good thing and should be supported.

Michael Klein:
So, the United States was the hegemon in the post-World War II Bretton Woods era. Bretton Woods, referring to the grand hotel in the White Mountains of New Hampshire where the agreements were signed in 1944. That era ended in 1973. How were the economic policies of the United States an important reason for the end of that regime?

Jeffry Frieden:
Well, first, I would say we often talk about the Bretton Woods era continuing on to today, because many of those institutions are still in place, the World Bank, the IMF (International Monetary Fund), the GATT (General Agreement on Tariffs and Trade), and then the WTO (World Trade Organization). But the monetary system that was set up in Bretton Woods did end in 1971-1973, and it's a great example because the U.S. had committed itself to tie the dollar to gold, and every other currency was going to be tied to the dollar. And, so, the U.S. was very explicitly–there were explicit rules to say that the U.S. is dominating the international monetary system, the U.S. is committing itself to maintaining a stable dollar in service of its own interest, obviously, but also in the interest of the rest of the world. What happens in the late 60s and early 70s is that the U.S. starts running a rate of inflation very different–higher–than that of the rest of the world, and so, in a sense, American domestic politics comes in conflict with our international commitments, and Richard Nixon, in 1971, is presented with a conundrum. His advisors say, "in order to

maintain the Bretton Woods monetary system, we have to cool off the American economy." And Nixon says, at a meeting in August of 1971, "I remember 1960, we cooled off the economy, we cooled off 15 senators, and 60 congressmen, and lost me the presidency. That's not happening again." And so, Nixon, in the run up for the '72 election, says, "We are not going to make the sacrifices, we are not going to undertake the policies necessary to maintain a Brenton Woods monetary order." So, that's a very striking example of how domestic political pressures on the administration conflicted with its international commitments, and they chose the domestic politics, because, after all, politicians have to respond to their constituents.

Michael Klein:
Yeah, there is also this famous saying by the treasury secretary John Connally at the time, in a meeting with international finance ministers, "The dollar is our currency but your problem," which suggests a lack of willingness to, sort of, share the burden.

Jeffry Frieden:
Exactly.

Michael Klein:
So let's move from these historical examples to the current situation. Even after the monetary system of Bretton Woods ended in 1973, the United States dollar was still, in many ways, the global economic hegemon. The dollar has been used extensively for trade, even in bilateral trade that didn't include the United States as one of the partners. The U.S. treasury bond was seen as the world's benchmark asset and a safe haven in times of economic stress, so even when there was a crisis that started in the United States, like in 2008, the dollar strengthened in the wake of that, and the United States helped foster the low tariff environment that led to rising world trade. Jeff, why are these things being reversed now?

Jeffry Frieden:
I think it all really starts in the American domestic political economy. Over the past 20 years, there's been rising dissatisfaction among many Americans with the way the economy is going, and a feeling that the middle class and the working class has not done well, that the economy hasn't delivered the goods. And, the dissatisfaction, the belief on the part of many, is that one of the reasons for this is trends in the international economy. Donald Trump and Bernie Sanders, in 2016, both ran for the nomination for the presidency against globalization, arguing that globalization was a cause of the difficulties of people in the industrial belt and the American middle class more generally. So, as Americans, and, I think more recently, American administrations, are really skeptical about the value of international economic integration, the U.S. has started behaving in ways that violate the expectations of our trading partners by raising tariffs and threatening the role of the dollar.

Michael Klein:
Jeff, how accurate do you think that prescription is, that the waning fortunes of the lower class and the middle class are because of globalization, as opposed to things like, say, automation, or the fall of unionization, or a number of other factors?

Jeffry Frieden:
I don't think any of these trends are inevitable results of either globalization or technological change. I think, in the case of globalization, it's largely about how globalization has been managed, or mismanaged, by governments. There are governments that have done better at providing a social safety net, economic, and political, and social support for people who have been on the losing side of globalization, or on the losing side of automation. The U.S. has not done that so well, and that's one of the reasons that I think we get such a strong backlash in the U.S., because our social and political systems have not been effective at protecting the losers, if you will, from globalization and automation, and that really, I think is the problem, not globalization and automation themselves.

Michael Klein:
Why is the U.S. different in that way–why hasn't there been a stronger safety net?

Jeffry Frieden:
That's a question that people have been asking for 100 years. The U.S. has a longstanding history and tradition of trying to maintain open and free markets, of, if you will, laissez-faire capitalism–not really laissez-faire, but less interventionist, less government involvement in the economy. [There is] a lot of variation, a lot of regional variation; I mean, Massachusetts and New York look a lot more like Scandinavian social democracies, and Mississippi and Alabama don't. But, the U.S., you know, listen, the U.S. is a very market oriented society, and there are lots of supporters in the U.S. and lots of opponents to more government involvement in the economy. That may be changing. The Trump administration has been, probably, one of the most interventionist administrations in modern American history. From the right, not from the left, but it certainly is not a strong believer in free markets, and that may be an indication of how things may be changing in American politics.

Michael Klein:
Interventionist, but interventionist in a way that's helping those who have been hurt by changes like globalization and automation?

Jeffry Frieden:
Probably not, at this point. I mean, I think the most accurate characterization of the policies of the Trump administration along these lines is economic nationalism. They are trying to reinforce firms, companies, sectors of the economy that they see as important for nationalistic, including military, and diplomatic purposes, not so much for a social safety net for those who are negatively affected by unemployment, globalization, automation.

Michael Klein:
So, going back to where we started–the quote from Scott Bessent that I mentioned at the outset–what kind of, in his words, "grand global economic reordering" does this administration want, and how likely is it to realize that goal?

Jeffry Frieden:
Well, the starting point is where we have been, which is American leadership and multilateralism, and the administration, I think, has made very clear that it doesn't really buy into the past commitment to

American leadership; it believes that the U.S. is overstretched and overburdened, and it wants to step back from many of those commitments. It also has made quite clear that it doesn't really believe in multilateralism–it thinks that multilateralism doesn’t serve America’s interests, that multilateralism either has to be massively reformed, or just done away with, and the U.S. should be dealing with countries on a bilateral basis, as we have been doing on trade policy. So that’s where the U.S. stands. The thing to keep in mind, though, is just because the U.S. has turned in this protectionist direction, and against multilateralism, doesn’t mean that the rest of the world has suddenly become protectionist. Most of the rest of the world is trying to figure out how to protect itself from the United States. So, where the world goes depends, in part, on what the U.S. does, but the U.S. is only 13% of world trade. A lot of what happens in the future of an international economic order is going to be determined by how other countries respond to and react to what the U.S. is doing, and there, I think there are some real questions.

Michael Klein:
So, Jeff, I always enjoy our conversations, and I learn a lot from you, and especially your views on the interplay of economics and politics. That’s an important reminder that economic policies are made in a political environment, and we need to take that into account. So, Jeff, thank you very much for joining me once again on EconoFact Chats.

Jeffry Frieden:
My pleasure, Michael.

Michael Klein:
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