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The Real Problem With Globalization

International crises demand international solutions.

By Zachary D. Carter

An illustration of John Maynard Keynes, the planet, and the U.S. eagle
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Few ideas today are more unfashionable than globalization. Across the ideological spectrum, a once-robust consensus about the liberating power of free trade and financial markets has transformed into the conviction that the world has spun out of control. Economic inequality is rising in developing and developed countries alike. Hopes for a global human-rights awakening have given way to frank assessments of the persistence of slave labor and extreme poverty. Climate change is accelerating, diplomatic relations between the United States and China have reached a new nadir, and the European Union has devolved into a forum for resentment. A project forged to spread democracy has brewed a new authoritarian politics on multiple continents.

These horrors were evident before the outbreak of COVID-19; the pandemic has escalated them all. But this is not the first time globalization has run aground. Seventy-six years ago, leaders of the world's democracies gathered in the mountains of New Hampshire hoping to end the chaos and enmity spawned by the collapse of the global trading system known as the gold standard. Guided by the great British economist John Maynard Keynes, more than 700 delegates from 44 nations sought to establish a new international order in which democracies would cooperatively tame the excesses of high finance in the name of international harmony. The fruits of their labors would become known as the Bretton Woods Accord, and the 25 years of unprecedented prosperity that their effort inaugurated offer profound implications for our own age of calamity.

For it is not globalization that has brought us to the brink of the abyss, but the peculiar strain of globalization that emerged in the 1990s—a system in which international financial markets would discipline the bad habits of democratic governments, not the other way around. Instead of linking countries together in shared investment priorities and social goals, the World Trade Organization and other institutions of global commerce have thwarted government interference in the profits of international investors—profits that often come at the expense of public health, environmental protection, and geopolitical stability.

International crises demand international solutions. If today's leaders hope to escape the havoc on our horizon, they cannot succumb to the temptations of nationalist demagoguery. It is time to relearn the lessons that once brought a generation's greatest economic minds to Bretton Woods in the summer of 1944.

THE MOUNT WASHINGTON HOTEL was not a healthy place. The American hosts had believed that the resort's remote locale would ease wartime security concerns, but the building was a relic of another age, and its slapdash upgrades simply couldn't handle the burdens of the conference. It had barely enough rooms for the 720 delegates, never mind the hundreds of journalists from around the world who crammed the hallways for interviews and photographs.

"The taps run all day, the windows do not close or open, the pipes mend and unmend and no one can get anywhere," Keynes's wife, Lydia Lopokova, wrote on July 12.

Delegates worked through a haze of scotch and sleep deprivation. Negotiations began before breakfast and dragged on past midnight, ballrooms filling with smoke, talks at times giving way to bawdy drinking songs. (The unofficial anthem of the conference included the line "And when I die, don't bury me at all / Just cover my bones with alcohol.") Privately, Keynes half-expected the "monstrous monkey house" to founder on a wave of "acute alcohol poisoning." Though he was strictly forbidden from attending cocktail hours by his wife, who demanded reasonable bedtimes, Keynes nevertheless collapsed from the event's sheer strain on the evening of July 19—an episode so severe that German newspapers printed premature obituaries for him.

But this boozy mayhem was better than the conference that had made Keynes's career 25 years earlier. In 1919, Keynes had joined other victors of the Great War in Paris to craft a peace settlement with Germany. With all the delights of the French capital at their disposal, the affair became a vector for the transmission of the Spanish flu, which knocked Keynes into a hallucinatory, bedridden stupor for days. Talks dragged on for six months, and their product—the Treaty of Versailles—had appalled Keynes as a blueprint for authoritarian violence. The compact failed to establish a workable international economic system, Keynes had argued, leaving victor and vanquished alike with unpayable debts that would breed misery and resentment before marching Europe into another catastrophe.

Keynes's scathing critique, with the unassuming title *The Economic Consequences of the Peace*, became a sensation, running through hundreds of thousands of copies on multiple continents. It transformed Keynes from a respected bureaucrat into a bona fide celebrity. In 1925 he had married Lydia—the most famous ballerina in Britain at a time when ballet was the most prominent public art in the Western world. Their wedding had been covered by Vogue and newspapers from Britain to Burma. His reputation as a prophet only grew as Europe lurched between calamities after the war. Everything seemed to show his prescience—the hyperinflation that ravaged the Weimar Republic, soaring British unemployment, and even Hitler's rise in the 1930s.

But for all his intellectual prowess, Keynes had not been able to prevent the gold standard from coming undone. Nothing particularly eventful had happened in the British economy during the summer of 1931. It was a bad year, as all years of the Great Depression were, but the terms of trade or industrial conditions underwent no sudden changes. Instead, a big, politically connected bank in Austria failed.

Every nation on the gold standard fixed the value of its currency to a specific amount of gold. This simplified international trade, as it made calculating the price of goods in foreign markets easy, and allowed gold to serve as a medium of exchange across borders. The idea was to constrain inflation and prevent sovereigns from interfering with the flow of trade. Because governments were required to pay gold on demand to anyone who wanted to cash in their paper money, sovereigns couldn't simply print money to escape economic problems. If they wanted to print money, they'd need gold.

The trouble was that governments in an economic jam could also run out of gold, leaving investors with piles of worthless paper. If enough anxious investors cashed out, this fear of national bankruptcy could become a self-fulfilling prophecy. When Creditanstalt went under in Vienna, on May 11, 1931, a wave of fear swept through the European financial world as investors weighed the prospect of the Austrian government literally emptying its coffers to save its banking system. Investors around the world not only cashed out of their holdings in Austrian banks, but began dumping the Austrian currency itself.

As soon as it became clear that the schilling was in trouble, the panic spread to Germany. If Austria defaulted on obligations to German creditors, the mark could be in trouble. As soon as the mark came under pressure, the run spread to Britain. Chained together by the gold standard, all the European economies were tumbling.

To fight the panic, the British government did everything that the time's conventional Wall Street wisdom said it should. It raised interest rates—people were less likely to part with their pounds when they paid a high return—and obtained a huge loan from the New York bank J.P. Morgan, which would allow it to keep paying investors when they cashed out. Under the loan's terms, Prime Minister Ramsay MacDonald—a socialist—agreed to cut public spending by slashing unemployment benefits and public employees' salaries.

Keynes had sustained his career as an intellectual by attacking Wall Street views of economic soundness. He watched his government's policy making in horror, telling the House of Commons that the Morgan budget was "one of the most wrong and foolish things which Parliament has deliberately perpetrated in my lifetime." Every part of the response would damage the British economy. Britain was already in a depression—high interest rates would increase costs for businesses, forcing layoffs and bankruptcies. Slashing public pay and unemployment relief would further weaken the domestic market for British goods. Keynes was quickly proved right: Within months, British unemployment had reached its worst level on record; roughly one out of every six workers was out of a job.

None of MacDonald's austerity did any good. Britain burned through the Morgan loan in a few weeks, and the run on the pound didn't relent until Britain abandoned the gold standard altogether in September.

A dozen years later, history not only defined the economic agenda at Bretton Woods—the world needed a new monetary system—but shaped the more fundamental geopolitical dynamic of the conference. The gold standard was a British system. The British Empire had essentially imposed it on the rest of the world at the height of its power, refusing to trade with countries that didn't make their currencies convertible into gold. Now the Empire had abandoned its own monetary regime. To top figures in the Roosevelt administration, this financial ineptitude was a symptom of broader dysfunction in British leadership. The British might have the world's best economist, but to much of the American elite, they represented everything backward and broken among the fading European imperial powers.

The Soviet Union, on the other hand, was a young and interesting new superpower. Like America, the Soviets had thrown off their emperor, and with him centuries of baggage from medieval European rivalries. So when Franklin D. Roosevelt's lieutenants sent out invitations to Allied governments for an international economic conference in May 1944, they had two key diplomatic goals in mind: to cement a Great Power partnership with the Soviet Union, and to dismantle the British Empire. The future would belong to the young.

This was not the message that Roosevelt conveyed to the British, of course. In 1941, he personally told Keynes that he intended for Britain and America "to act as the police-men of Europe" after the war, with the rest of the continent "entirely deprived" of armaments. Keynes believed him, and, at the time, Roosevelt might have even believed himself—his friendship with British Prime Minister Winston Churchill was already deep. But by 1944, Britain had been running on American money for three years. The idea that the two nations could be equal partners leading the postwar world seemed ludicrous to the U.S. Treasury officials Harry Dexter White and Henry Morgenthau, who had explored Britain's broken finances in detail with Keynes.

For any of this Great Power politicking to work, however, Morgenthau, White, and Secretary of State Cordell Hull had to deliver a treaty. And the world had a reason for not replacing the gold standard in the dozen years since Britain's break with it: Reimagining the financial architecture of the entire planet was hard.

As Keynes saw it, the gold standard created two basic problems: It generated domestic misery and channeled those frustrations into international resentment. When financial trouble arose, nations had to sacrifice their workers with high interest rates and austerity budgets in order to rescue government finances. This made people angry—they were thrown out of work through no fault of their own. The chaotic flow of speculative money across borders and the demands of foreign creditors gave that anger a target. Frustration with real outrages—J.P. Morgan really had dictated the British government's budget in 1931—could easily be amplified into wild, anti-Semitic conspiracy theories about foreign deceit, international banking plots, and various imaginary betrayals.

Keynes believed that austerity had to be flushed from the system, and some sense of international balance established that would prevent countries from seeing their trading partners and allies as rivals or predators.

Keynes called for a complete break with gold. A new international bank would issue a fiat currency that would serve as the new international payment of choice, backed by nothing but the common commitment of the world's governments. When countries found themselves in financial distress, this new international bank would provide them with rescue funding the same way central banks salvaged ordinary commercial banks in a crisis. If a run on the dollar occurred, Keynes's new international bank would provide the Fed with whatever funds it needed to quell it. Because this new currency wasn't tied to a scarce resource, such as gold, there would be no limit on what it could pay. And because nobody would have to worry about running out of gold, nobody would have to impose austerity to preserve it.

Alongside this new rescue-funding program would be a system of regulated, balanced trade between nations. Countries that built up large trade surpluses would be required to make payments to countries that built up large trade deficits. If the trade relationship seemed chronically out of whack, currencies could be revalued to bring them into balance. Trade would be a two-way street: Nobody could claim that foreigners were stealing their jobs or manipulating their banking systems.

The Keynesian proposal was wonderfully elegant and, as such things go, relatively simple. But it terrified people who had spent their lives in a world that ran on gold, and who worried that going full fiat would court inflation and instability.

And these fears paled in comparison with the problem of power. The United States was financing the war, producing double the number of tanks and munitions that Britain was, and deploying more than twice as many troops to the conflict. The number of Soviet soldiers killed in the war would eclipse the size of the entire British army at its peak. Neither of these superpowers was about to sacrifice its geopolitical dominance to become equal economic partners in some untested international scheme devised by a British intellectual. But the Keynes plan seemed to solve a lot of problems. So White tried to conform those financial ideas to a vision of U.S. hegemony, and talk the Soviets into signing on.

White was a unique figure to be wooing the U.S.S.R., and indeed remains one of the most mysterious figures in the history of economic thought. He came to Washington in the early years of the New Deal with two friends from Harvard, George Silverman and Gregory Silvermaster. Jewish outsiders at Harvard, the three had remained close as White rose through the ranks at Treasury, playing volleyball and ping-pong together and even performing evening music sessions together, with Silvermaster on guitar and White on mandolin.

White was taken with Keynes's ideas during his early career in government. But his friends were members of the Communist Party. And White began passing privileged government information to Silverman—documents that eventually reached the Soviet government in Moscow. White appears to have been quite shaken when he learned that these exchanges had gone all the way to the top, and the Soviets appear to have been unimpressed with the information he provided. Nevertheless, over the course of his career, White secretly continued to intermittently provide federal information to his two Communist friends. Just why he did so remains unclear. Courting the Soviets was the official agenda of the Roosevelt administration—White didn't need to sneak behind FDR's back to do it. And none of his public positions at Bretton Woods suggests any change of loyalties; he negotiated hard for American interests.

Under White's vision, the world's governments would fix their currencies to the dollar, which—alone among the currencies of the world—would in turn be fixed to gold. With international commerce officially measured in American money, the American government would enjoy a unique independence in setting monetary policy and a unique lever of control over the global economy itself. But the United States would not bear responsibility for shoring up countries that found themselves in financial trouble. Instead, a new, independent International Monetary Fund would be established to lend freely to countries in distress.

Keynes and White exchanged memos across the Atlantic, and by the time everyone arrived at Bretton Woods, White's system had emerged as the document to be tweaked during negotiations. Keynes adjusted his priorities accordingly. Instead of trying to talk White out of his system, he hoped to coax the United States into putting up as much money as possible for it.

Keynes believed that the Treaty of Versailles had failed because America had turned its back on Europe's economic problems. The United States had been the only country to emerge from the Great War economically stronger than it had entered. To Keynes, the notion that the money to rebuild and reconcile Europe would have to come from America seemed obvious. When it didn't, Europe descended into economic ruin and political violence.

The same would be true after World War II. If the dollar was to be the currency of the future, Americans might take responsibility for reconstruction too.

But the Americans had their own ideas about what fostered international harmony. Throughout the 1930s, Cordell Hull had been an evangelist for free trade. The son of a preacher, Hull elevated to an almost religious conviction the old Enlightenment faith in the power of commerce to bring peoples together. It was a belief that Keynes had shared in his younger days. Trade meant an exchange of ideas, culture, and values that fostered mutual understanding and generated mutual wealth. For Hull, the key to European peace was the elimination of tariffs and any other artificial government constraint against commerce across borders. And the extraordinary economic growth enabled by free trade would eliminate the need for Americans to spend big to support Europe.

By the 1940s, Keynes was no longer convinced that free trade in this simple sense was a solution to the world's economic ills. At Bretton Woods, he denounced "the lunatic proposals of Mr. Hull" as a preposterously insufficient program for repairing the damage wrought by years of total war.

He was right. But he was also talking his own book. With Britain weak and America strong, completely eliminating trade regulations would lead quickly to American productive domination. British manufacturing might never fully recover. By calling for balanced trade, Keynes was trying to enhance Britain's competitive position.

Keynes and Hull reached a compromise. There would be no annual payments between deficit and surplus countries, but the IMF would be granted the power to reset exchange rates between countries if imbalances persisted. And individual nations would be granted authority to regulate the withdrawal of international capital—enabling weak countries to combat the bank runs and financial crises that had pervaded the interwar years. Taken together, this was a powerful regulatory arsenal.

And Keynes persuaded the Americans to pay. In his invitations, Hull had described the conference as an arena "for formulating definite proposals for an International Monetary Fund and possibly a Bank for Reconstruction and Development." Viewing the IMF as the most important item on the agenda, the United States put White in charge of the committee to set up the Fund, leaving Keynes to chair the committee with authority over what would become the World Bank.

Keynes rammed it through. “He knows this thing inside out so that when anybody says ‘Section 15-C,’ he knows what that is. Nobody else in the room knows,” reported the American delegate Dean Acheson, who would later be secretary of state under Harry Truman. “So before you have an opportunity to turn to Section 15-C and see what he is talking about, he says, ‘I hear no objection to that,’ and it is passed.”

When the dust settled, the United States had agreed to put $2.75 billion into both the World Bank and the IMF—nearly a third of the institutions’ overall funding and more than double the amount given by the next-largest contributor.

“As an experiment in international co-operation,” Keynes wrote to London, “the conference has been an extraordinary success.”

Cooperation, but not self-sacrifice. The leaders of the most powerful nations at the conference unabashedly pursued national interests throughout, and weaker countries were frequently forced to beg stronger allies for favors. But the collective recognition that the age of laissez-faire in international finance had been a disaster for both commerce and democracy had produced a sense of mutual self-interest in producing a new regulatory system. Governments recognized a responsibility to ensure that trade actually did generate mutual prosperity and that finance did not destroy more than it created. State power had to be deployed, not constrained.

The achievements at Bretton Woods should not be overstated. Whatever White’s secret efforts, the Soviet government ultimately refused to ratify the accord, which failed to tame the violence of the Cold War. American excesses in Vietnam would prove integral to the destruction of the Bretton Woods system itself. President Richard Nixon chose to sever the connection between the dollar and gold in 1971 to maintain the extraordinary expense of the war. As a cure-all for authoritarian violence, Bretton Woods failed.

But for 25 years, America and its allies enjoyed unprecedented economic growth and financial stability. Democracies working together through international law had opened a new prosperous economic paradigm.

It may be too much to ask for a treaty on trade and finance to repair the U.S. relationship with China, provide functional mechanisms to combat climate change, and turn back the rising tide of economic inequality around the world. But we will not solve any of those problems if we do not try. And we cannot solve them on our own.

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