PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

US politics, geopolitics, and the post-modern world economy

FLAR Annual Economic Studies Conference on “Fiscal-monetary interactions and macro-financial vulnerabilities in a fragmenting world,” Cartagena, June 5, 2026

Maurice Obstfeld

Peterson Institute for International Economics

1750 Massachusetts Avenue, NW | Washington, DC 20036 | www.piie.com

A lot can change in four years

On the 50th anniversary of floating exchange rates in 2023, I reflected on how the four years 1969-73 marked a shift from the postwar world economy to the modern world economy

Source: *Floating Exchange Rates at Fifty*, Douglas Irwin and Maurice Obstfeld, eds., Peterson Institute for International Economics, 2024

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From the Postwar World Economy to the Modern World Economy, 1973–2023

MAURICE OBSTFELD

The year 1973—the year the Bretton Woods system of pegged exchange rates conclusively expired—was a watershed for the international monetary system, although many did not realize it at the time. The year capped a brief period of tumult, which corresponded roughly to the first term of the US Nixon administration, in which the postwar world economy neared a close and the outlines of the modern world economy emerged. Indeed, the immediate origins of several key aspects of today's world economy are found in the years just before 1973. The changes set in train then went far beyond the international monetary system and have had momentous geopolitical and political as well as economic and financial implications.

It is within the context of a discontinuously evolving post-1973 world that the exchange rate regime has accommodated and influenced developments in trade, finance, and economic policy. Several novel threats to global prosperity—climate change, pandemics, cyber vulnerabilities—have gained salience over the past 50 years. But many of today's international tensions echo or even reincarnate those of a half century ago.

Maurice Obstfeld is the C. Fred Bergsten Senior Fellow at the Peterson Institute for International Economics. He thanks Serra Pelin and Asher Rose for excellent research assistance and Douglas Irwin for helpful suggestions.

The years 1969-73 were the first Nixon term

- Fundamental economic and social conditions determine which madmen get authority, and when
- But however they were determined, Nixon’s actions were enormously consequential

United Press International

President Nixon after delivering televised address

The list of 1969-1973 “origins” is long

The floating exchange rate system	Independent, inflation-targeting central banks	Ascendancy of free-market economics	Globalization in trade and FDI
China’s integration into the world economy	Global financialization	Oil’s geopolitical power	Closer European integration and the euro
	Progress of rule-based governance in US and global affairs	Environmentalism	

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The economic consequences of Donald Trump

- The second Trump presidency also reflects long-simmering forces
- To some degree, these reflect the postwar system's successes!
- Since Trump's return in 2025, much of the post-postwar structure has been brought into question

Structural demolition since January 2025

I will focus on four areas:

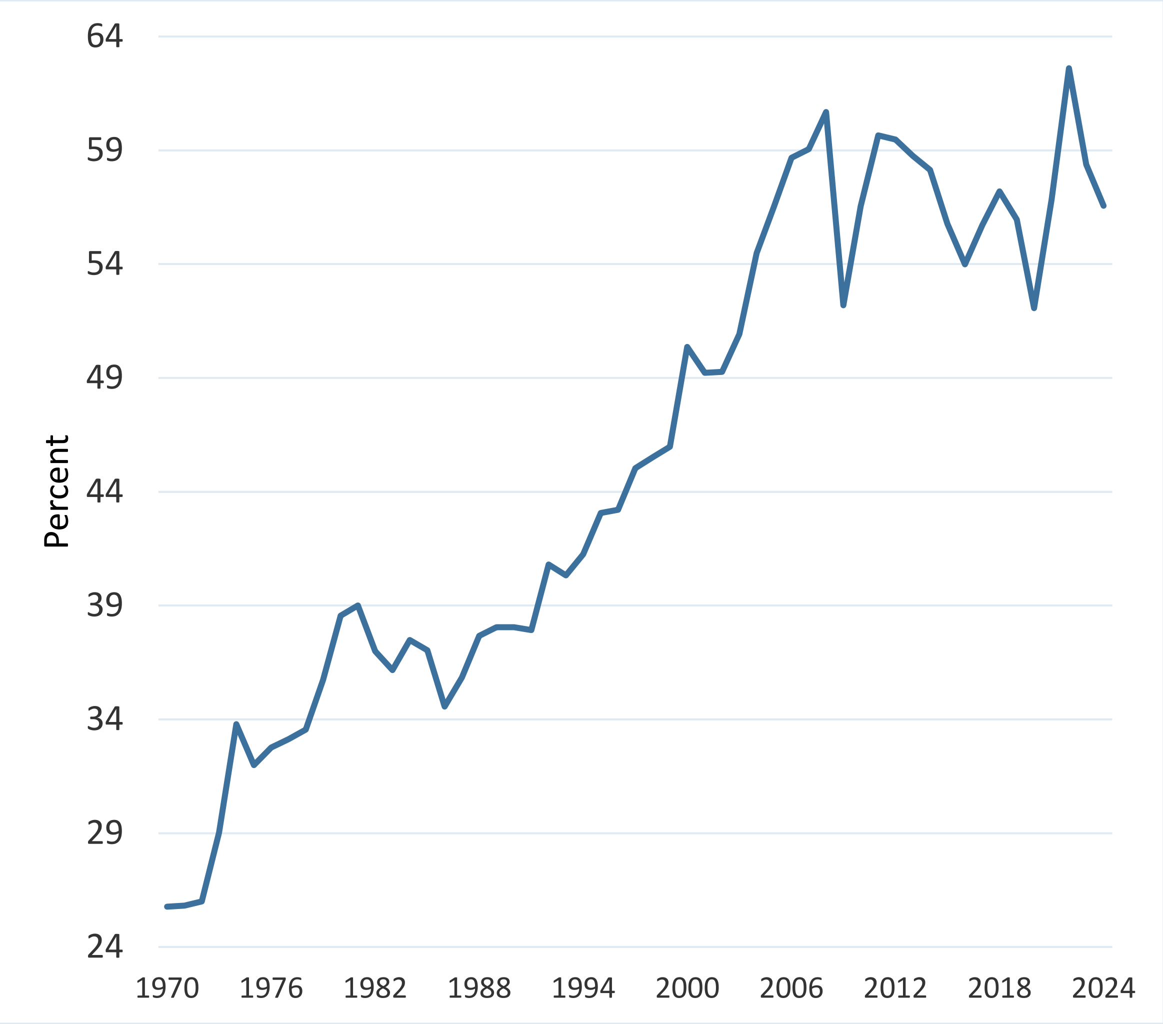
- The global trade system
- The global financial system based on the dollar
- Geopolitical realignments
- Rules and the rule of law – at home and abroad

Of course, these demolitions are mutually reinforcing

The global trade system

Contrary to predictions, global trade flourished in the floating-rate period

- Floating exchange rates allowed countries to dismantle trade barriers that had been motivated by balance of payments concerns
- The effect was especially strong in middle-income countries during the 1990s (Irwin 2025)
- The US dollar's global role helped offset exchange-rate uncertainty
- Non-policy trade costs declined (Hummels 2007)
- WTO, NAFTA, EU single market, China PNTR
- But there were also structural disruptions, political backlash
- Trade growth has stalled since the GFC

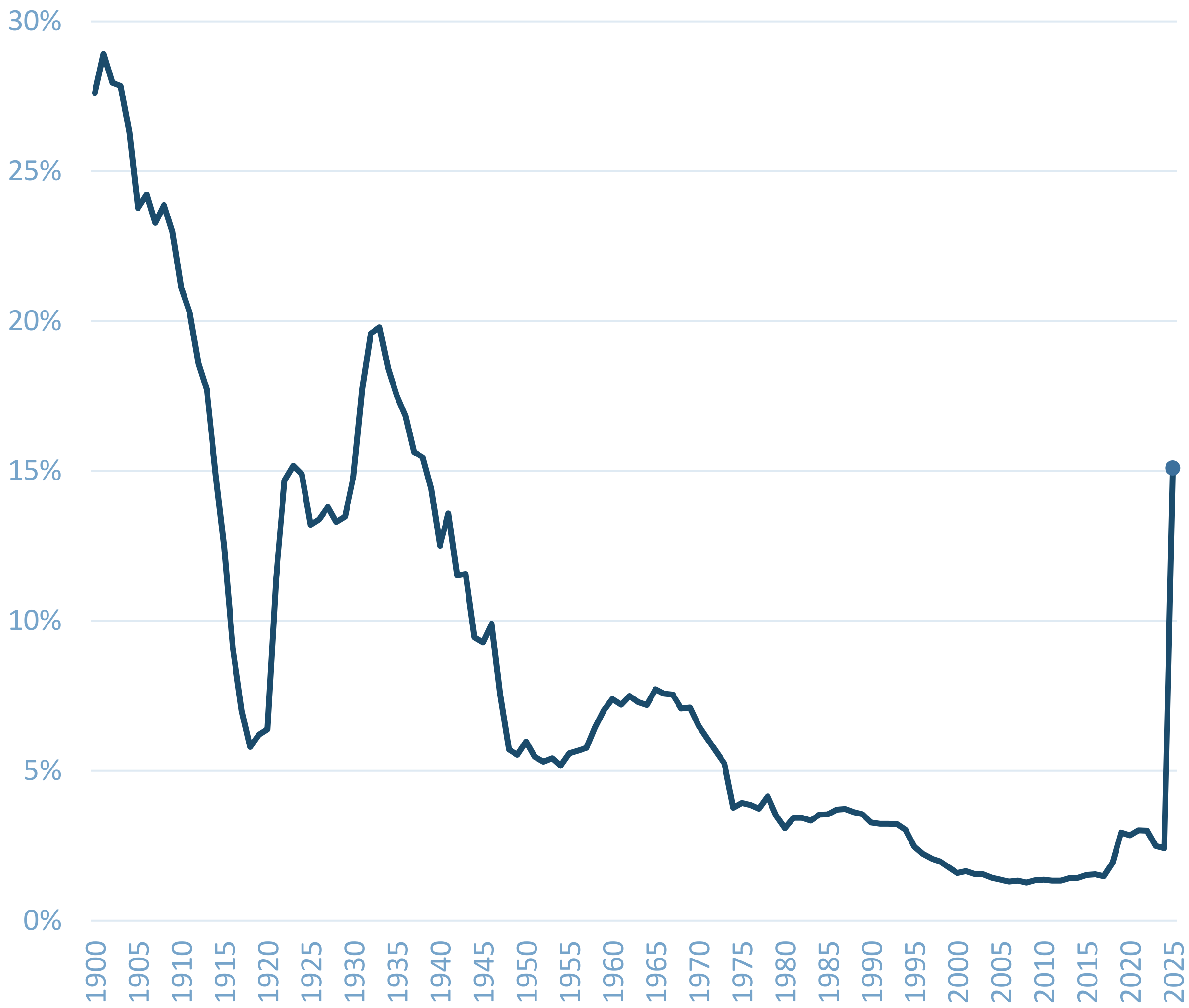


Global exports plus imports as a share of world GDP

Source: World Bank

US tariff policy is driven by grievance, but has many goals

- Grievances include US trade deficits, deindustrialization
- Revenue motive (Clausing and Obstfeld 2026)
- Also, a powerful weapon to drive economic concessions – so-called “trade deals”
- A weapon to drive non-economic concessions (e.g., don’t dare to defend Greenland; don’t run objectionable TV ads; drop certain domestic prosecutions)

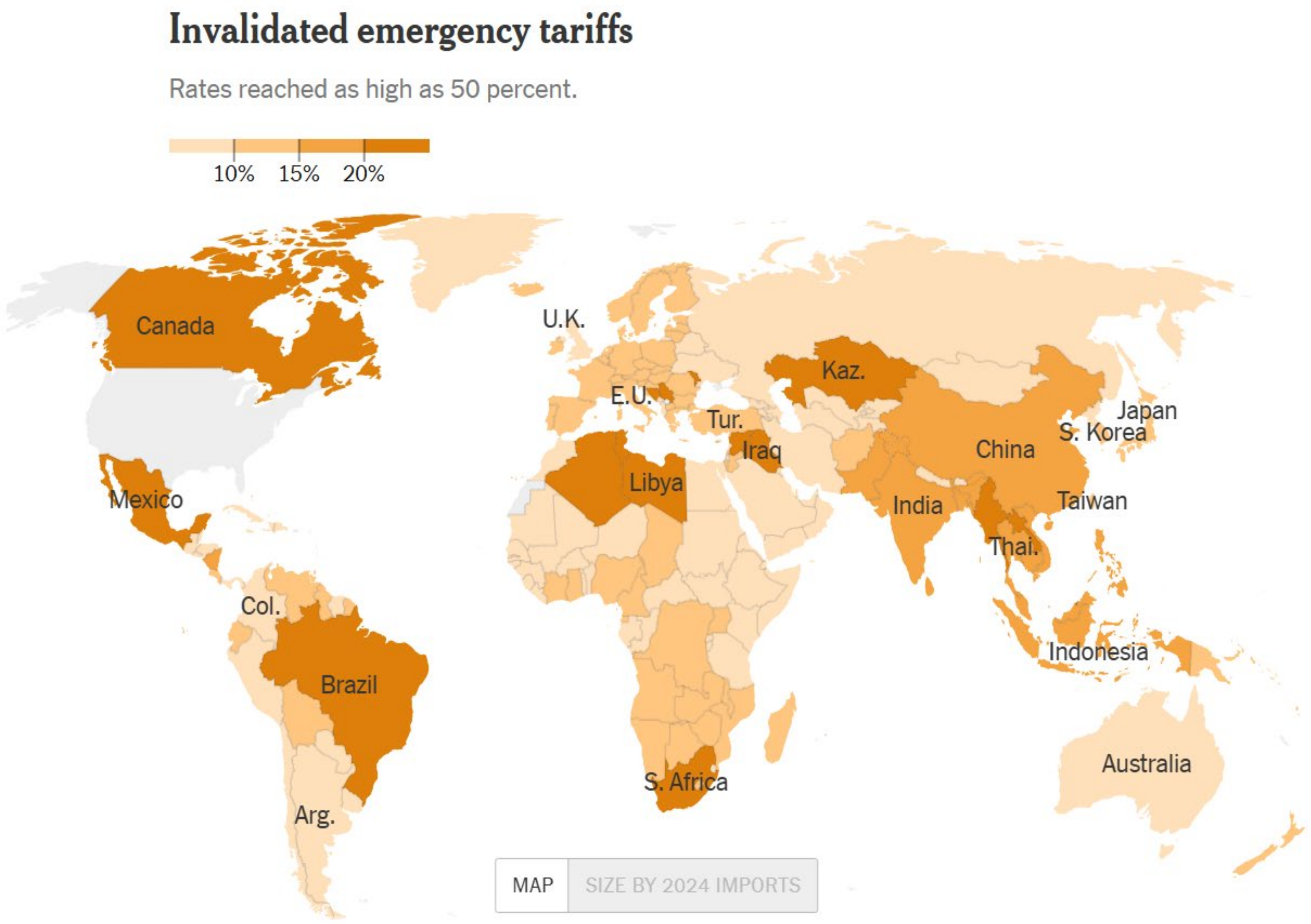


US average effective tariff rate, 1900–November 2025

Source: Yale Budget Lab, Historical Statistics of the US Ea424-434, Monthly Treasury Statement, US Bureau of Economic Analysis, Yale Budget Lab analysis

US trade policy necessarily discards the MFN principle

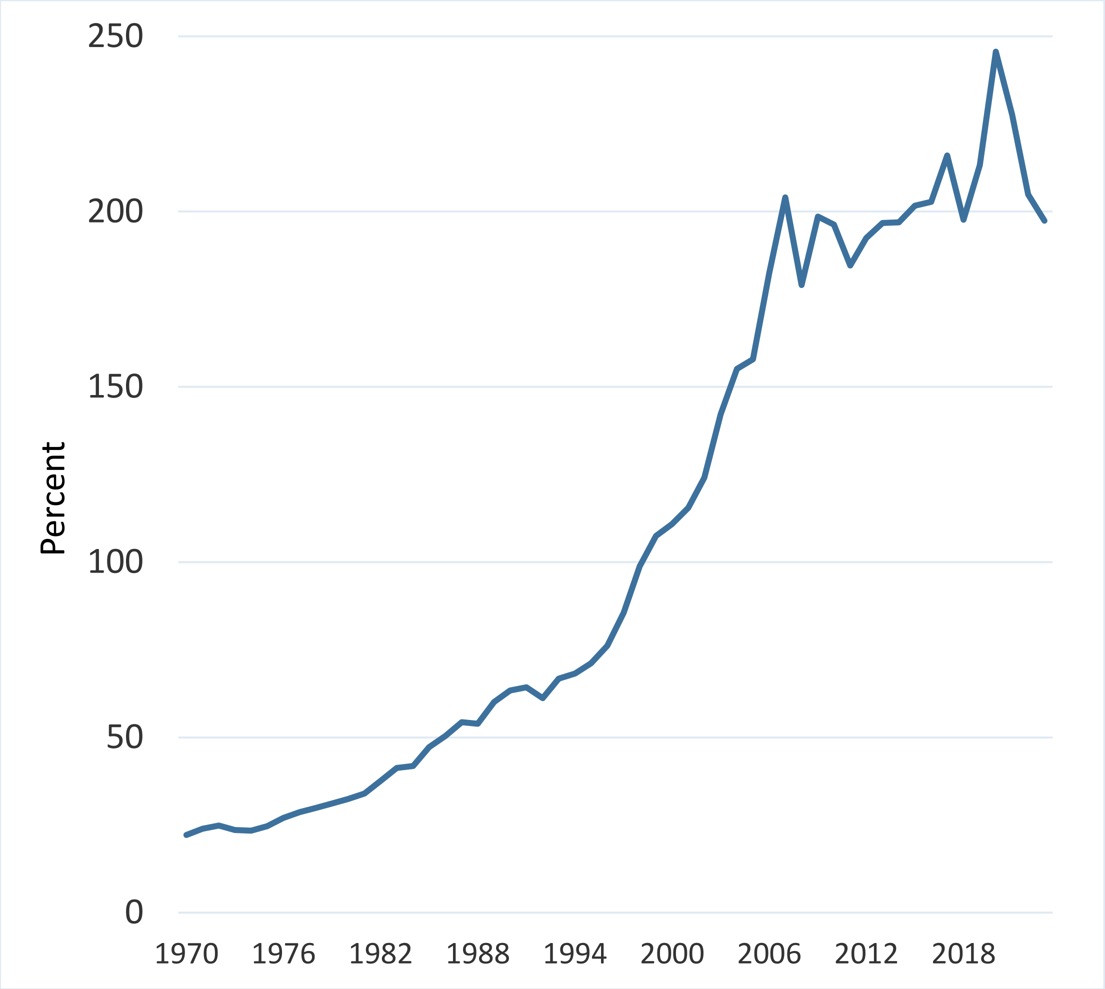
- Fundamental to the GATT and WTO systems
- Meant to reject the discriminatory practices of the interwar period
- Simplifies business decisions and enhances economic efficiency
- US is engaging with WTO to isolate China, expand range of “reciprocity”



The global financial system and the dollar

Global financial activity exploded under floating exchange rates

- Being freed of the need to devote monetary policy to the exchange rate, governments could liberalize financial movements ("trilemma")
- Free-market ideology helped
- Lobbying helped: financial interests concentrated, stability costs diffuse
- Financial cooperation (BCBS, FSB, IOSCO)

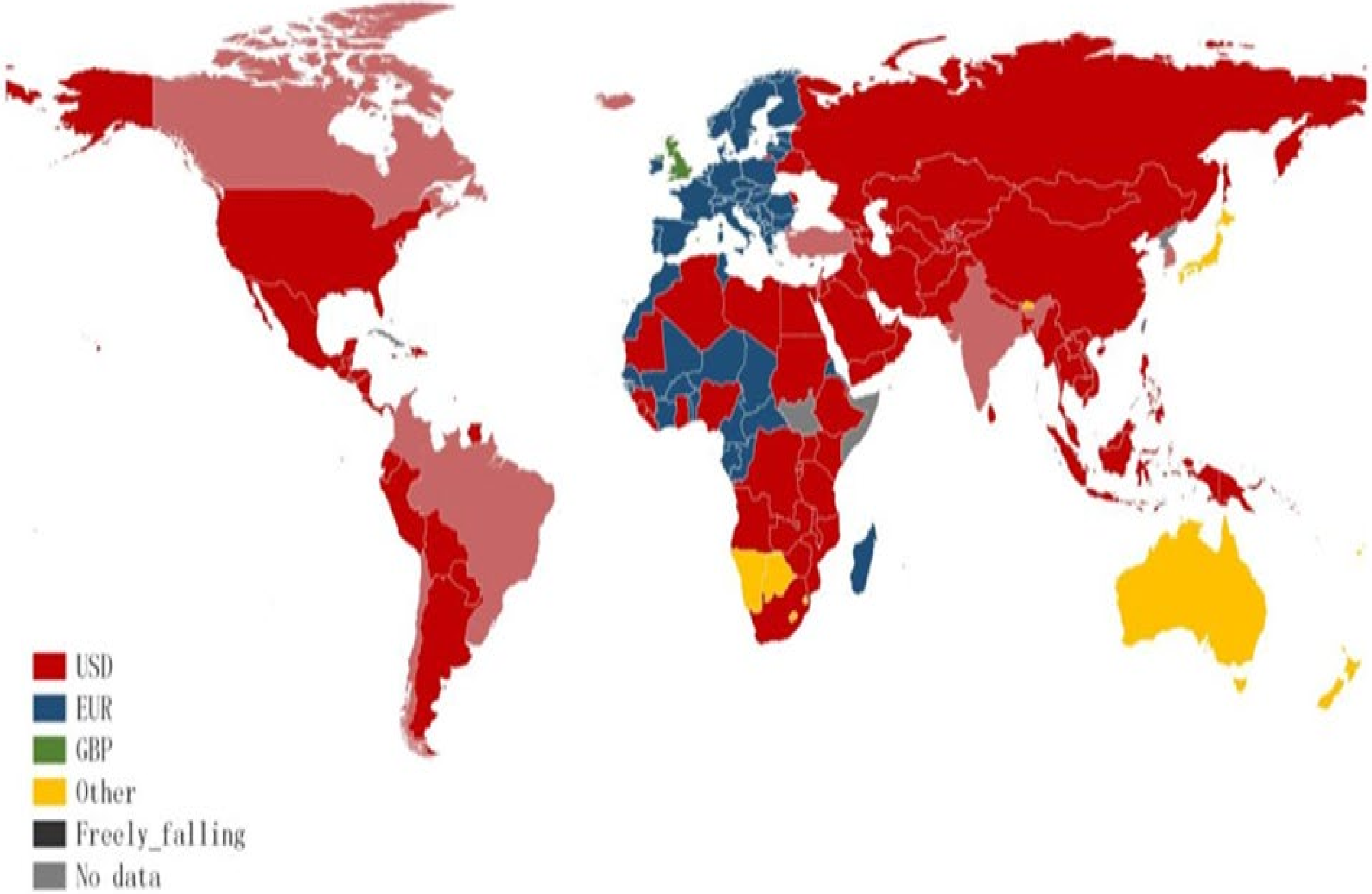


Average of world external assets and liabilities as a share of GDP, 1970-2023

Source: EWN data set (Milesi-Ferretti 2025)

The US dollar has supported this, serving as a global currency

- Eurodollar trading in the 1960s set the dollar up as the premier offshore currency
- Finance complementary to trade (Gopinath-Stein 2021); network effects; deep US financial markets
- Reagan budgets (Coppola et al. 2025)
- Volcker disinflation set up the dollar's current dominance
- US has supported offshore markets (most recently, swaps)



The dollar has been the overwhelmingly dominant anchor currency

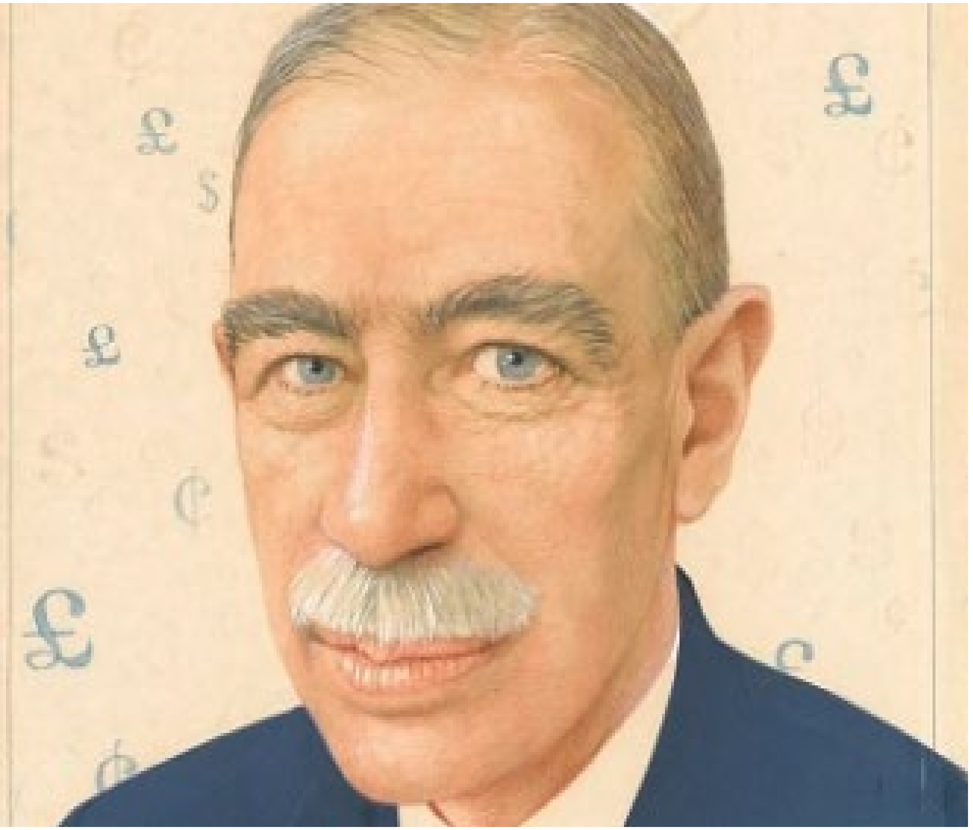
Source: 2015 data from Ilzetzki, Reinhart, and Rogoff, NBER wp 23134, 2017

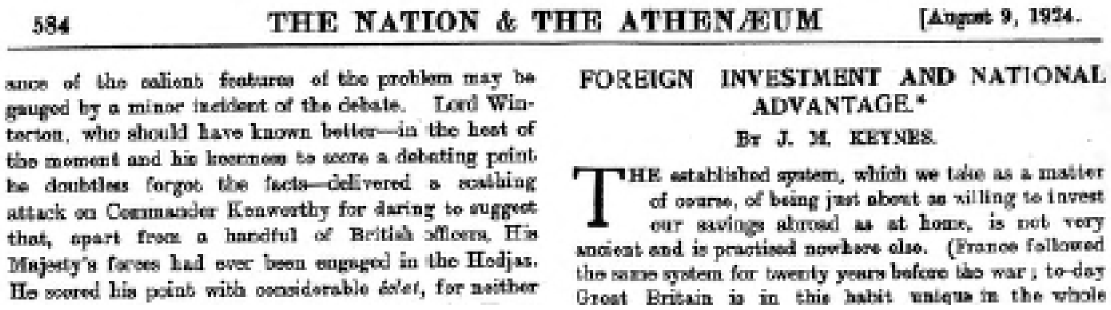
No currency ready to supplant USD, but its status could erode

- Threats to Fed independence
- Erosion of rule of law in US (more on that to follow)
- US withdrawal from global security arrangements and other public goods
- Desires to insulate from exposure to dollar system
- US fiscal indiscipline
- Financial fragmentation could undermine domain of the dollar
- Only tentative signs so far, but …

Financial fragmentation seems inevitable

- We have not yet seen a finance backlash comparable to that against trade
- But populist elements traditionally attack finance and are starting to do so – "moving money around vs. making real stuff"
- Regulatory non-cooperation will promote fragmentation – and/or a race to the bottom
- Security non-cooperation will promote fragmentation
- Higher trade costs hamper finance (Obstfeld-Rogoff 2001; Chari et al. 2025)
- Keynes's (1924) argument





584 THE NATION & THE ATHENÆUM [August 9, 1924.

ance of the salient features of the problem may be gauged by a minor incident of the debate. Lord Winterton, who should have known better—in the heat of the moment and his keenness to score a debating point he doubtless forgot the facts—delivered a scathing attack on Commander Kenworthy for daring to suggest that, apart from a handful of British officers, His Majesty's forces had ever been engaged in the Hedjas. He scored his point with considerable *éclat*, for neither

FOREIGN INVESTMENT AND NATIONAL ADVANTAGE.*

By J. M. KEYNES.

THE established system, which we take as a matter of course, of being just about as willing to invest our savings abroad as at home, is not very ancient and is practised nowhere else. (France followed the same system for twenty years before the war; to-day Great Britain is in this habit unique in the whole

We should expect more restrictions

- Keynes's argument is not unlike some of the arguments for reshoring trade on national security grounds
- Expect more outflow restrictions, which also may be motivated by security considerations
- We are also seeing more restriction of investment *inflows* on security grounds – or explicit conditions and implicit "taxes" on the inflows
- There may also be more pursuit of macroeconomic rationales for inflow controls or taxes; or measures to coerce other countries
- Even before Trump 2.0, FDI flows showed clearest evidence of geopolitical stress (Aiyar et al. 2023)

Dollar stablecoins: The US play to preserve dollar dominance and rescue the American fiscal future

- The US government's proposition is that global stablecoin demand creates a demand for Treasuries that will lower federal borrowing costs
    - Quantitative potential for *net* demand?
    - Loss of seigniorage from underground cash holdings is substantial – transferred to coin issuers
- Best use case may be in low- and middle-income countries – effects on monetary sovereignty?
- Tracking illicit finance and tracking capital flows? International cooperation will be needed
- US control over a new avenue of cross-border payments?
- Effects on credit creation?
- Links and risks to the traditional financial system?

Source: Aldasoro et al., *BIS Bulletin* 108, July 2025

Geopolitical realignments

The year 1972 was a watershed for China's global role

"All the News That's Fit to Print"

The New York Times

LATE CITY EDITION

Weather: Cloudy and cold today; chance of snow tonight, tomorrow. Temp. range: today 8-24; Sunday 10-26. Full U.S. report on Page 53.

VOL. CXXI .. No. 41,661 © 1972 The New York Times Company NEW YORK, MONDAY, FEBRUARY 21, 1972 15 CENTS

NIXON ARRIVES IN PEKING TO BEGIN AN 8-DAY VISIT; MET BY CHOU AT AIRPORT

PRESIDENT LEANS TO AN AMENDMENT ON PUPIL BUSING

Regards It as 'Live' Option in Slowing Courts, Despite Misgivings of Aides

3 OTHER WAYS STUDIED

Nixon Is Viewed as Seeking to Defuse Issue Before Schools Open in Fall

By ROBERT B. SEMPLE Jr.
Special to The New York Times

WASHINGTON, Feb. 20—Despite the misgivings of some of his own staff and Cabinet officers, President Nixon is still "very strongly interested" in a constitutional amendment to halt busing aimed at achieving racial balance in the schools.

In an interview yesterday, a senior White House official said

Cahill Declares President Neglects the Urban States

By RONALD SULLIVAN
Special to The New York Times

TRENTON, Feb. 20—Gov. William T. Cahill, expressing bitterness at what he sees as the Federal Administration's failure to help urban states, like New Jersey, believes that President Nixon "doesn't relate to the average guy in the street."

At the same time a Republican party leader in New Jersey reported this weekend that despite recent mutual and public efforts to gloss over their past political differences, Mr. Nixon and United States Senator Clifford P. Case had had "violent disagreements" and were still politically and personally cool to each other.

The criticism and the reported differences, involving as they do New Jersey's two top Republicans, may spell political trouble for Mr. Nixon's Presidential drive to capture the 17 electoral votes of New Jersey.

Senator Case is running for a fourth term as a United States Senator from New Jersey this year on the Republican ticket headed by Mr. Nixon. Governor Cahill is the unchallenged leader of New Jersey's Republican party. Both are independent liberals and both have won election by landslide pluralities.

Mr. Cahill said in an interview that he would be willing to serve as Mr. Nixon's campaign chairman in New Jersey —in part as payment for the President's campaign appearance for him in 1969. But he is unwilling to volunteer for the appointment, as have Governor Rockefeller in New York and Gov. Ronald Reagan in California.

"I have a lot of other things

Continued on Page 22, Column 1

FUNDING NEAR END FOR U.S. STATIONS AIMED AT RED BLOC

Cutoff Tomorrow for Radio Free Europe and 2d Outlet Unless Congress Acts

By BERNARD GWERTZMAN
Special to The New York Times

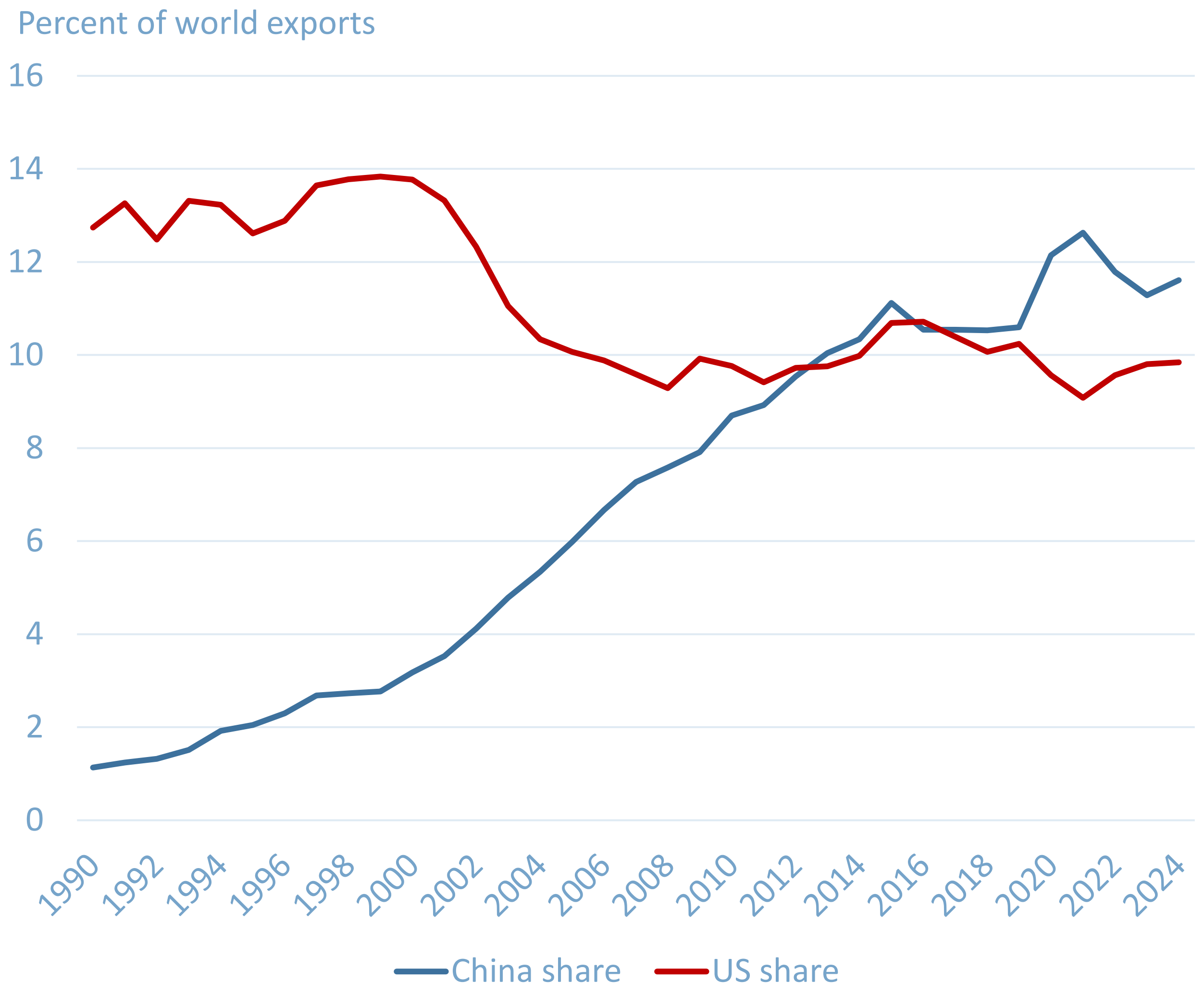
WASHINGTON, Feb. 20—Radio Free Europe and Radio Liberty the American-run stations born of the cold war and secretly financed for more than 20 years by the Central Intelligence Agency, will lose their Government funding Tuesday and are struggling desperately to stay alive.

If Senator J. W. Fulbright, Democrat of Arkansas, has his way, the funding will not be renewed.

"These radios should be given an opportunity to take their rightful place in the graveyard of cold war relics," Mr. Fulbright, the chairman of the Foreign Relations Committee, said

China became the world's leading exporter

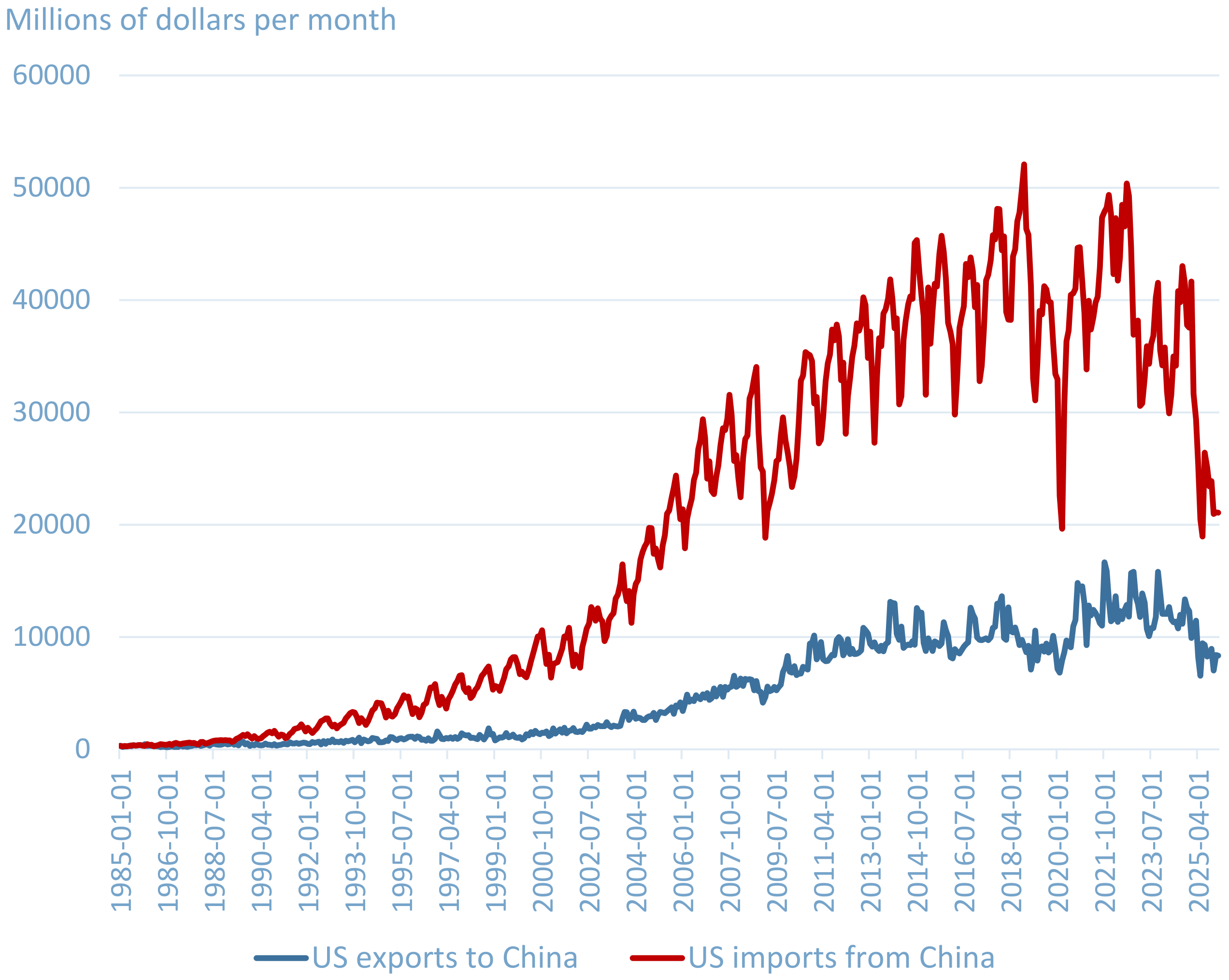
- China's share of world exports understates its structural impact, because its *export prices* have fallen quickly
- Consumer gains, but labor market disruptions in many countries, notably the US
- Has created political backlash, notably in US
- Current export wave threatens further trade actions



Source: World Bank

Direct US trade with China has fallen precipitously

- US trade with China began to decline with Trump's first actions against it in 2018
- Some trade was initially diverted through third countries (such as Vietnam), but the universal 2025 tariffs have made that less profitable
- China's overall global exports have *not* fallen; they have been diverted elsewhere, in effect exporting earlier tensions with the US to bystanders



Source: US Census Bureau and BEA, via FRED; nsa monthly data

Can the non-US world maintain open trade under WTO rules?

- The G20 is exploring policies to resolve global imbalances
- China's surplus and export promotion will remain risks
- Most countries have reacted by diverting trade from the US, rather than retaliation
- EU-Mercosur, India-EU, Indonesia-EU, Philippines-UAE, possible new entrants to CPTPP ….

Wake up call for Europe?

- Exchange-rate volatility and worries about US policy were catalysts for European unification and the euro project from 50 years ago
- Now there is another push for "more Europe" as a response to US pressures and threats
- Even Sweden is rethinking its reluctance from 30 years ago to joining the euro – mainly on geopolitical grounds

1973 brought OPEC to the fore; now we have another oil shock

- The 1973 and 1979 shocks led to large-scale acquisitions of US assets by Gulf oil producers
- These changed the nature of foreign official flows into the US
- Higher oil prices enabled the USSR to become an oil exporter in 1973 -- now they are enabling it to prolong war with Ukraine
- Ukraine is monetizing its defense expertise
- With vast implications for Europe …
- …which depends on the Gulf for natural gas
- The luster and security of Gulf states may be reduced for the long term
- Severe economic implications for Asia
- A quagmire will diminish US global power

Chokepoint

Rules of the (market) game and the rule of law

The US has departed from norms and rules, at home and abroad

- Political meddling in markets and the justice system harms investment
- Encourages bad behavior globally rather than providing an exemplary public good
- Government stakes or profit shares in US Steel, MP Materials, Intel, Nvidia, AMD
- Political weaponization of investigations and contracts (Anthropic, universities)
- Questionable tariff authorities
- Seizure of Venezuelan resources and diversion of proceeds abroad
- Meddling in foreign elections (not new but now overt and conducted in public)
- Opportunistic international cooperation

Newly flimsy wall between national and private interests

- Presidential support of crypto
- Lax enforcement of Foreign Corrupt Practices Act
- Unproven suspicions of insider trading
- G20 summit set for Trump Doral club
- Favorable prosecutorial treatment for presidential allies accused of crimes
- Use of presidential pardon power outside of previous institutional channels
    - Undermine faith in impartial treatment by US government and creates incentives for rent seeking
    - Further weakens the dollar’s position

Reacting to the Nixon "imperial" presidency, Congress passed numerous legislative safeguards

The names speak for themselves:

- War Powers Resolution (1973)
- Budget and Impoundment Control Act (1974)
- Trade Act (1974)
- Federal Election Campaign Act amendments (1974)
- Further laws later in 1970s on ethics, inspectors general, domestic surveillance

All of these are currently being tested in a new imperial US presidency; the Congress is not resisting much


, NOVEMBER 8, 1973 15 CENTS

HOUSE AND SENATE OVERRIDE VETO BY NIXON ON CURB OF WAR POWERS; BACKERS OF BILL WIN 3-YEAR FIGHT

SCANDALS' EFFECT ON VOTE IS MINOR

Watergate's Impact Called Minimal by Analysts of G.O.P. and Democrats

By CHRISTOPHER LYDON

Special to The New York Times

WASHINGTON, Nov. 7 — The Watergate scandals had little impact on turnout or results in yesterday's elections, according to official Republican and Democratic analyses here today.

But Democratic party officials found other trends to celebrate in the scattered state and local returns.

In the main Republican triumph, the Virginia Governor's

Beame Appoints 5 to Plan Change in Administration

Mayor-Elect Confident

By MURRAY SCHUMACH

Mayor-elect Abraham D. Beame moved quickly yesterday to assume authority over the city that gave him a landslide victory at the polls on Tuesday.

Wearing a blue suit and exuding quiet confidence in the brightness of television lights, he held his first full-dress, post-election news conference in the Waldorf-Astoria Hotel and revealed the following:

¶The names of a five-man committee of experts on city government that will chart the transition between the Lindsay administration and his own before he is sworn in on Jan. 1.

City G.O.P. Devastated

By FRANK LYNN

A year after President Nixon swept New York State and nearly captured the city, the landslide victory of Controller Abraham D. Beame left the city Republican party shattered and showing signs of the splits that have plagued the Democratic party here.

Grim omens for the G.O.P. were plentiful as politicians sifted through election returns in the political version of the morning-after-the-night-before. Among the pessimistic Republican portents were the following:

¶State Senator John J. Marchi, the party's mayoral candi-

TROOP USE LIMITED

Vote Asserts Control of Congress Over Combat Abroad

By RICHARD L. MADDEN

Special to The New York Times

WASHINGTON, Nov. 7—The House and the Senate, dealing President Nixon what appeared to be the worst legislative setback of his five years in office, today overrode his veto of a measure aimed at limiting Presidential power to commit the armed forces to hostilities abroad without Congressional approval.

The House voted first—284 to 135, or only four votes more

Pivot point?

International markets became increasingly broad, deep, and complex after 1973, and especially safter the end of the Cold War

They are dynamic, underlying technologies are changing rapidly, and the role of “third countries” is rising

At the same time, the United States has become a revisionist power

China pursues its own undoubted ambitions while it speaks the language of multilateralism – but will it walk its talk?

The years 1969-1973 set the stage for the next half century; the current turmoil is setting the stage for the next act

Even a restored multilateral order, should it come, will inherently be multipolar

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Thank you.

Maurice Obstfeld

obstfeld@berkeley.edu

mobstfeld@piie.com