



MULTILATERALISM POST- NEOLIBERALISM, POST- TRUMP: IS THERE A FUTURE?

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TRUMP HAS THROWN A HAND-GRENADE INTO THE GLOBAL ECONOMIC ORDER

- But even before Trump, the old order was fraying
- Excessive reliance on unfettered markets began to be questioned after 2008 financial crisis and the emergence of inequality crisis
- Globalization was in retreat
- WTO appellate body had been defenestrated—US refused to allow appointment of judges

MAJOR CHANGES IN POST-PANDEMIC GLOBAL ECONOMY

- New geo-politics—increasing split: How might it evolve? What will be the consequences?
- New politics
 - New concerns over market power of Big Tech
 - Lurch to the Right in many countries
- New economic policies
 - End of neoliberalism
 - End of dollar economy
 - Global trade system in shambles
- But old issues have only grown worse
 - Inequalities within countries and between countries
 - Climate change
- All of the issues are intertwined

NEW ECONOMIC POLICIES: END OF NEOLIBERALISM

- By 2016 protectionism was on the ascendancy, especially in US—continued with Biden Administration
- Industrial policies are back in—after being criticized for forty years (including US criticism of China’s industrial policies)
- End of WTO and the rules-based trading system?
 - Most of trade still obeys rules
 - But what kind of a rules-based system is there when the powerful disobey rules at will?
 - Forcing the weak to obey rules—even at cost of lives (Vaccine Apartheid)

GLOBAL TRADING SYSTEM IN SHAMBLES

US undermining the international rule of law/destroying the rules-based system

- But simultaneously destroying the stability of those global supply chains
 - Wreaking havoc in the global economy
- Destroying old order, but not replacing it with anything
 - Trying to create a peaceful and borderless world since end of WWII
 - Critical role of UN and other international institutions and agreements
 - A continuation of the Enlightenment project
- Trump has shown that an agreement with the US is not worth the paper it's written on
 - Substituting the law of the jungle for any principles
 - But raising a fundamental problem: can any international agreement be *enforced* against a major power?

A NEW DISORDER?

US objectives:

1. Grab a larger share of the value of global supply chains
2. Eliminate trade deficits—which weaken macroeconomy
3. Restore US manufacturing

UNDERSTANDING TRUMP

Trump's policies are motivated by grievances, obsessions, and misconceptions

- Because US is “best country,” everyone should want to buy more goods from us
- So trade deficit is *evidence* of somebody's cheating
- Trump is stuck in the mid 20th century—focus on cars, manufacturing—ignores services
 - Manufacturing output less than 10% of GDP, similarly for employment

WILL IT SUCCEED? NO

1. SUPPLY CHAINS

Short sighted: **Supply chains will change**

- **US bargaining power will weaken**
- “Supply shocks” will give rise to inflationary pressures, especially in the US
- And the corresponding demand shock will weaken growth—prospects of stagflation
 - In Europe, increased defense spending main hope for strong economy

2. TRADE DEFICITS

- Multilateral trade deficits reflect macroeconomic imbalances—disparity between domestic savings and investment
- Trump's policies are likely to increase the disparity
- At the microeconomic level, too, he is making matters worse
 - Policies hurt US services—tourism, education, health

3. BRINGING BACK MANUFACTURING

- Tariffs not targeted
 - Tariffs on coffee will not make US coffee producer
 - Tariff on Chilean copper will not make US a copper producer
- Tariffs counterproductive
 - Increasing costs of steel, copper, etc. makes US manufacturing less competitive
- Modern manufacturing different—won't bring back “deindustrialized” jobs
 - Uses robots
 - Key input engineers
 - China has comparative advantage in engineers, complex supply chains
 - US attacking science, engineering
 - US attacking foreign workers required to build modern factories

HOW THE WORLD SHOULD RESPOND

- Bargain collectively—US share of global trade not that large, US does not dominate in critical minerals and materials as China does
 - The cards are not in Trump's hands—if others play their cards appropriately
 - China showed the way (TACO, Trump Always Chickens Out)
 - EU's capitulation—the war in Ukraine apart—was a mistake
 - Europe can no longer rely on US as a defense partner
 - Urgent that it creates its own defense and technology capacity
 - An agreement with US isn't worth the paper its written on—should be viewed, at best, as a temporary cease fire
- Creating a G-1: global cooperation without the US
 - Trump has reinforced recognition of importance of international law
 - But it has to be redesigned—recognizing asymmetries of power and limitations on enforcement
 - Countries are working better together (Seville meeting in July, G20 in Johannesburg)

NEW POLITICS: NEW CONCERNS OVER MARKET POWER OF BIG TECH

- Part of broader concern about growth of market power: In US economy, competition is weaker, seemingly less “dynamism” *in spite of claim of being in a new era of innovation*
 - Multiple adverse effects of social media—including on the legacy media and its ability to play its role
 - Sustained high profits
 - New barriers to entry
 - Contributing to inequality
- In Europe, major initiatives to address problems through Digital Services Act, Digital Marketing Act, and other actions
 - Not strong enough
 - But in US, political power has stymied significant reform
 - How will world work with three different standards? “Splinternet”

AI PRESENTS NEW SET OF PROBLEMS

- Will it replace labor, leading to more unemployment and/or lower wages and increased inequality?
- Political battle: use of “intellectual property” e.g. from *The New York Times*
- Ethical issues: who is accountable for “slander”?
- A worsening of the information eco-system, even though positive potential for better processing and dissemination of information
- Major battles within society

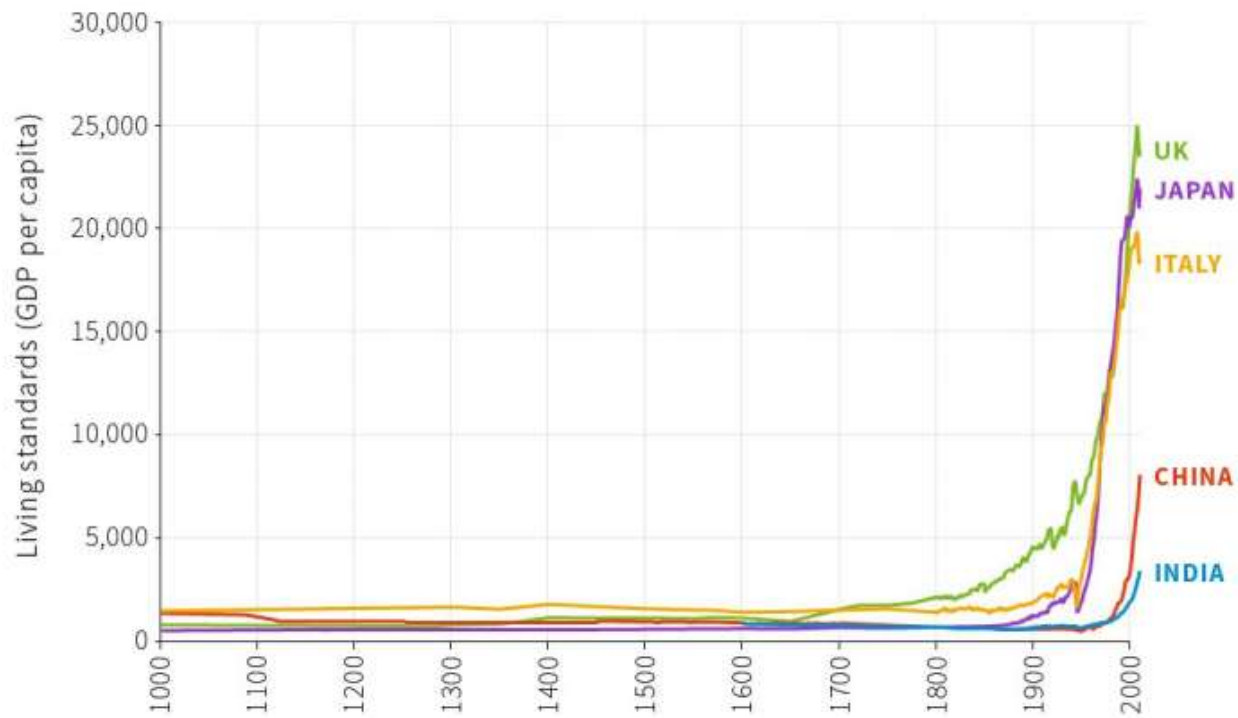
NEW US DEMANDS ON EU

- To surrender sovereignty—give up its internet, platform, AI regulations (DMA, DSA, privacy, digital taxation) in response to demand by US tech giants
- Europe says it won't, but EC is already caving
- Big tech strategy—undermine, circumvent democratic processes
 - Have tech rules agreed in secret trade agreements

THE BIG PICTURE: WHY THIS IS SO IMPORTANT

- Why are standards of living so much higher today than 250 years ago?
- Answer: The Enlightenment.

HISTORICAL LIVING STANDARDS



Source: INET

REAL WAGES OF LONDON CRAFTSMEN, 1200-2000

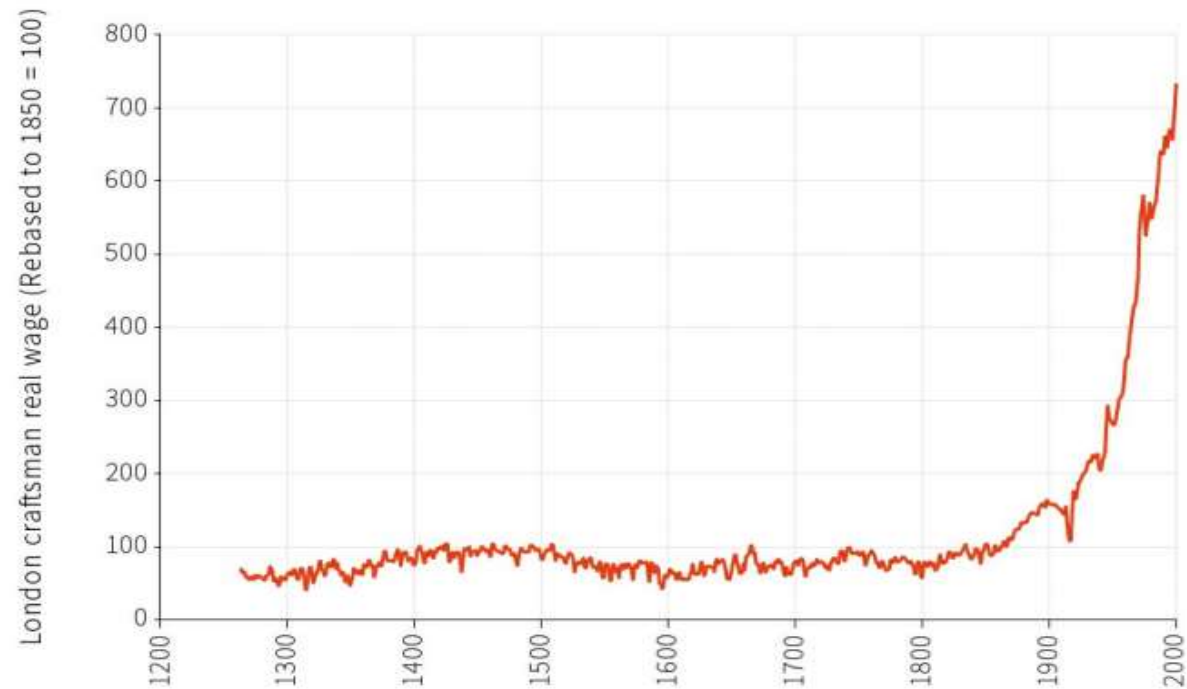


Figure 3. Real wages over seven centuries: craftsman (skilled worker) in London (1264-2001).

Source: INET

NATURAL LOG OF GDP PER CAPITA FROM 1000 TO 1750

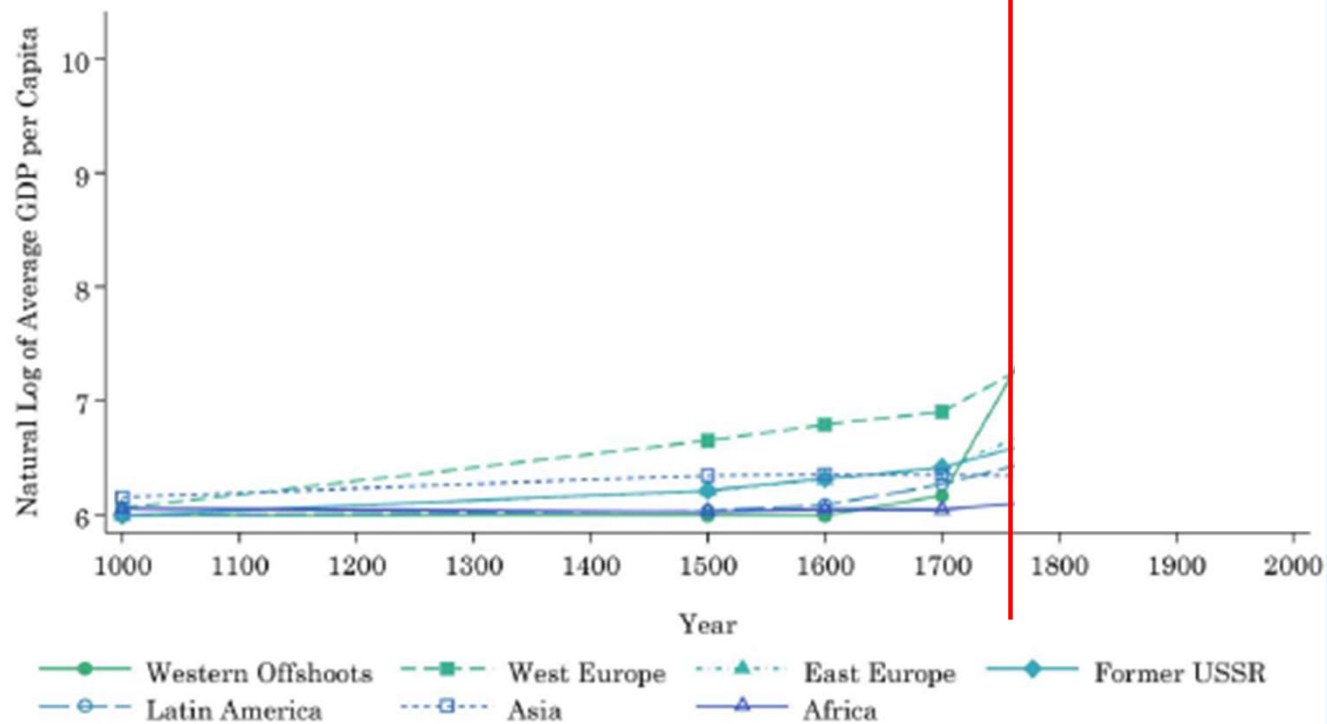


Fig. 1. Relative economic prosperity of different regions of the world from 1000 to 2000 CE.

Nunn, *Science*, 2020, based on Maddison, 2001

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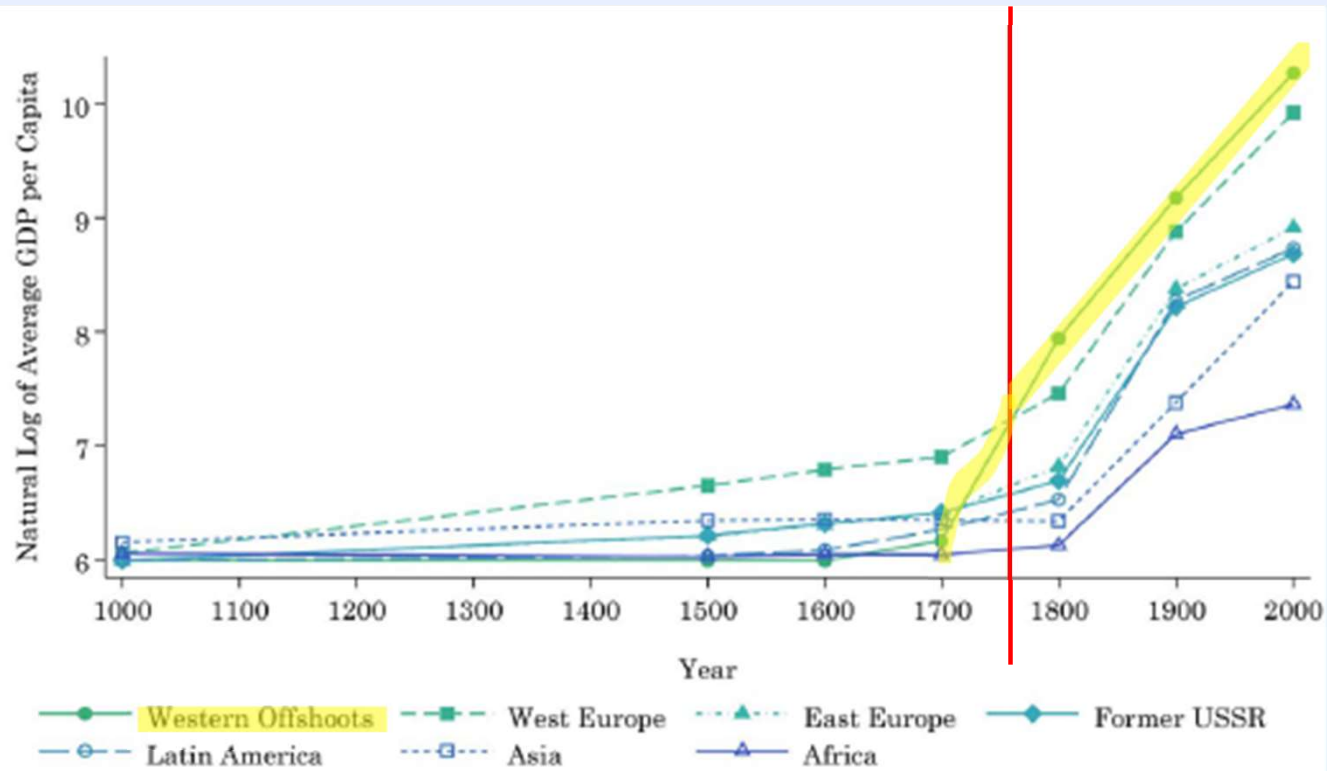


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WHAT CAUSED THIS SEEMINGLY SUDDEN CHANGE?

- **The enlightenment—A CHANGE IN MINDSET**
 - Questioning authority
 - Recognizing that our understanding of the world could increase and change what was possible
 - Requiring reassessment of how we know “truth” **and of how we organize society**
- The **scientific method** provided a systemic way of figuring out how to improve productivity
 - Getting more outputs from given input
- **Advances in social organization** (rule of law, new institutions) allowed cooperation among larger numbers of people—increasing the extent of the market and the ability to solve complex problems
- **TRUMP’S POLICIES REPRESENT A CONCERTED ATTACK AGAINST BOTH PILLARS OF THE ENLIGHTENMENT**

NEW POLITICS: LURCH TO THE RIGHT IN MANY COUNTRIES

- Reflection, in part, of economic malaise, growing inequality, failures of neoliberalism
 - Growth of populism
 - But populist agenda/political leaders will likely make matters worse
 - Question is: Will that feed into more populism, or give rise to “correction” towards more normal politics?
- With different factors playing important roles in different countries
- In US, almost surely race, and the almost-surely futile pushback against what’s been happening, as the US has become a multi-racial, multi-ethnic society
 - Anti-democratic movement, as minority seeks to impose its will on majority
 - 2025 elections a ray of hope

THE GLOBAL FINANCIAL SYSTEM MAY BE IN A PERILOUS STATE

- Great uncertainty
- High level of debt—and particularly problematic among developing countries and emerging markets
- Central bank independence being attacked
- The US dollar-based global financial system at risk?

HIGH LEVEL OF DEBT PARTICULARLY PROBLEMATIC IN DEVELOPING COUNTRIES AND EMERGING MARKETS

- A series of shocks—Covid-19 pandemic, Russian invasion of Ukraine, post-pandemic/war inflation, high interest rates, oil and food prices
 - Many countries had become over-indebted before, in era of near-zero interest rates
- There is no real system globally for resolving excessive indebtedness
- Outcomes are deficient: Too Little, Too Late
 - From 1970 - 2014, more than half of the restructurings with private creditors were followed by another restructuring with private creditors or default within 5 years

JUBILEE COMMISSION REPORT

- Provides a diagnosis of underlying problems
- Blueprint for reforms that would help resolve current problem and make a recurrence less likely
 - Reforms in global financial architecture, debt contracts, legal frameworks in jurisdictions in which the debt is issued
 - Major debt forgiveness twenty-five years ago (last Jubilee)
 - A development crisis as much as a debt crisis—countries spending more on servicing their debt than on education, health, or development investments
 - Lowering prospects for future income/growth, increasing pressures for migration

ONE KEY PROBLEM

Private capital flows are procyclical for developing nations and countercyclical for advanced nations

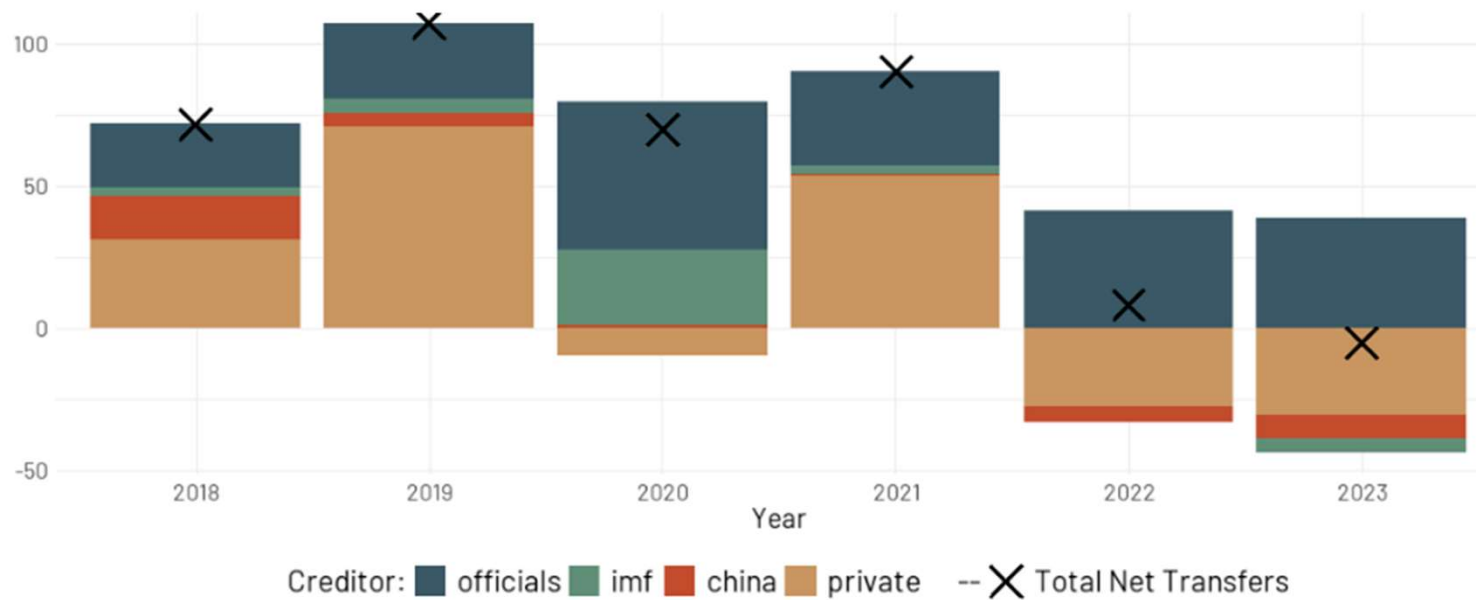
- Latin American debt crisis of the 1980s and today's debt and development crises are examples of this asymmetry

ANOTHER RELATED PROBLEM

Hidden bail-outs of the private sector by the international financial institutions

- Reduce incentives for good lending by private sector
- Means money that was supposed to help development and address climate change isn't really doing that

Net transfers on external debt by creditor type for low and lower middle income countries USD Billion



Note: Official creditors include MDB and ex-China bilateral creditors. Private creditors include PPG, non-guaranteed debt, and short-term debt

Source: Diwan, Harnoy-Vernier and Kessler (2025) based on World Bank International Debt Statistics 2024 data.

SOARING US DEBT

- “Big Beautiful Bill” showed wanton disregard for deficits/debt
 - Most regressive bill
 - Debt/GDP projections for 2050 ranging from 145% to 200%
 - Forecasts for tariff revenue overly optimistic—don’t adequately take into account changing global supply chains
 - Debt would be manageable with appropriate policies
 - But long-term growth will be hurt by attacks on universities, cutbacks in science and technology, immigration policy, chaos in trade, etc.

CENTRAL BANK INDEPENDENCE BEING ATTACKED

- Stability of financial system requires confidence in *fiat money*—accepted as a means of payment/store of value simply because of *trust*
- Without adequate monetary management, there will be a loss of confidence, and inflation
- Have always been some disagreements about what this entails—e.g. balancing multiple objectives
- But what Trump has done has gone over the line—direct control of the Federal Reserve
 - By an administration that shows little evidence of any understanding of economic fundamentals

PROBLEMS COMPOUNDED BY WEAKENING CONFIDENCE IN CENTRAL BANKS

- Did they adopt the right policies in response to post-pandemic inflation?
- Now clear that inflation was driven by pandemic and war-related supply side interruptions and demand shifts
 - Largely transitory—eventually corrected by the market
- Central banks misunderstood what was going on
 - Blindly raised interest rates—actually may have exacerbated problem
 - Risked financial disruption even in advanced countries—Silicon Valley Bank, UK pension funds

THE US DOLLAR-BASED GLOBAL FINANCIAL SYSTEM AT RISK?

- Old “order” is being rapidly destroyed and replaced by Trumpian chaos, not a new order
- Markets dislike uncertainty, chaos
- Weakening of dollar reflects weakening confidence in US
- Mar-a-Lago accord is a proposal for default
 - Why hasn't dollar weakened further, long-term real interest rates increased more (has increased from around 2% before election to 2.5% today)?

A NEW WORLD FINANCIAL ORDER?

- Less centered on US dollar
 - US limited and declining share in global trade, GDP—decline accelerated by Trump
 - US power had rested on “soft power” and management of multilateral system—all destroyed by Trump
 - Use of dollar to enforce unilateral US views can only be done to a limited extent
- Would move even further and faster if there were more confidence in EU and euro
 - Weak trade “deal” —already being undermined by US over digital regulation
 - Europe needs to be less reliant on US, restore economic and defense sovereignty
- Key questions: How long will the chaos last? How quickly will a new order be created? And what will it look like?

NEW GEO-POLITICS—INCREASING SPLIT

- Multiple forces: Human rights, democracy, competition, Taiwan, China's support for Russia in war in Ukraine
- Still-high level of economic interdependence
- Official language has moved to “de-risking”
- Growing view in US: cost less than thought, especially as neoliberalism gets discredited
- Likely to imply less trade, lower financial flows

STILL NEED GLOBAL COOPERATION TO SOLVE GLOBAL PROBLEMS

- Most importantly: climate change and pandemics
- Cooperation in everybody's interest
- US believes that one can have fierce competition in other areas, strong cooperation on climate change
- There is real urgency—China's 2060 target for carbon neutrality is not ambitious enough
- Need to realize interplay between different issues—inequality crisis, climate crisis, political crisis

CONCLUDING COMMENTS

- Failures of neoliberalism, pandemics and wars have led us to enter a tumultuous era
- Quite different from the era of the “great moderation”
- Nothing can be taken for granted—new economics, new politics, new geo-economics, new geo-politics
- Europe’s role is crucial—bastion of democracy and defender of human rights and the rule of law