

## FOUR MYTHS:

### *The World Trading System<sup>1</sup>*

*by Jamie Miller*

The General Agreement on Tariffs and Trade (GATT) has significantly affected world trade and global living standards for over fifty years. With no formal institutional structure and very little publicity, the GATT (now incorporated into the World Trade Organization (WTO) since 1994) continues to make a revolutionary demand upon the nation-state – it must perpetually relinquish its sovereign right to raise tariff rates.

Although widespread protests have slowed further liberalization, the GATT has led to a dramatic and unprecedented reduction in tariff rates, from a world average of 40% in the 1940s, to an average of 5% by the late 1990s. It has also facilitated the elimination of many quotas and non-tariff barriers to trade. While the extent of its contribution is debatable, no one denies that the GATT/ WTO has steadily increased global trade since its inception. For the past fifty years merchandise trade has grown far more rapidly than has economic output in general.

The endurance of an international trade regime on such a basis, for so long, is without precedent. Is there anything in the substance and form of this institution itself that has enabled it to endure and strengthen over time, while many other multilateral regimes have crumbled or weakened?

Fiftieth anniversary explanations for the efficacy of the GATT have led to different ideas about the origin and longevity of the institution, some of which mislead the public and dislocate debate about the equity, structure, and future of the world trading system. It is thus useful to surmise, and further investigate, four major myths about the origins of the trading system:

- 1) **The postwar world trading system has endured because it is based on free trade.**
- 2) **The United States imposed the trading system on the rest of the world.**
- 3) **The United States designed it to strengthen American defenses at the outset of the Cold War.**
- 4) **Free trade and globalization are now inevitable.**

**Myth: The postwar world trading system has endured because it is based on free trade.**

**Reality:** The world trading system relies upon a series of laws that prohibit states from restricting imports; and it is simultaneously based upon a series of intricately woven exceptions to those laws. Why the exceptions? Because among the hundreds of architects who designed and negotiated the system, not a single free trader resided. Not the relentlessly liberal US Secretary of State, Cordell Hull; nor the former

communist, Stafford Cripps; not even the 'doctrinaire' liberal and Cotton King of America, Will Clayton; and certainly not the ingenious economist, Lord Maynard Keynes.<sup>2</sup>

A secondary myth that has grown up alongside the idea of pure free trade involves the notion that the US sought to establish it in the postwar system. The truth is that America, Europe, Asia and Latin America supported what John Gerard Ruggie has called embedded liberalism, or an unchallenged assumption of state intervention in the domestic and international economy.

How high would tariffs be? officials asked each other. None proposed their abolition. When should nations be free to discriminate against each other's imports for non-commercial reasons? they pondered. Discrimination was never ruled out. Debate raged over the extent of government involvement, not the need for it. The GATT / WTO system has thus always involved open, not uninhibited trade. Advocates sought freer, not free trade.

**Danger:** This myth of free trade has detracted from intelligent debate about the history of trade policy, and its current formation, by painting advocates of open trade as more extreme than they truly are.

It also obscures debate about the GATT/WTO's miraculous march through fifty years of global turmoil. While the right wing touts free trade, and the left wing resists it, neither one contemplates a fundamental question: if orthodox free trade does not account for the system's longevity, then how can we explain it?

In fact, the endurance of the GATT / WTO system has been crucially dependent upon its ability to generate pragmatic, heterodox and detailed policy via a uniquely inclusive negotiating forum. Effective institutional procedures, not free trade dogma, have proved key to its endurance – and this feature has been in place since the institution's inception.

**Myth: The US imposed the trading system on the rest of the world.**

**Reality:** By the beginning of the GATT negotiations' first official phase, in September of 1945, the Americans had attained a position of relative economic and political power unprecedented in their history. One month after the final shots were fired, with its allies devastated by the war, and its enemies on their knees, the United States prepared to impose its trade plans on the postwar world.

It failed to do so. Instead, both the GATT and the planned ITO represented the interests and ideas of a broad array of nations. Twenty-three negotiated the GATT; fifty-six crafted the ITO. What came to be known as a multilateral system, in its operation, evolved from a multilateral process, in its design. This multilateral design process stemmed from an American choice to differentiate their systemic approach to trade from that of hegemonic precedent. The Soviets and Nazis, as dominant trading nations, had unilaterally imposed their will upon weaker trade partners; the British, while resisting unilateral imposition, had established a decentralized system of bilateral bargaining.

No major power had ever opted for the universalist approach pursued by the Americans during and after the Second World War. During the postwar planning that began in 1939, the Americans, with a big push from the British, decided to include a large number of countries in the process of crafting a new order for world trade. This decision led them to encounter the multilateral paradox: it is difficult to translate power into diplomatic outcomes while remaining true to democratic principles. Americans could not propose an inclusive, egalitarian forum to negotiate trade policy, and at the same time prescribe the policy to be adopted there.

As a result, the US made compromises in a multilateral forum that it might not have made through an alternative approach. The alternatives challenge a related myth – that a multilateral approach served to further US domination of world trade.

Unilateral imposition of an entirely pre-designed system would have involved no negotiation; weak countries seeking access to the US market and needing US dollars, would need to capitulate to unfair terms of trade. Bilateral bullying would have involved cursory negotiations, wherein the US used its inexorable power to overcome countries one-by-one.

Instead, the US created the very forum in which other nations could forge political alliances to challenge American hegemony. While the system that resulted still favored industrialized western nations, the final agreements involved far greater state involvement in trade than the US sought. Domestic opposition to these compromises led to the demise of the International Trade Organization (ITO), because the American Congress never ratified it.

**Danger:** The myth of US hegemonic imposition has contributed to the belief that international regimes will endure if benevolently constructed by superior architects residing in nations possessing a monopoly on wisdom and detachment.

On the contrary, the GATT endured precisely because the US made significant concessions during its formation; the concessions resulted from commitment to an unprecedented level of inclusion. The compromise policies enabled the negotiators to craft a single system to accommodate not only conflicting interests, but also conflicting ideologies.

**Myth:** The US intended the system to strengthen American defenses at the outset of the Cold War.

**Reality:** Versailles and the Depression haunted American officials during the Second World War. As the inter-war world collapsed around them, they imagined a new system designed to prevent another armed conflict and to avert a second economic downturn. The moment war broke out in Europe in September of 1939, US Secretary of State Cordell Hull began to contemplate the postwar world. In December, he launched an intensive research program in the Executive Branch that came to be known as postwar planning.

During the postwar planning process, extensive studies considered various ways to accommodate nations, such as the Soviets, who opposed free enterprise; the planned system sought to include, not alienate, the state traders. The Soviets eventually received an invitation to participate in this planning process. Rather than excluding the Soviets from the process of planning this new system, the Americans embraced them.

As a result, the Soviets actively participated in the wartime Bretton Woods negotiations that established the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (the World Bank). Shortly after the armistice, the US invited the Soviets to participate in the trade negotiations that led to the creation of the GATT.

The US State Department and Treasury had for so long worked to include the Soviets in postwar planning, that their own bafflement at Soviet unresponsiveness instigated the now famous 'long telegram' dispatched by George Kennan: Treasury officials asked the State Department if anyone there could explain why the Soviets seemed to be abandoning Bretton Woods. Eventually, the question landed on Kennan's desk in Moscow in early 1946.

Without a single mention or consideration of the Soviet Union, the US made most of its essential compromises on trade policy during and immediately after the Second World War, between 1941 and 1945. By December of 1945 the US had agreed to permit imperial preferences, to include state trading, to tolerate import quotas, and to indulge cartels. It made these concessions during negotiations primarily with Britain and the countries of the British Commonwealth. By the time Churchill decried the Iron Curtain in the spring of 1946, and the Cold War heated up in the fall of 1946, the US had already granted nearly every fundamental concession it would grant during the rest of the trade negotiations, which continued during the early period of the Cold War, between 1946 and 1948. The visionaries who sought to restore international trade did not make concessions to different economic perspectives and interests in order to fight the Cold War. They made them out of realistic respect for another principle – their faith that only multilateral inclusion and reasonable compromise could create lasting institutions, and thereby contribute to lasting peace.

**Danger:** The Cold War interpretation of the origins of the trading system bolsters those who maintain that the United States should foster international institutions only when there is an immediate, all-encompassing threat to national security. This school of thought perceives international institutions primarily as means to American ends, rather than ends in themselves that contribute to international stability – and, as such, entities that serve all nations' interests. Proponents of this view disregard the potential for international regimes to prevent conflict; they seek cooperation from allies only to mobilize support for US policies forged in reaction to a perceived threat to American security.

In addition, proponents of this myth fail to consider alternative explanations as to why the United States made compromises on trade before the exigencies of the Cold War demanded economic sacrifice.<sup>3</sup>

**Myth: Free trade and globalization are inevitable.**

**Reality:** Just over fifty years after its precarious launch as the GATT, the WTO has grown into a potent symbol of globalization. Globalization is a process currently integrating the world into one market, one economy, one society – even one polity. Critics of this process abound, many decrying the unequal distribution of rewards and the arbitrary destruction of local culture; its defenders point to unparalleled growth and innovation, and also remind us of the autarkic alternative. These same arguments and divisions apply to the debate over freer trade. Yet many among both the detractors and the supporters of trade-led globalization agree on one 'fact': the trend is irreversible. We should not fight globalization; it is inevitable.

A trip back to the postwar origins, and before, exposes this perception as myth. The speed of growth in interdependence between 1850 and 1910 remains almost without parallel. It outpaced world integration during the twentieth century in trade and capital, if not in currency markets. The First World War reversed globalizing trends more dramatically, and for a longer period of time, than has any other single event in history. Indeed, it required many years to dismantle the new forms of trade protectionism perfected during and immediately after the First World War.

According to political theorist Kenneth Waltz, and many others, the world was more integrated, by almost all measures, at the end of the nineteenth than it was at the end of the twentieth century.<sup>4</sup> History is littered with examples of seemingly unstoppable trends that stopped, and often reversed course. Some analysts have compiled copious evidence to demonstrate that states and local economies still rule the world. Globalization itself, according to this school of thought, is more myth than reality.

**Danger:** Those who consider globalization inevitable fail to consider the consequences of global disintegration. There are opponents and champions who fall into this category.

Unreflective challengers rarely offer a viable alternative vision, and thus – if successful in their opposition to integration – risk returning us to the insular, nasty, perverse policies of the inter-war years; during this period, states destroyed the international economy with insurmountable tariff walls, competitive devaluations, and minimal foreign direct investment. Armed with this at times near-nihilistic strategy, critics remain content to stake out the moral high ground, and abdicate their responsibility to ponder past precedents and propose future alternatives.

At the same time, blind enthusiasts neglect to consider the legitimate and urgent calls for a different governmental relationship with the process; they ignore the need for a more assertive state role in steering the course of global integration. This narrow approach diminishes debate about the accountability of elected officials to their constituents. It permits politicians to ally with business leaders who complacently claim that impersonal, market forces are driving an unalterable process.

**In truth, as demonstrated by the evidence emerging from the Second World War and immediate post-war period, our leaders can and do shape the international political economy. States and markets cannot, and do not, survive without each other. With enough political will, and careful planning, a far broader population can benefit from the diminution of barriers to trade, and the process of globalization to which it contributes.**

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1. This article draws on James N. Miller, "Wartime Origins of Multilateralism, 1939 – 1945", Ph.D. dissertation, Cambridge University, forthcoming 2003. Major sources include the national archives of the United States and Great Britain, as well as work by Richard Gardner, John Gerrard Ruggie, Judith Goldstein, Thomas Zeiler, and Richard Toye.
  2. Jacob Viner, the eminent economist and government official, explained during the time of the GATT negotiations: "There are no free traders in the present-day world, no one pays attention to their views, and no person in authority anywhere advocates free trade." (Jacob Viner, "Conflicts of Principles in Drafting a Trade Charter," *Foreign Affairs* 25 (January 1947), 613.)
  3. Realizing that they needed a modicum of cooperation to re-invigorate world trade after the war, the Americans unwittingly elevated their desire for international collaboration to the same level as their advocacy of liberal trade principles. The State Department simultaneously advocated a multilateral process and liberal trading principles. Yet they failed to recognize the tension at the core of this dual program, since many countries who would be involved in the negotiations did not share the same commitment to freer trade. Thus the Americans never considered the trade-offs involved in securing both aims. The British, however, were conscious of this conflict. They deliberately pressed the Americans toward a multilateral forum where British power would be augmented by its ability to form coalitions that challenged US ideals. For more on this explanation, see James N. Miller, "Origins of the GATT - British Resistance to American Multilateralism," Levy Institute Working Paper 318 (available on line at: [www.levy.org/docs/wrkpap/papers/318.html](http://www.levy.org/docs/wrkpap/papers/318.html)) and "Personality, Ideology and Interest in the Origins of the Modern World Trading System," paper presented to The Historical Society Annual Conference, Atlanta Georgia, May 2002 (available on line at: [www.bu.edu/historic/abstracts/Miller.htm](http://www.bu.edu/historic/abstracts/Miller.htm)).
  4. See Kenneth N. Waltz, "Globalization and Governance," *PS, Political Science and Politics*, Volume 32, Number 4, December 1999.