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THE WORLD TRADE ORGANISATION WE COULD HAVE HAD

Alternative finances

Now is the time to rediscover John Maynard Keynes's revolutionary ideas for an international trade organisation and adapt them to rebalance the world's economies in the 21st century.

By Susan George

THE Doha agenda, launched at the World Trade Organisation (WTO) ministerial meeting in the Qatari capital in 2001, has collapsed, and a good thing too. Although the WTO director general, Pascal Lamy, is trying desperately to resuscitate the agenda, the opponents of Doha maintained throughout the negotiations that no deal was better than a bad deal. The round, from the beginning until the final fruitless exchanges in 2006, was destined to benefit the largest farmers, to destroy nascent or fragile industries throughout the South and to open public services everywhere to corporate takeover through the General Agreement on Trade in Services (GATS).

The collapse may only be temporary (in the first days of 2007 there were prospects for its revival) and it does not mean that the basic premises of the WTO, established in 1995, have been abolished. The Agreement on Agriculture, the General Agreement on Tariffs and Trade (GATT) concerning industrial goods, the GATS and some 20 or more other instruments under the WTO umbrella still stand. But their application has been seriously slowed down and we now have a reprieve or at least a window of opportunity.

The failure of the round causes many people to ask: "What should we put in the place of Doha?" You could respond that this is like asking "What should we put in the place of cancer?", the instinctive answer to which is "nothing"; however in the case of trade it would be unwise to answer so. The absence of cancer is to be desired but the absence of an international trade regime just leaves the field open to bilateral and multilateral deals which are always even more invasive and dangerous for weaker partners than is the WTO.

Rather than allowing the usual suspects — the most powerful governments following the lead of their transnational corporations — to chart the future of trade relations, it is time to return to the era after the second world war when there was a major restructuring of international relations. Even the World Bank and the International Monetary Fund were welcome institutions then and for a while played a useful role in the South as well as in the war-devastated North: only in the past 25 years did they change their missions drastically.

The economist John Maynard Keynes came to the postwar table

More about Susan George.

Original text in English

* Susan George is a writer and president of the administrative council of the Transnational Institute, Amsterdam

(1) Until I read George Monbiot's *The Age of Consent*, Flamingo, London, 2003, I believed like almost everyone else involved that Keynes himself had designed the plans for the World Bank and the IMF. Monbiot, following the research of historian Armand van Dormael in his *Bretton Woods: Birth of a Monetary System*, Macmillan, London, 1978, explained how Keynes had been able to obtain some concessions from the US, but had predicted that the IMF would lead to unpayable debts. Keynes eventually accepted the US proposals because he preferred a system with rules, but he was unhappy with the outcome.

(2) Note the designation; the World Trade Organisation has always refused to concern itself with employment.

(3) This history is treated by Susan Ariel Aaronson in *Trade and the American Dream: A Social History of Postwar Trade Policy*, University Press of Kentucky, Lexington, 1996.

with an innovative project for the future of world trade, which he called the International Trade Organisation (ITO), supported by an international central bank, the International Clearing Union (ICU). The ICU was meant to issue a world currency for trade, the *bancor*. Why the ITO and the ICU never materialised, and what would have changed if they had, forms a sobering story from which we can learn. It tells us that, in a rational world, it would be possible to construct a trading system serving the needs of people in both North and South.

With an ITO and an ICU, we could have had a world order in which no country could run a huge trade deficit (the United States deficit stood at \$716bn in 2005) or the huge trade surplus of contemporary China. Under such a system, crushing third world debt and the devastating structural adjustment policies applied by the World Bank and the IMF would have been unthinkable, although the system would not have abolished capitalism. If we could resurrect Keynes's concept, another world really might be possible: he figured out how to make it work more than 60 years ago. His plan would have to be dusted off and tinkered with, but its core remains relevant.

Why did it fail?

Before explaining the rules it would have established, we should consider why the ITO was never set up. The usual explanation is that the US blocked it, which is true but too facile. There were other political reasons. The US and Britain began discussing the ITO agreement long before the war was over, and Keynes had already floated the idea in 1942. He chaired the Bretton Woods monetary conference in July 1944, where it emerged as the official British position. By that time the US, doubtless following the opinions of its corporations, was less enthusiastic and its chief negotiator, Harry Dexter White, pushed instead for the World Bank and the IMF (1). The US Congress subsequently approved both institutions, sometimes referred to as the "Bretton Woods institutions", but the ITO was not yet ripe for ratification.

The United Nations was born in 1945. Its economic component, the Economic and Social Council (Ecosoc) received postwar proposals from both the US and Britain for establishing an ITO. Ecosoc convened the UN Conference on Trade and Employment in 1946 to examine them (2).

Before this conference could meet, the US adopted a two-track approach to international trade. It convened a meeting of 22 other UN member countries, which were also anxious to begin trade liberalisation as soon as possible. They came together in a parallel forum to draft the General Agreement on Tariffs and Trade as a temporary measure, or so it was thought at the time.

They signed the GATT in 1947 and it entered into force in 1948. Because the participants all expected it to become a part of the ITO Charter, which would be a more permanent instrument, they included little institutional machinery in the GATT. Soon after, the ITO charter was at last completed and approved at the Havana Conference of 1948; the text is now generally referred to as the "Havana Charter", although its formal title is Charter for an International Trade Organisation (3).

Why did the ITO ultimately fail? Much of its political support had evaporated. Keynes died in 1946; the US Secretary of State, Cordell Hull, also a champion of the ITO, was no longer in

government; the enthusiastic, "let's refashion the world" moment of Bretton Woods had passed. The US State and Treasury Departments were busy with the Marshall Plan and with US reciprocal trade agreements with individual countries. The innate isolationism of many Americans and their Congressional representatives played a part. Much of the US business community also opposed the ITO, some companies because it was too protectionist, others because it was not protectionist enough. There was a tough US presidential election in 1948 and neither political party wanted to rock the boat with a controversial international agreement. The cold war began and the ITO was of secondary interest to US politicians and bureaucrats.

Once re-elected, President Harry Truman did half-heartedly place the ITO ("Havana") Charter before Congress in 1950, but the lawmakers never bothered to vote on it. The GATT survived because it was still seen as temporary and contained almost no constraining institutional arrangements. It was successful in its own way, managing over the decades to reduce industrial tariffs from an average 50% to 5%, although steep tariff peaks remained in force in many countries. The GATT sponsored eight trade liberalisation rounds, the last of which, the Uruguay Round, drafted the far more ambitious WTO agreement. The GATT, revised and updated, became the GATT 1994 within the framework of the WTO. Postwar trade arrangements therefore bore almost no resemblance to Keynes's hopes. The present World Trade Organisation is even further removed from his vision.

The Havana charter

Whereas the WTO has no connection to the UN and does not recognise any UN legal instruments, including the Universal Declaration of Human Rights of 1948, the ITO Charter began by recognising the UN Charter. It placed full employment, economic and social progress and development among its objectives. Its second section was entirely devoted to means of avoiding unemployment and under-employment. Unlike the WTO, which never mentions the subject, the ITO insisted on fair labour standards and the improvement of wages and working conditions; it mandated cooperation with the International Labour Organisation.

The international trade union movement spent the first six years of the WTO's existence trying to obtain a "social clause", which was only a much watered-down version of the principles already included in the ITO. The unions finally gave up after the WTO Doha Ministerial meeting in 2001.

The ITO Charter formulated plans for sharing skills and technology; it specified that foreign investment could not be used as a pretext for intervening in the internal affairs of member countries. Poorer, weaker countries were specifically authorised to use government aid, intervention and "protectionism" for their reconstruction and development: the charter specified that "assistance in the form of protective measures is justified".

Special assistance "designed to promote the development of a particular industry for the processing of an indigenous primary commodity" was especially encouraged. Many provisions of the charter also dealt with primary commodities and were mindful of protecting small-scale producers. The ITO allowed government funds to stabilise commodity prices from year to year and recommended the "conservation of exhaustible natural

resources". Its measures concerning commodities and encouraging negotiations among member countries that produced them, if taken together, led to a surprising conclusion. The ITO, without actually saying so, promoted Opec-like arrangements — producer cartels — for primary products, and local processing to add value.

Instead of seeing such rules produce benefits we have witnessed an inexorable decline in commodity prices. According to the UN Conference on Trade and Development (Unctad), average yearly decreases in these prices between 1977 and 2001 were 2.6% for foodstuffs; 5.6% for tropical beverages; 3.5% for oilseeds and oils. Only metals, which, unlike food and beverages, are never produced by smallholders, did slightly better at an annual decrease of 1.9%, although this still reflects a considerable drop in revenues for producer countries.

The Havana Charter specifically permitted aid to national industries through subsidies or government procurement. It even reserved some screentime for national cinema. It allowed countries to protect local agriculture and fisheries. One of the biggest battles in the Doha round, and the immediate cause for its failure, was over agricultural export subsidies. The ITO outlawed subsidising products on foreign markets "at a price lower than that charged to a domestic buyer". Countries in financial difficulty were allowed to restrict imports, but must do so proportionally, allotting fair quotas to previous suppliers.

The ITO's institutional arrangements were simple and democratic. Every state initially invited to the Unctad conference was to be a member; future members were to be approved by this body. Each member had one vote (unlike the World Bank and the IMF where votes are proportional to financial contributions and the US can block any important decision). A member in arrears in its contributions to the UN lost its vote; in the ITO, the US would not have been a voting member in most years. As for governance, ITO members selected an executive board of 18 members; eight from countries of "major economic importance and share in world trade", 10 representing different regions and types of economies. Votes should be by simple majority or in some cases, two-thirds majority. Disputes should preferably be settled through consultations but, if these did not succeed, any member could refer a dispute to the board, which could authorise the member harmed to take retaliatory measures.

Financing trade

These attempts to establish a new order for trade were undertaken in the context of a world still struggling to emerge from the ruins of war. Nobody except the US had any money. The Marshall Plan was one part charity to nine parts self-interest — the best way to kick-start trade between the US and Europe — otherwise the US would have been doomed to produce more than it could consume and would have had no one to whom it could sell its products.

In these circumstances, how could everyone get off their knees and begin to produce and trade again? Keynes formulated his solution in the early 1940s. Since the war was partly the result of beggar-my-neighbour trade policies, with everyone engaging in cut-throat competition for the same markets, he wanted to make sure no one could hog all the markets and accumulate huge trade surpluses. His solution was the ICU, a new central bank of central

banks, which would issue the bancor currency to be used for trade.

Under this system, exports earned bancors and imports spent them. The point was to keep the two in balance so that at the end of the year a country's accounts with the ICU would be neither in surplus nor in deficit but "cleared" — close to zero. Every country's currency would be assigned a fixed but adjustable exchange rate relative to the bancor. Keynes's original thinking perceived that nations with too many bancors would disrupt the system just as much as those with too few— that creditors were just as dangerous to stability and prosperity as debtors.

How could countries be forced to conform and maintain a near-zero balance? The method was ingenious. The ICU, in its role as central bank and issuer of bancors, would allow each country an overdraft facility, just as ordinary banks do for customers. The authorised overdraft would equal half the average value of the country's trade over the preceding five years. Any country exceeding its overdraft would be charged interest on the difference. Debtors would be charged on their deficits, but the real novelty was that creditors — countries with trade surpluses — would be charged interest on their surpluses. The greater the deficit or surplus, the higher would be the interest rate.

Countries in deficit would be obliged to devalue their currencies to make their exports cheaper and more attractive. Countries in surplus would have to revalue their currencies to make their exports more expensive and less attractive. If a trade-surplus country did not reduce its surplus, the ICU would confiscate everything above the allowed overdraft amount and put it in a reserve fund. Keynes wanted to use this fund to finance a global police force, disaster relief and other measures of interest to all members.

A neat arrangement

It was a neat arrangement. To avoid paying interest or submit to outright confiscation; countries in surplus would race to buy more exports from those in deficit. Those in deficit could sell more and would find it easier to return to equilibrium. Everyone would benefit. Trade would expand, the world would be more prosperous and peaceful, underdeveloped countries would have more funds to invest in development, and it would be impossible to accumulate the debts they have today.

As we know, Keynes did not prevail and the postwar vision was never realised. The World Bank and the IMF have wreaked havoc through their structural adjustment policies, third world debts can never be repaid, and Wall Street now decides the policies of democratically elected governments (as can be attested by Brazil's president, Luiz "Lula" Inácio da Silva, along with many other leaders of indebted countries). World trade rules do not benefit the poorer members of the WTO and the rich ones have grown more selfish as they have become richer.

In these circumstances, how could the global justice movement help to make fair trade a reality, since the WTO and its disastrous rules already exist? The writer George Monbiot believes that the South could use its \$26,000bn of debt as a "nuclear threat" against the world financial system unless it consents to establish an ICU. The South could begin by creating its own, smaller clearing union: perhaps Latin America could launch such a plan.

Perhaps a new government in France could put it on the agenda; stranger things have happened. But it is important to realise that we need not reinvent the trade wheel: Keynes did all the work 60 years ago.

English language editorial director: Wendy Kristianasen - all rights reserved © 1997-2008 Le Monde diplomatique.

Translations >>