Chapter 2

WHEN LABOUR AND INVESTMENT STANDARDS ALMOST MATTERED: A PUTATIVE HISTORY LESSON IN TRADE POLITICS THAT OUGHT NOT TO BE FORGOTTEN

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INTRODUCTION

When the international order was redesigned from scratch in the late 1940s, policy makers had to decide whether a global trade organization could extend beyond trade and address issues like labour standards, developmental needs and human rights. Like today they needed a rules-based system to organize the world economy. Indeed they had to find the optimum structure for such a body in which liberalism, in the words of the Economist, would be “freed from theology” and effect a compromise between market forces and the democratic aspirations of people.

Along with the World Bank and the International Monetary Fund (IMF), the International Trade Organization (ITO) formed the centrepiece of a new kind of international organization. What was particularly novel about the International Trade Organization, proposed in the Havana Charter of 1948, was that it was not simply or mainly a trade organization like the WTO, its latter day descendent. The countries of the world rejected the idea that it was possible to maintain firewalls between trade, development, employment standards and domestic policy. The ITO’s most distinctive feature was the integration of an ambitious and successful program to reduce traditional trade barriers with a wide-angled agreement that addressed investment, employment standards, development needs, business monopolies and the like. It pioneered the idea that trade disputes had to be settled by consultation and mediation rather than with legal clout. Further it established an institutional linkage between trade and labour standards that would effect a major advance in global governance. Finally it embedded the full employment obligation,

along with "a commitment to free markets" as the cornerstone of multilateralism.

Despite its bold vision, the U.S. Congress refused to ratify the Havana Charter, even though the U.S. government had signed it. In the end, the Charter's demise had long lasting effects on the world trading system. General Agreement on Tariffs and Trade (GATT), not the ITO, was left in charge and this was to make possible the return of the free trade canon in all international organizations, and in the practice of multi-lateralism over the next four decades.

The global economy of the twenty-first century is strikingly different from the heady-days of the ITO and it would be foolish to believe that the ITO can serve as a template for reforming the WTO. There are, however, some striking parallels. The ITO created a rules based system as did the WTO when it was created. The ITO had to find ways to rescue trade liberalization from the inter-war crisis that had discredited laissez-faire free trade. It spent a lot of time wrestling with the north-south divide that was as divisive then as now. The final dimension of its agenda was the issue of global governance, again much like our own time. Faced by similar issues, the ITO was more ambitious and visionary than the WTO. The ITO founding fathers found a way to link it to the other Bretton Woods institutions. This meant that trade was not beholden to financial markets and it was possible to create linkages to non-trade issues. The ITO accepted the proposition that as a governance structure it would have a place for civil society actors and other organizations such as the International Labour Organization (ILO).

This chapter examines of the historical case of the ITO and, in the process, presents an important argument. Unlike the ITO, the WTO is a truncated version of the original concept of an international governance body responsible for overseeing world trade the WTO model privileges the interests of capital at the expense of public need. As we shall see, there is an emerging consensus about the need for a different kind of international institution in this field that has a wider mandate and appeal, one that takes into account the goals of other social forces, including full employment and development. As well as there being a theoretical case for preserving the social bond, the characteristics of the ITO are worth recalling as a bold experiment in governance in a period when the world community was able to envisage a broader globalization regime. This kind of hinge moment may come again should states begin to address the systemic needs of the world trading system rather than merely look for new ways to boost investment rights. When such a moment occurs, the ITO may remind us that international governance can take a different path, and that the world trading system can look strikingly different than the way it does in our own times. Thus the ITO represents a lesson that ought not to be idly forgotten.
Why A History Lesson?

The ITO highlights the efficacy of policy ideas, both in changing statecraft and in "their practical value in solving political dilemmas that gives them a force in history." The steps taken to create the ITO represented an occasion when the needs of international civil society and modern statecraft coincided, when ordinary people demanded that trade, employment goals and development should reinforce each other in the world trading system. The final Havana text is worth looking at because it is authoritative and comprehensive and because all countries of the globe signed on to it.

The rebuilding of the world's trading system took place in the context of the Keynesian revolution that transformed economic thinking and state practice. The full employment obligation also explains the many linkages that were drawn between trade and non-trade issues. Ideas that transform a discipline or an era or the collective psychology of a period are a relatively rare occurrence. Those that succeed only do so because, at the time the existing orthodoxy is discredited, a powerful and an alternative conceptual framework exists that is compelling and meets popular and elite expectations.

There was a consensus that the ITO, or any similar body, would have to be more than a set of principles. It could not survive on generalities alone. It had to be an effective organization, one that enabled countries to maintain their exports, compete internationally for markets, safeguard their exchange rates and fulfill their employment obligations. All of these factors created the demand for new international rules to organize the world's trading system as a practical exercise in statecraft. In Meade's (1951) words, the ITO had to find the optimum way to internationally maximize production and optimize trade, a formulation which continues to have much contemporary relevance for southern countries.

Of course not everything included in the ITO Charter was innovative; indeed much that was contained in it reflected the conventional wisdom of the period. However, it wanted to modernize liberal free trade values and practices and make them compatible with a Keynesian age. And, in addition, it did have a new vision of political economy that suggested that a trade and investment regime had to be more than an abstract set of rigid legal principles with which to defend investors' rights at any price. Along with the World Bank and the IMF, it formed the centrepiece of new kind of international organization, which in the words of Richard Gardner, "sought to make finance the servant, not the master of human desires internationally."

Recently, a new generation of researchers is beginning to take a second look at the ITO and its larger role in the restructuring of the postwar world. A unique set of conditions pushed full employment onto centre-stage
and laissez-faire free trade on to the back burner. For many years, leading international political economy scholars have neglected the complex set of relationships of the ITO and other postwar bodies charged with the functioning of a multilateral international economic order. Their accounts tend to give pride of place both to the IMF and the World Bank in their first decade of operation and generally have little to say about the putative role of the still-born International Trade Organization other than to note that it disappeared from centre stage, a victim of U.S. trade politics. Yet, there is more to those dramatic events than has been acknowledged. Political will, ideas and expectations dramatically converged for a brief critical period to create a different kind of international governance system.

**Present at Creation: The Hinge Moment**

Created to oversee the world trading system in the immediate postwar period along with the World Bank and the IMF, the ITO was the model for a new kind of international organization. Stamped by the powerful idea that people mattered even more than export opportunities, it embodied the radical ideal that liberal trade principles had to serve the full employment agenda that every industrial country began to adopt in the closing years of the war. With all industrial countries placing “a high and stable level of employment” at the top of their policy agendas, there was no turning back to pre-war arrangements. Along with the principles of multilateralism and trade liberalization, the full employment revolution in economic thought had arrived and a coalition of social forces demanded that the employment and developmental needs of nations be addressed by the countries of the world once peace was restored.

The ITO was established by fifty-three countries at Havana as the Final Act of the UN Conference on Trade and Employment and spanned more than five years of intense international activity in wartime and peacetime. Its over-arching mandate for the regulation of trade included tariff reduction, business cartels, commodity agreements, economic development and foreign direct investment. Hundreds of officials were involved in its creation and there are 100 volumes of transcribed minutes of its deliberations. It was to be, in Truman’s words, “the solid foundation of continuous co-operation in economic affairs.” A small group of U.S. and U.K. experts had begun to prepare a draft treaty in 1943 outlining the principles, objectives, rules and constitution for an organization responsible for world trade and a draft was ready that explicitly linked trade and employment in the title. _Proposals for the Expansion of World Trade and Employment_ were presented in London in 1945 for debate, discussion and revision. This document was subsequently revised at the Geneva meeting and the final text of the treaty, _Suggested Charter for an International Trade Organization of the United Nations_ was finalized in Havana in 1948 during the UN Conference on Trade and
Employment. The ITO was to be the third “essential” pillar of the international economic organization of the postwar world.6

At the time that the ITO was organized, the notion of giving equal weight to employment considerations and to establishing new multilateral trade rules had become part of mainstream thinking. Traditional methods of liberal trade policy could not be relied on to dismantle trade barriers. The ITO can be understood as a major break from prewar arrangements when all governments believed that international monetary policy alone was “the glue that binds national economies together.”7 Jacob Viner, the doyen of international trade theory and a leading advocate of liberal principles of trade dismissed the outmoded views of the free trader in his influential 1947 article in Foreign Affairs: “There are so few free traders in the present-day world, no one pays any attention to their views and no person in authority anywhere advocates free trade.”8 Exchange rate stability, that elusive ideal of classic liberalism, had meant employment losses and falling wages when Central Banks defended the gold standard with a high interest rate policy. The consensus in London, Washington, Paris, Rome, Ottawa, New Delhi and Canberra was that in the new world order state-market relations had to be put on a new footing so that governments would be insulated from market pressures in order to pursue more important goals than commercial gain.

World leaders had learned from the experience of the 1930s, and the failure of the League of Nations, that solving economic problems required practical solutions to complex trade, technical and international questions. In an international economic organization designed to uphold the new world order, the ITO or any similar body would have to be an effective organization, one that covered many complex issues and enabled countries to maintain their exports, compete internationally for markets, safeguard their exchange rates and fulfill their employment obligations. All this demanded new international rules to organize the world’s trading system as a practical exercise in statecraft.

In retrospect, linking the objective of a much-broadened concept of trade liberalization with an unequivocal commitment to the goal of full employment is not all that startling. Mass unemployment was the scourge of the interwar period. It overshadowed all other issues and concerns, affected the lives of millions of people and was the social problem that finally destroyed the last remaining vestiges of legitimacy of the gold standard and laissez-faire free trade. Unemployment policy as well as tariff, credit and exchange rate policies were properly regarded as the individual concern of each country. But the experience of the 1930s taught another equally important lesson, namely, that employment was linked in a variety of ways “with the outside world.”9 No country on its own could solve these problems without addressing its international relations with other states.
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