
CHAPTER 4
THE INTERNATIONAL TRADE ORGANIZATION

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4.1 INTRODUCTIONS

THE International Trade Organization (ITO)—an intellectual precursor of the WTO—never existed. During and after the Second World War, extensive efforts were made to bring it into being, culminating in the multilateral negotiation of a charter for the organization at Havana in 1947–8. However, the Havana Charter was never ratified, chiefly because domestic opposition within the United States led the Truman administration to drop its efforts to win congressional backing for the ITO by the end of 1950.

Although the attempt to create the ITO failed, it was nonetheless significant for two reasons. The first of these was its relationship with the General Agreement on Tariffs and Trade (GATT), which was designed as an interim measure to regulate international trade in the period before the ITO came into effect (see [Chapter 5](#)). In other words, the effort to establish the ITO brought the GATT into being, and this in turn had consequences for the eventual creation of the WTO. The second reason is that the idea of the ITO marks an important staging post in the shift between two contrasting types of trade liberalism. Late nineteenth century free trade arguments were strongly influenced by *moral internationalism*, the assumption that global economic well-being was best secured by governments reducing trade barriers unilaterally out of enlightened self-interest. After 1945, by contrast, arguments for freer trade were almost always based on *institutional internationalism*, which assumed, more pessimistically, that successful liberalization required an

international regulatory framework in order to avoid free riding and enforce good behaviour.¹ Although the ITO itself proved a dead letter, the underlying idea persisted, and today has hegemonic status.

William Diebold's *The End of the ITO*² provided a classic contemporary analysis for the failure to ratify the charter, which in his view was determined by American domestic politics. The plan was derailed by an unholy alliance between supporters of protectionism and free trade purists who objected to exceptions to laissez-faire within the proposed ITO rules. This assessment, although capable of refinement, still holds good today. However, the considerable literature on the ITO tends to be very US-centred in terms of its focus and ideological outlook. For example, the role of poorer countries, which successfully pressed for exemptions in the charter for the purposes of economic development, is often treated dismissively. This chapter offers a more rounded treatment. It examines:

- (1) the origins of the ITO
- (2) the negotiation of the charter
- (3) the failure to ratify the charter.

The conclusion considers the ITO's legacy. It places the relevant diplomatic negotiations within the context of trade culture and politics in the US, the UK and elsewhere, and explains them in relation to contemporary understandings of the concept of economic underdevelopment and attitudes to international organizations in general. It has recently been argued that there is a mistaken

tendency to romanticize the supposedly ‘wise and prudent internationalists’ of the 1940s at the expense of the politicians of more recent times.³ The ITO episode reminds us that, if its proponents were in some respects unusually far-sighted, they were also at the mercy of events and subject to pragmatic political considerations not dissimilar to those experienced today.

4.2 THE ORIGINS OF THE ITO

The idea of an international organization to regulate trade received a major boost from the perceived economic failures of the interwar years, but it had earlier antecedents. In 1847, the year after the British anti-protectionist lobby secured the goal of abolishing the Corn Laws, an international free trade congress met at Brussels; further congresses met at irregular intervals in the years before the First World War and again thereafter. This, however, was not an intergovernmental body, but was rather a means for individual free traders to meet to promote their cause in what was arguably a rather self-congratulatory atmosphere. The idea that free trade helped promote international peace was of course a familiar trope from the rhetoric of Richard Cobden. By the 1850s, free trade was being discussed in the same breath as proposals to settle diplomatic disputes by arbitration, although no one yet suggested that international trade disputes could be resolved in this way.⁴ In fact, in the late nineteenth and early twentieth centuries, the very concept of international trade agreements was seen as suspect by many British free traders. The 1902 Brussels Sugar Convention was an agreement by ten countries, including Britain, to work together to tackle export bounties that destabilized the international market. The effort was a success, but it was opposed by Liberals who, prizing cheap sugar for

British consumers above all else, portrayed involvement in an international commission as an attack on British sovereignty. In 1912 the Liberal government denounced the convention.⁵ During the Great War, however, British progressives were amongst the proponents of international government and the concept of a League of Nations, although the consequences of this in the sphere of trade were not yet clear.

The first concrete proposal for a recognizably ITO-type body came from within the United States. In 1916, Democratic Congressman, Cordell Hull, argued for the establishment of ‘a permanent international trade congress’. (Later, in 1925, he used the term ‘International Trade Organization’.) As a native of Tennessee, Hull shared the common sense of grievance that high US tariffs favoured Northern manufacturers to the detriment of Southern agriculture; but he also developed Cobdenite opinions about the link between trade barriers and war. The purpose of his proposed organization was to reach agreements ‘designed to eliminate and avoid the injurious results and dangerous possibilities of economic warfare’, and to promote fair and friendly international trade relations.⁶ Hull’s ideas may have influenced the third of President Woodrow Wilson’s famous Fourteen Points—the third point called for the removal of economic barriers and ‘the establishment of an equality of trade conditions’ between all the nations consenting to the eventual peace treaty.⁷ Hull’s contribution thus marked a shift in the American trade debate. The focus until this point had largely been on whether or not a particular tariff level was beneficial for the United States; with America’s global power increasing, there was now some consideration of the impact of trade barriers on the good

of the world as a whole.⁸ It should be noted, though, that Hull had no clear concept of the mechanisms by which the planned organization would actually operate. Furthermore, with the US shift to isolationism in the 1920s, and with the Democratic party showing increased sympathy for protectionism as the decade went on, Hull remained an isolated if respected voice until appointed as Franklin D. Roosevelt's Secretary of State in 1933.

Meanwhile, the economic machinery of the League of Nations provided a potential arena for international cooperation on trade, American failure to join the League notwithstanding.⁹ John Maynard Keynes' *The Economic Consequences of the Peace* (1919) included a proposal for the creation of a 'free trade union' under the auspices of the League of Nations. Members would 'impose no protectionist tariffs whatever against the produce of other members of the union'.¹⁰ Subsequent League efforts to establish a 'tariff truce' failed, partly because of the lack of any means of enforcement, but principally because of the growing protectionist sentiment in the world at large in the aftermath of the Great Crash of 1929.¹¹

In 1930, the United States adopted the Smoot-Hawley tariff, which is frequently alleged to have deepened the depression and is often mistakenly stated to have been unprecedentedly high. In fact, Smoot-Hawley was less significant for its direct economic consequences than for the mythical status it achieved as an emblematic policy failure, which was used by later policymakers to justify support for international trade cooperation.¹² In the wake of a serious political and financial crisis in 1931 (and not in obvious retaliation for Smoot-Hawley), Britain extended significantly its

existing system of imperial tariff preferences. Traditional opposition to British imperialism helped fuel US resentment of imperial preference, which became Hull's special bugbear.¹³ The elimination of such forms of 'discrimination' was to become at least as important an object of US policy as the reduction of average tariff levels. Ironically, though, the 1932 Ottawa accords—a series of bilateral deals between Britain and its self-governing dominions—formed a model of sorts for the GATT/ITO experience. The Ottawa conference was, in a sense, a precursor of later forms of multilateral negotiation, even though it represented an attack on free trade rather than an attempt to extend it. The failure of the 1933 World Economic Conference, however, demonstrated that at this time there was no capacity or political will for economic cooperation on a global scale.

Although humiliated by the circumstances of the conference's collapse, Hull, as Secretary of State, was able to pursue his vision of freer trade on a more piecemeal basis through the Reciprocal Trade Agreements Act (RTAA) of 1934. The act virtually handed the power to alter the tariff from Congress to the administration. It empowered the President (in practice the State Department) to enter into trade agreements with foreign countries for the reciprocal reduction of tariffs and other trade restrictions. The powers it granted were initially for three years only, but the act was successively renewed for further fixed terms. In the decades to come, the deadlines set by the expiry of presidential tariff-cutting powers affected negotiating positions and substantive outcomes. Moreover, the diminution of congressional influence was significant. As Stephen Haggard notes, 'With the transfer of tariff-making authority to the executive, the United States could make credible commitments and thus exploit its

market power to liberalize international trade.’¹⁴ The act permitted the reduction of US tariffs on an item-by-item basis (in contrast to the more sweeping powers granted under later legislation), although no one duty could be reduced by more than 50 per cent. Any such reductions of duty would be extended to all other countries, although these benefits could be withheld from countries that discriminated against American commerce.

By 1938, Hull had succeeded in bringing 60 per cent of the foreign trade of the USA within the scope of the trade agreements. However, the average level of US tariffs remained high, and Hull made little if any progress in reversing the trend towards discrimination and bilateralism in world trade in general.¹⁵ Although the RTAA was to become central to later efforts to create the ITO, it was not originally imagined that it could form any kind of basis for the establishment of an international organization. After the outbreak of the Second World War, therefore, State Department planning for the post-war world was initially based on the assumption that future progress towards freer trade would be founded on a straightforward extension of the RTAA programme.

The planning process was further stimulated when, in August 1941, the British and American governments issued the Atlantic Charter, in which the two countries stated their ‘desire to bring about the fullest collaboration between all nations in the economic field, with the object of securing for all improved labour standards, economic advancement and social security’.¹⁶ The Japanese attack on Pearl Harbor on 7 December that year gave further stimulation to US internationalism, in economic relations as well as in foreign

policy.¹⁷ And in 1942, Britain committed herself to Article VII of the Mutual Aid Agreement, whereby as ‘consideration’ for American lend-lease aid, the UK would work with the USA towards ‘the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers’.¹⁸ There followed a drawn-out process of Anglo-American negotiation as to the form this consideration should take.

Up until this point, as we have seen, the Roosevelt administration had pursued its substantial objective—an increase in global multilateral trade—via a bilateral procedure, under the RTAA. The 1942–3 period saw a shift towards support for procedural multilateralism as the means to achieve substantive multilateralism. By the end of the war, in other words, it was envisaged that many countries would negotiate bilateral trade agreements amongst themselves, simultaneously, before generalizing the results of each deal to the other participant nations, and that a new international organization would be required to make this process work. To a considerable extent, this important departure was the result of thinking by British officials, who approached their negotiations with the US with two tactical objectives in mind. First, they wanted future trade deals to be carried out on a multilateral basis, as they hoped that this would help Britain form a united front with the Commonwealth countries, combating possible US attempts to play them off against one another. The Americans were prepared to accede to this, as they were aware of the importance of appearing to treat each of their allies alike. Second, the British were keen to take the initiative in the wartime discussions. Deeply conscious of their own country’s likely post-war economic weakness, they chose to

make bold proposals to the Americans while writing their own safeguards and ‘escape’ clauses.¹⁹

One key British proposal was the plan designed by James Meade, a Keynesian economist and wartime civil servant, for an international commercial union. This was intended as the complement of John Maynard Keynes’ contemporaneous plan for an international clearing union. The purpose of the commercial union was to create a multilateral trading system, from which, Meade believed, Britain was likely to benefit. However—and here were the safeguards—both state trading and ‘the continuation of a moderate degree of Imperial Preference’ would be permitted.²⁰ Meade’s ideas were recognizably similar to Hull’s original idea of a permanent trade congress but they were much more detailed and concrete. His proposals formed the framework of the Anglo-US Article VII discussions that took place in the autumn of 1943; the British found that they were knocking at an open door.²¹ The multilateral economic regime that emerged after the war is often portrayed as a product of American hegemonic imposition. In the case of trade, however, Britain—a substantially weaker power—played an important (if self-interested) role in promoting the multilateral agenda.

There was also a limited amount of input into the discussions from countries other than the USA and the UK. By the end of 1945, the Americans and the British had agreed on a set of ‘proposals for consideration by an international conference on trade and employment’. The emphasis on employment reflected pressure from, in particular, the Australian government, for the international coordination of Keynesian-style full employment. Although this

demand was sidelined in subsequent negotiations, it did reflect a significant strand of contemporary thought (not least among British Keynesian economists and politicians) and illustrates the divergent and potentially conflictual approaches to international economic reform that were in circulation at the end of the war.²² More generally, the ‘Proposals’ outlined the need for ‘an International Trade Organization of the United Nations, the members of which would undertake to conduct their international commercial policies and relations in accordance with agreed principles [...] in order to make possible an effective expansion of world production, employment, exchange and consumption’.²³ The ITO was thus intended, like the Bretton Woods institutions, to be a UN specialized agency, that is to say, part of the UN system but independent in terms of operational control. Like them, too, it was seen as an essential part of a broad-ranging multilateral, international economic regime that would encompass both trade and payments.

4.3 THE NEGOTIATION OF THE CHARTER

Although the ‘Proposals’ seemed to show outward harmony between Britain and America, there were tensions between the two countries that would come to pollute the subsequent ITO discussions. There was indeed agreement over the general desirability of the ITO, but progress on the issue was inseparable from arguments over specific trade practices (notably imperial preference) and tariff levels, and from the new Labour government’s need for American help to prop up the British economy. Indeed, acceptance of the ‘Proposals’ was one of the conditions of the \$3.75 billion loan by America to Britain agreed in December 1945. Over time, Anglo-American trade diplomacy became soured by the Truman administration’s growing

irritation at Britain's demands (made in consciousness of her own economic weakness) that the ITO rules include various departures from free trade principles. In the end, the US successfully mobilized a coalition of nations against Britain's demands, but at the cost of including other exemptions in the charter that made it unacceptable to American domestic opinion.

The 'Proposals' were subsequently elaborated in a draft ITO charter, which was then discussed at the first session of the preparatory committee to the UN conference on trade and employment. This met in London in October-November 1946, attended by 18 countries. Widening participation in the discussions had the effect of altering their tone. Although concerns about the stability of international demand raised their head, being reflected in the 'full employment' issue, the most pregnant topic raised was that of special treatment of underdeveloped countries. The concept of 'economic underdevelopment' was a relatively new one and did not have any substantial body of theory behind it. However, the inclusion of a significant number of poorer countries in the UN gave it a considerable political salience in the era of decolonization. Changes in terminology were related to political sensitivities; as more and more nations became independent the interests of tact dictated that countries previously described as economically 'backward' should now be referred to as 'undeveloped' or 'underdeveloped', and later as 'developing' or 'less developed'. Increasingly, countries became willing to identify themselves as belonging to some of these latter categories, and the corollary of this was usually the claim that the richer states bore some measure of responsibility for the condition of the poorer and should be prepared to do something about it. State-led, import-substituting

industrialization was often the development model of choice for these poorer countries. Accordingly, at the London conference, India, China, Lebanon, Brazil, and Chile argued that the charter should allow countries to promote industrialization by using import quotas. Australia, which at this time was perceived (at least by its own negotiators) as an underdeveloped country, also supported the use of quotas. In order to meet this demand, the US delegation drafted a new chapter on economic development, recognizing ‘that special governmental assistance may be required in order to promote the establishment or reconstruction of particular industries and that such assistance may take the form of protective measures’. The ITO itself would be responsible for judging countries’ applications to be allowed to take such measures.²⁴ Therefore, although the Americans had made some concessions to the underdeveloped countries’ point of view, they could expect, given their likely dominant role in the ITO’s governance, to have considerable influence on the way that these provisions were actually used.

The second session of the preparatory committee met in 1947 in Geneva. Twenty-three countries, 11 of which could be classed as underdeveloped, were now represented.²⁵ Talks to refine the draft charter took place simultaneously with the first round of negotiations aimed at achieving mutual tariff concessions. The Geneva conference needs to be understood in the context of both the emerging Cold War and the severe economic plight of European countries—not least Britain. These factors triggered the American Marshall Aid programme, announced during the conference, and this came with an ancillary US agenda for European economic

integration. Although the tariff talks would almost certainly have failed in the absence of the Marshall Plan, this support for a form of regional integration to some extent undercut the global ambition of the ITO project. The dynamics of multilateral negotiation also had a significant impact on the shape of the charter, leading to the inclusion of some provisions which the developed countries' representatives believed to be inconsistent with the basic principles of multilateral trade.

At Geneva, the developing countries continued their efforts to secure for themselves greater freedom to use devices such as quantitative import restrictions (QRs), differential internal taxation, mixing regulations, and preferences between neighbouring states for the purposes of development. The Americans were forced to yield on these matters, more or less reluctantly, although the concessions on regional preferences were in harmony with their own ideas on European integration.²⁶ Thus far, the British had favoured the freedom to discriminate and to employ QRs in the interests of solving balance-of-payments problems, but had worked with the Americans in attempting to resist pressure from the less-developed nations. However, the sterling convertibility crisis of July-August 1947, which severely drained Britain's dollar reserves, weakened the UK's commitment to the ITO. Just as the draft charter was completed, and in the immediate aftermath of the crisis, the British warned publicly that for the time being, in order to safeguard their balance of payments, they would have to use methods which 'may appear to be opposed to the principles and methods of the draft charter'.²⁷

Britain's growing doubts about her economy's ability to sustain the full obligations of ITO membership in the near future were matched by her increasing scepticism—fuelled by the experience of the tariff talks—of America's willingness to reduce her own trade barriers substantially. Unless this were done, British policymakers believed, the conditions for the ITO's success would not exist. Therefore, they followed a dual strategy. On the one hand, whilst accepting ITO principles, they asked for application of the most burdensome obligations to be postponed; on the other, they resisted American demands for the substantial elimination of the imperial preference system, insisting that the proposed reductions in US tariffs, offered as a *quid pro quo*, were insufficient to justify this. In the short term, this strategy worked well. The British secured US agreement that there should be a breathing space before the nondiscrimination provisions of the GATT—the terms of which were also agreed at the Geneva talks—came into effect. They also called the Americans' bluff when faced with the threat that Marshall Aid would be withheld from Britain unless a substantial move was made towards the abolition of imperial preference.²⁸ At the Havana conference, however, these previous successes led the British to push their luck. Their demands for further concessions infuriated the Americans. The resulting collapse in mutual trust had significant repercussions for the final form, and thus the eventual fate, of the ITO charter.

The Havana conference opened in November 1947.²⁹ The chairman of the US delegation was the 'tall, strikingly handsome, beautifully attired, articulate, affable, assured' Will Clayton, formerly Under Secretary of State for Economic Affairs.³⁰ Clayton

and his team of officials have often been characterized as free trade ideological visionaries. Yet they themselves stressed that complete free trade was not practical; they were pursuing only *freer* trade.³¹ And when domestic political interests (notably agricultural ones) were at stake, the representatives of the US proved just as willing as those of other countries to modify free trade principles to suit themselves. Therefore, the real issue at Havana was not whether free trade principles would be modified, but in what ways, and to what extent, this should be done. And because the majority of the 56 countries present were, or at least classed themselves as, economically underdeveloped, the question of development became central to discussion. The informal leadership of the underdeveloped group was now taken by the Latin Americans.

At the time, US officials portrayed the views these countries expressed at the conference as 'extreme', and historians have tended to accept this picture.³² Yet, although there was indeed an unreasonable and erratic element amongst the leadership of the poorer countries, this does not mean that all of their arguments were unsound. Many such countries had experienced severe economic dislocation during the war and post-war period, and this conditioned their attitude to the ITO. They argued that the charter in its existing form was devised for the benefit of the developed countries (which would benefit from let-outs when in economic difficulties), but that the underdeveloped did not have the necessary exemptions to enable them to develop their own economies. As the delegate of El Salvador put it, 'The industrialized countries' concept of equilibrium was very formal, while the underdeveloped countries

felt that there should be a basic criterion—unequal treatment for unequally developed countries.’³³

The conference quickly became bogged down, the major stumbling block to progress being the issue of QRs. These were governed by Article 13 of the draft charter, which provided an escape from the general embargo on QRs for the purposes of protection, but required that its use be approved by the ITO in advance. (This Article had been added to the charter in Geneva.) The underdeveloped bloc rejected this rule of ‘prior approval’, as they wanted more or less unrestricted freedom to use QRs for the purposes of economic development. For their part, the British feared that allowing such freedom on QRs would severely damage UK exports. The question also intersected with the UK’s objectives on non-discrimination. Its delegation attempted to secure continuation until March 1952 of the suspension, agreed at Geneva, of non-discrimination obligations. This demand was likely to try the Americans’ patience, not least because it would encourage the underdeveloped countries to demand a *quid pro quo*, making it more difficult for the developed countries to hold the line on the QRs. As one Foreign Office official noted at the end of the month, ‘While the Americans are beginning to recognize that we have a good case’ for a complete waiver until 1952, ‘the arguments for it unfortunately provide the “developers” with a first-class weapon in their attack on us’.³⁴ British insistence on pushing for this contributed much to their own isolation at the Havana talks.

In spite of the seeming deadlock, the Americans in Havana pressed on in their bid to secure an acceptable charter, even though their superiors in Washington, distracted by the Marshall Aid

programme, were no longer taking much interest in the ITO. The eventual completion of the charter, however, was dependent on a change in US strategy. Rather than force a showdown over QRs, it was decided to offer a package of concessions to the underdeveloped countries on a take-it-or-leave-it basis. Cold War concerns played some part in the decision to take this approach, which successfully exploited the divisions between these countries. It was feared that an overt confrontation with the Latin American nations would have damaging consequences in the Western Hemisphere and that the collapse of the conference would hand a propaganda victory to the Soviets. However, the Cold War cannot be used as a monocausal explanation for the US delegation's decision to adopt a less directly confrontational position towards the developing countries. Britain was an important Cold War ally but the Americans had no hesitation in squeezing them at Havana. It was impossible to satisfy in full the competing demands of the developed and the underdeveloped countries, and in choosing to look for some degree of compromise with the latter, the interests of the former had to some degree to be sacrificed. Although the underdeveloped countries were by no means an entirely cohesive bloc, the outcome of the ITO talks did reflect their growing political power, independent of purely Cold War issues.

The Americans were now prepared to concede ground on QRs. Article 13, as finally embodied in the charter, meant that the ITO would be expected to give automatic approval to quantitative restrictions on commodities not covered by existing trade agreements if any of a number of conditions were filled. Among these conditions was that the industry was started between 1939 and 1948, this being intended to cover the case of uneconomic industries

started during the war or immediate post-war periods.³⁵ The British delegation, at least at first, fought determinedly against the US attempt to reach this compromise with the Latin American and other underdeveloped countries. But they found themselves ‘almost alone in seeking to restrain the Americans from progressive weakening of the text of Article 13’, receiving only moderate support from the Canadians and the French. ‘In our view the United States have been astonishingly feeble in their approach to this whole problem, and we have been led to the conclusion that their attitude was dictated primarily by a wish to gain credit with the Latin American countries.’³⁶

The British believed that they were being asked to agree to concessions to underdeveloped countries on QRs (under Article 13), whilst receiving, in her own view, insufficient rights to discriminate (under Article 23). They also objected to another US concession, under Article 15, that the ITO would be expected to give automatic approval to new regional preference agreements, created for the purposes of economic development, if they conformed to certain agreed standards.³⁷ The British felt that the American position on this involved a double standard. The USA was now sympathetic to the idea of preference, in the form of a customs union for Western Europe, in the interests of boosting the region’s prosperity as an antidote to the Cold War communist threat. However, US policymakers remained implacably hostile to Britain’s imperial preference system, even though, in terms of economic theory, it was arguably no more objectionable than a customs union. But British protests were to no avail. As Clair Wilcox, Clayton’s deputy, observed with glee: ‘The UK is trying to pressure us at the last

minute but they cannot get away with it since the US has fifty countries lined up to support the Charter, including the rest of the British Commonwealth and Europe. The UK is absolutely isolated and their position is as impossible as that of a small boy standing in front of a steam roller.’³⁸ The British did receive some minor concessions on non-discrimination and regional preferences, but were obliged to accept the provisions on QRs. When the conference finally reached agreement on the charter in March 1948, therefore, the British were downbeat. Clayton, by contrast, was jubilant: ‘This may well prove to be the greatest step in history toward order and justice in economic relations among the members of the world community and toward a great expansion in the production, distribution and consumption of goods in the world.’³⁹

4.4 FAILURE TO RATIFY THE CHARTER

From the point of view of the Americans, however, the outcome was mixed. They had been defeated or outmanoeuvred on some issues, such as how the exports of the occupied areas (Germany and Japan) were to be treated. They were forced to abandon what proved to be a short-lived conversion to the principle of weighted voting—as opposed to one vote for each country—in the ITO. (This was potentially problematic for the USA, which risked being outvoted, although how things would have worked out in practice had the ITO come into being is hard to say. Under the GATT, decision-making generally proceeded by consensus rather than by formal voting, but the ITO could have created a different dynamic, as transpired later with the WTO.) Having been persuaded by US business interests to include in the charter provisions on the security of foreign investment, the provisions that were actually negotiable proved,

from the point of view of those interests, unacceptably weak.⁴⁰ The charter's insistence that foreign investments could not be expropriated or nationalized except under 'just', 'reasonable', or 'appropriate' conditions could be interpreted as weakening the protection that US investments abroad had previously enjoyed.⁴¹ The charter had other aspects which the US found unpalatable, but to which its negotiators had long since reconciled themselves. For example, from the American point of view, agreements for the stabilization of commodity prices were fundamentally inconsistent with the other provisions of the charter; but, believing that primary producing countries would inevitably enter into them, they accepted that it was desirable to lay down 'rules of the road' and thus eliminate some of the worst characteristics of such agreements as had been seen in the past. These and other provisions became the subject of intense criticism within the United States.

Fifty-three countries, including Britain, signed the final act of the conference. However, the ITO charter would not come into effect until it was ratified, and other countries generally held back from doing so until it was clear how the United States would act. Even though the Democrats regained control of Congress in 1948, the Truman administration hesitated to put the issue to the test. US public opinion was not well informed on trade issues. Opinion polls in 1947–8 showed that only about one-third of respondents had heard of the GATT or of the reciprocal trade agreements programme; and whereas 59 per cent agreed that it was important to establish an organization to increase global trade, it would not necessarily be easy to translate this general backing into support for a specific plan.⁴² Nevertheless, historical criticisms of weaknesses in

the administration's public relations efforts on behalf of the ITO are somewhat misplaced. These were doubtless imperfect but they were substantial, and it is doubtful that an improved effort would have made a difference to the final outcome. More significant was the fact that the ITO lacked powerful advocates in Washington, its main State Department champions (including Clayton) having left the administration after the Havana conference. Dean Acheson, who became Secretary of State in 1949, was prepared to send the charter for congressional consideration, and to speak in favour of it, but lacked Clayton's drive and conviction on the subject.⁴³

Clayton did, however, testify during relevant Senate hearings. The exchanges between him and the Republican Senator Eugene D. Millikin were illustrative of the differences between the administration and one of its key protectionist critics. Clayton had argued that other countries' exchange controls, import quotas, and other restrictions were a consequence of the war, and that they would disappear under the ITO as the world recovered its economic health. 'I suggest to you that the tendency will be entirely the other way', Millikin responded. 'We are off on a great international movement toward state socialism and toward stateism.'⁴⁴ Protectionists, of course, felt that (some forms of) state intervention in foreign trade matters was acceptable, but saw any kind of international trade organization as an incipient 'superstate' that would infringe American national sovereignty.⁴⁵ What they had in common with free trade enemies of the ITO was support for domestic free enterprise, to which—both groups of opponents claimed—the Havana Charter posed a threat.

Groups such as the National Association of Manufacturers, which supported free trade but which came out against the charter, have been cast in the literature as ‘purists’. Arguably, this requires qualification. They were not pure believers in moral internationalism—as British Edwardian opponents of the Sugar Convention were—but saw a role for international institutions in the governance of trade. They thought that *some* kind of ITO was desirable, but felt that the plans that had actually been drawn up would do more harm than good. With some sections of organized labour opposing the ITO too, the charter was up against a formidable coalition.⁴⁶

Diebold’s ‘unholy alliance’ explanation for the failure is then not in need of serious amendment, but it may be added to. In May 1948 Clair Wilcox, the US negotiator who had done much to secure the final deal at Havana, gave a presentation on the charter to non-governmental advisers who had also been at the conference. After acknowledging that it was hard for America to criticize the underdeveloped countries’ strong sentiment in favour of protectionism for purposes of development ‘in view of our own history of policy during our period of industrialization’, he offered a ‘sweeping generalization’ which was ‘not for publication’.

This Charter is very one-sided. It will impose restraints and limitations on one side and leave almost absolute freedom on the other side. And the way it is one-sided is this: It imposes on most of the other countries in the world limitations on their freedom to do a lot of things they have been doing, are doing, want to do, otherwise will do, without this Charter. Now these limitations are also imposed on us, but they are things we haven’t done, aren’t

doing, and don't intend to do. And the Charter, as far as I can see, is not going to prevent us from doing anything that we are doing or intend to do or want to do.⁴⁷

Wilcox was obviously attempting to put the best possible gloss on the outcome, so his analysis may well have been too optimistic. It is very difficult to say how the charter would have operated in practice had it come into effect, given that the countries that negotiated it interpreted many of its provisions very differently. The crucial point, however, is that Wilcox's arguments were ones that could not, as he pointed out, be made in public, at least not explicitly. Although potentially persuasive to a US home audience, they would alienate the other countries which also had to ratify the charter and which would only do so if they continued to believe that they had secured a good deal. Thus, the administration's domestic efforts to secure ratification were hampered by the game it needed to play at the international level.

The outbreak of the Korean War in June 1950, which meant that congressional time had to be devoted to emergency business, sealed the ITO's fate: in December, the administration announced it would not proceed with ratification. To the extent that the ITO was deprioritized by the Truman administration because of more pressing concerns, it can be seen as a victim of the Cold War. This dimension, however, should not be overstated. The Soviet Union had not taken part in the charter talks, although it left open the chance it would do so until just a few weeks before the Havana conference. As Diebold reflected in 1994, this actually made things simpler: 'Had the USSR joined, the cold war would have fuelled Congressional, and other, resistance to full American support for the

ITO and perhaps blocked other trade measures as well. As it was, the obstacles to the adoption of the ITO that proved impossible to overcome were rooted in American relations with the rest of the world, not the Communist countries.’⁴⁸

4.5 CONCLUSIONS

The standard view of the post-Second World War global economic settlement is that ‘America... invented multilateralism’;⁴⁹ but, as G. John Ikenberry has noted, ‘the system was shaped by the United Kingdom as well as by the United States and in ways that would be unanticipated by simple considerations of power’.⁵⁰ As we have seen, the case of the GATT/ITO demonstrates this point. It also shows that countries beyond the Anglo-American axis could have an impact on negotiations via the new multilateral procedures. At Havana, the United States was still learning to play the multilateral game—successfully in terms of securing international agreement, but at the price of alienating its own domestic opinion.

In spite of its failure, the ITO had a number of legacies for the politics of international trade. In 1955—in what appears to have been an opportunistic bid to secure the support of underdeveloped countries—the Soviet Union declared that the Havana Charter should be ratified and that it was itself willing to join the ITO.⁵¹ More significantly, [chapter 6](#) of the charter continued to serve as a general guide to commodity problems during intergovernmental consultations on the issue, and thus influenced the various international price stabilization agreements that were reached in the years following Havana. The most obvious significance of the ITO, however, is that the attempt to create it gave birth to the GATT,

which continued as the basis on which world trade was regulated until it was superseded by the WTO in 1995. As the 1947 GATT rules (as subsequently amended) were nested inside the Marrakesh Agreement of 1994, it could be argued that the spirit of the ITO—as well as that of the GATT—lives on in the WTO.

It is worth asking whether or not the ITO's failure should be seen as a missed opportunity. The ITO might well have had a wider membership than the GATT, which came to be perceived as a 'rich men's club'.⁵² It was not that poor countries were excluded from GATT membership, but that the organization's activities gave them little motive for joining: during the 1950s, it concentrated its efforts on reducing tariffs on industrial goods, an issue of limited importance to the many underdeveloped countries which had yet to industrialize. An ITO might have been a more attractive organization for underdeveloped countries to join, and that might have promoted less autarchic/anarchic trade policies in such countries, with additional growth benefits. This might have given a further boost to the impressive post-Second World War growth in world trade that took place under the auspices of GATT. At the same time, the Havana Charter's exceptions to free trade rules, especially those made in the interests of economic development of poorer countries, might have helped reduce global inequalities. Conceivably, then, the ITO might have produced a more inclusive, productive, orderly, and just world economy than that which in fact emerged.

This, however, remains speculative, given the difficulties noted above of saying with confidence how the Havana Charter would have operated in practice. It is equally possible that, even on the optimistic assumptions about the way it would have worked, the ITO

would not have proved to be a substantially more economically productive regime than the GATT. This is not to say that the charter should not be commended as a forward-looking document. The debates surrounding it provided some of the inspiration for the radical thinking on economic development that spurred the creation of the UN Conference on Trade and Development (UNCTAD) in 1964. It is, however, worth noting some of its limitations. For example, questions of intellectual property and the environment did not find any more place in the charter than they did in the original GATT.⁵³ At the time, of course, no one suggested that they should be included in either document.

A crucial difference between the charter and the GATT, though, was that the former allowed disputes to be referred to the International Court of Justice, the recommendations of which would be binding (Chapter VIII, Article 96). By contrast, the GATT's dispute settlement mechanism could easily be ignored because of its voluntary nature.⁵⁴ That a compulsory mechanism was written into the charter, even though it did not come into effect, signifies how much progress the institutional version of trade liberalism had made since the pre-1914 era. Today, the assumptions of institutional trade liberalism are so hegemonic that the common equation made between the WTO and 'free trade' seems an entirely natural one. Some defenders of classical free trade, such as the Ludwig Von Mises Institute, denounce the WTO as a Trojan horse for mercantilism and economic planning. Such views, precursors of which were part of the mainstream in Edwardian Britain and even 1940s America, are nowadays marginal. Perhaps they are absurd. They do, however, help remind us that free trade and international organization,

however desirable it may be, did not always go hand in hand. The link between them had to be invented—and it was for this accomplishment that the designers of the ITO were to a great extent responsible.

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