The GATT in Historical Perspective

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The transformation of the General Agreement on Tariffs and Trade (GATT) into the World Trade Organization (WTO) on January 1, 1995, provides an opportune moment to take stock of the GATT’s achievements and shortcomings alongside those of its 50-year-old sister international institutions set up at Bretton Woods. It is tempting easy to attribute the astounding postwar economic expansion, particularly when set against the turbulent interwar period when multilateral efforts to contain protectionist pressures failed miserably, to the economic policies embodied in the GATT and to the initial stability provided by the Bretton Woods institutions. Yet a closer look at precisely what the GATT accomplished in its first decade suggests that trade liberalization under its auspices alone is far from sufficient to explain the postwar economic boom.

I. Trade Relations Prior to the GATT

Prior to World War I, the world economy enjoyed several decades of relative serenity in terms of both international trade and monetary relations. During 1860–1913, world trade relations centered around a network of bilateral trade treaties containing the most-favored-nation (MFN) clause. Each country was generally free to set and change its tariff code so long as it adhered to the MFN clause. These arrangements arose without multilateral cooperation. Yet despite the lack of any oversight mechanism or institutional basis, this regime (if it can be called that) brought about relatively low trade barriers—almost exclusively tariffs, with an absence of quantitative restrictions, voluntary restraint agreements, exchange controls, and the like—along with very little trade discrimination.¹

International trade flourished during this period. Figure 1 plots the trade-weighted export volume and real output of 11 major countries during 1870–1913.² Although both enjoyed a smooth expansion for nearly half a century, export volume grew much faster than real output, expanding fourfold in the 43 years prior to World War I, compared to a near tripling in output.

World War I shattered the treaty network as countries imposed higher tariffs, import quotas, licensing requirements, and foreign-exchange controls. Economic reconstruction following the war lacked any institutional mechanism to facilitate the reduction of the extensive trade barriers that had arisen during the war and had become entrenched thereafter. The political weakness of European countries in trade policy was evident when a proposal for “equality of trade conditions” in a draft League of Nations charter was rejected in favor of a weaker provision for “equitable treatment.” The World Economic Conference in 1927 found it necessary to call upon governments to remove the still pervasive controls on trade. A decade after its formation, the League of Nations had yet to sponsor any negotiations on liberalizing world trade from high tariffs.

The onset of the depression vanquished any serious prospect of trade reform in Europe and elsewhere, and the 1930’s were a

¹For further analysis of the strengths and weaknesses of international trade arrangements during 1860–1913, see Irwin (1993).
²The countries are Australia, Belgium, Canada, France, Germany, Italy, Japan, Norway, Sweden, the United Kingdom, and the United States. The data are from Angus Maddison (1991).

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disaster in the field of commercial policy. An outbreak of even greater protectionism supplemented by discriminatory trade and currency blocs created innumerable impediments to international commerce and hampered economic recovery. Multilateral and bilateral efforts to remove these barriers and to end this discrimination were feeble and amounted to virtually nothing.

Partly as a result, economic performance in the interwar period was dismal. As Figure 2 illustrates, exports grew more rapidly than output in the decade after World War I, although that growth was not robust. Between 1929 and 1932, exports plunged more than output, but the real debacle is illustrated by the failure of trade to follow the path of output after 1932. Trade failed to expand in the 1930's not because output growth was sluggish, but because the previous relationship between trade and growth no longer held. Although real output was roughly 15-percent higher in 1938 than in 1929, exports were roughly 15-percent below where they stood in 1929 and had scarcely returned to their prewar level.

Greater protectionism and trade discrimination, as well as a breakdown in multilateral financing arrangements, were probably the major causes.

After the interwar catastrophe, the notion that a beneficent, decentralized, noncooperative equilibrium (like that prior to World War I) could possibly emerge after World War II seemed fanciful. Certain that the "nonsystem" of the late 19th century would not be automatically resurrected after World War II, the United States and the United Kingdom began preparing the ground during the early 1940's for a postwar international agreement on commercial policy to reduce trade barriers and limit discriminatory tariff preferences.

II. Early GATT Efforts on Trade Liberalization

The driving force behind the GATT was the same as that which motivated the Bretton Wood conference in 1944: the interwar disaster. The interwar period should not be viewed just as a series of domestic economic failures, but as an international economic failure as well. Just as the architects of the Bretton Woods system envisioned restoring the international monetary system to a sound footing, the purpose of the GATT was to roll back trade barriers and end discriminatory trade policies.

The architects of the postwar international economic framework believed that

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3Barry Eichengreen and Irwin (1995) examine the effects of these trade and monetary arrangements on trade flows.
trade liberalization had an important supporting role in achieving the principal economic goals of monetary stability and full employment. But trade reform was not considered an urgent priority in itself, and negotiations over the creation of an International Trade Organization (ITO), designed to take a place alongside the World Bank and International Monetary Fund, were not successfully completed until 1948. In the end, the ITO never came to fruition.\(^4\)

This may have been a blessing in disguise: with a multifaceted agenda ranging from restrictive business practices to intergovernmental commodity agreements, the ITO risked devolving into a large bureaucracy that would have institutionalized and sanctioned state regulation of international commerce as much as it would have freed trade from such controls.

The GATT was formed by carving out and implementing the commercial-policy sections of the Havana Charter that was to have guided the ITO. The narrow focus of the GATT served the process of trade liberalization (and the institution itself) well because the GATT’s mission was simple and straightforward. The purpose of the GATT, as stated in its preamble, was to contribute to rising standards of living and full employment by “entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce.”

In contrast to the inaction after World War I, trade relations began the postwar period on an encouraging note. Just two years after Germany’s surrender, 23 countries established a General Agreement on Tariffs and Trade that set rules to restrict national trade policies and even started to decrease tariffs in binding agreements. Just five years after the end of the war, all major Western European countries had participated in three separate negotiating rounds that had expanded GATT membership and further reduced import tariffs. The first GATT negotiating round, held in Geneva in 1947, was a tremendous success. The 23 participating countries (accounting for 80 percent of world trade) implemented tariff cuts (of a still undetermined magnitude) and implemented those cuts on an MFN basis. The United States took the lead by cutting its tariffs by 35 percent, on average.

But the postwar period did not see steady, consistent progress in the reduction of tariff barriers. Rather, such progress came in fits and starts. Indeed, the GATT achieved remarkably little in the 15 years after the Geneva Round. The Annecy (1949) and Torquay (1950–1951) rounds expanded GATT membership but made only minor progress in reducing tariffs. The GATT’s momentum stalled very early into the postwar economic recovery, and there was widespread pessimism and frustration with the GATT process throughout the 1950’s. It is doubtful that the ITO could have expedited this process; negotiations might have proceeded even more slowly under the ITO owing to the greater complexity of issues it was designed to address. Fortunately, as world trade reform paused, a European program of trade liberalization proceeded under the auspices of the Organization for European Economic Cooperation (OEEC) and the European Economic Community (EEC).\(^5\)

A crucial achievement of the GATT during the 1950’s came in preserving the sanctity of the early tariff reductions. Although tariff concessions embodied in Article II of the GATT were considered fixed indefinitely, countries retained the right under Article XXVIII to revoke them in negotiations with their principal supplier. To prevent an erosion in the 1947 tariff cuts, the GATT members agreed to forgo the right to invoke Article XXVIII for three years. This pledge was renewed throughout the 1950’s to ensure the continuity and integrity of the

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\(^4\)With U.S. business support weakening and the international political situation changing, as described by William Diebold (1952), the Truman administration never submitted the ITO to Congress for its approval.

\(^5\)See the discussion in Irwin (1994).
tariff reductions and thereby helped prevent the GATT's early successes from unraveling.

This lock-in feature prevented backsliding toward higher tariffs and proved particularly important as other trade barriers, notably quantitative restrictions and exchange controls, were being phased out during the 1950's. As these other trade impediments were being removed, the tariff cuts negotiated in the early rounds took on increasing bite and thereby more directly affected domestic import-competing interests.

The success of the European program of trade liberalization, capped by the formation of the EEC in 1958, prompted the United States once again to initiate multilateral trade negotiations. Aiming to reduce the EEC's common external tariff, Congress gave the president authority to reduce tariffs up to 50 percent. The resulting Kennedy Round of trade negotiations during the 1960's concluded with the most substantial tariff reductions of the postwar period. The Tokyo Round of the 1970's made further progress in reducing tariff and nontariff trade barriers.

**III. Was the GATT a Success?**

The postwar economic expansion in trade and income surely exceeded all the expectations of those involved in designing the GATT. The main goal, avoiding a repetition of the interwar experience, was clearly averted. Figure 3 illustrates, once again, export volume and real output for the 10 countries for which data exist back to 1870. Because Figure 3 closely resembles Figure 1, the major goal of the GATT founders was achieved: once again, the world economy experienced expanding international commerce facilitated by lower trade barriers, a record that continued after the breakdown of the fixed-exchange-rate regime in the early 1970's.

To what extent can the GATT take credit for this happy happenstance? Here it should be noted that the successes and failures of the GATT need to be viewed somewhat differently from those of the World Bank and the International Monetary Fund. The Bank and the Fund are autonomous institutions that use lending power to affect the economic policies of member countries. The GATT had no autonomous power, independent leverage, or financial sanction. The GATT, in some sense, did not exist beyond the commitment of its members, particularly the United States and the European Community, to reach certain goals through a negotiated consensus. The GATT could have done no more than what these countries, in conjunction with others, were willing to achieve.

With this in mind, the GATT process with U.S. leadership did secure the very real accomplishment of eliminating a host of impediments to international trade. Tariffs of the industrialized countries have fallen from roughly 40 percent after World War II, on average, to about 5 percent now, according to the GATT. On nondiscrimination, the GATT period is perhaps less successful than the late 19th-century era, but certainly an improvement over the interwar period.

Of course, this broad record of success is marred by several gaping holes in the GATT's coverage. Whole areas of trade escaped GATT rules; agriculture and textiles come quickly to mind. New policy instruments arose to replace the reduced tariffs and quotas; voluntary restraint agreements and antidumping measures also come quickly to mind. The developing countries,
for much of the postwar period, stood largely outside the GATT system in that membership did not require them to reciprocate fully the actions of other participants.\footnote{As John Whalley (1989) and Dani Rodrik (1992) note, many developing countries are currently embarking upon trade reforms not in the context of the GATT, but at their own unilateral initiative.}

Several factors also moderate one’s conclusions about the GATT’s responsibility for the post-war boom. First there is the issue of timing. If the economic expansion of the 1950’s and 1960’s is to be attributed to the GATT, then the Geneva Round in 1947 appears pivotal. After all, the GATT was largely inactive during the 1950’s, and the Kennedy Round was not concluded until 1967, and implemented thereafter. To say that this first negotiating round stimulated two decades of rapidly expanding international trade stretches the imagination and suggests that other sources of trade liberalization (such as by the OEEC and the EEC) or technological catch-up need to be examined. However, the GATT’s role in preserving the early tariff cuts cannot be denied.

Yet the GATT may be as important for what it represents in terms of process as for what it has accomplished as an institution. The GATT set a standard for commercial policies and stood as a reminder that striving for the objective of freer multilateral trade was worthwhile. As a set of rules, the GATT provided some credible assurance that tariff levels could move in only one direction, unless specific escape-clause procedures were invoked. Providing a quantitative assessment of the importance of these factors, of course, is extremely difficult.

By some ideal standard, the GATT has been far from a complete success. But it is also necessary to consider the counterfactual: how would trade policies have evolved in the absence of the GATT? Given the interwar experience, the founders of the postwar system surely could not imagine a much better scenario unfolding than the one depicted in Figure 3 and could easily envision much worse outcomes occurring.

But had there been no GATT, the postwar system would not necessarily have reverted to the interwar chaos. Because the United States had initiated a program of bilateral trade liberalization (largely with Latin American countries) after the passage of the Reciprocal Trade Agreements Act of 1934, the United States might have become the central node of a series of bilateral trade agreements, although not necessarily with unconditional MFN as the ruling principle.\footnote{This is similar to what we may see with an expanded membership of the North American Free Trade Agreement.}

IV. Conclusion

One should neither overstate nor understate the impact of the GATT on the post-war world economy. The GATT deserves some contributory credit for the post-World War II economic boom. The GATT scraped along at times but had a distinct, downward ratchet effect on world trade barriers. For this reason, in spite of its small size and uncertain place as an economic institution, the GATT’s long-run impact on the world economy has (arguably) been more significant than either that of the World Bank or the International Monetary Fund.

The GATT’s success was by no means uniform. In replacing the GATT, the WTO promises to fill in some gaps—liberalizing agricultural trade, eliminating voluntary restraint agreements, and strengthening dispute settlement procedures—without entailing a radical innovation in the GATT’s primary purposes. Whether these promises will be fulfilled remains to be seen.

REFERENCES


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