

## **UNIHP: Volume 2: Trade, Finance and Development**

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### **Chapter 2: The UN Trade and Development Debates of the 1940s**

In June 1942, US Vice President Henry A. Wallace sat next to Soviet Foreign Minister Vyacheslav Molotov at a reception at the Soviet embassy in Washington. The conversation turned to postwar problems. Molotov, Wallace recorded, ‘realizes that Russia cannot have the enduring peace which she requires to develop her territory unless there is economic justice elsewhere in the world’. Wallace, for his part, ‘thought one of the great problems of the postwar world was to bring about a rapid industrialization and improvement in nutrition in India, China, Siberia and Latin America.’ Molotov ‘agreed completely and felt that there was a 50- or a 100-year job in developing these areas and that the job should be done by the United Nations together. No one nation could do it by itself... He was very enthusiastic about the way in which the United Nations could cooperate to develop the so-called backward areas of the world which have not yet been industrialized...’<sup>1</sup> The widely held conceptions of which this talk was illustrative - that economic justice was a precondition of peace, and that the United Nations could help achieve this by promoting economic development - in due course had a vital impact upon the form of the UN Charter, agreed at the San Francisco conference in 1945. What, then, were the intellectual bases for these suppositions? How did they influence the creation of the UN and its specialized agencies? And what consequences did they have for the UN’s approaches to finance, trade and development questions in the first crucial years of its existence?

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<sup>1</sup> John Morton Blum, *The Price of Vision: The Diary of Henry A. Wallace 1942-1946*, Boston, Houghton Mifflin Company, 1973, pp. 85-6 (entry for 3 June 1942)

The economic aspects of the UN system, as it was designed, were, with important caveats, broadly based on an American blueprint (albeit with significant British input). The central principle behind this blueprint was that, just as collective action was necessary to maintain security in the military sphere, so nations needed to work together to solve the international economic, social and humanitarian problems which themselves tended to undermine world peace.<sup>2</sup> The fundamental causes of these problems, it was believed, could be eradicated by the creation of a world economy based on multilateral, non-discriminatory trade and payments regimes. This in turn would facilitate a high degree of international economic specialization, unleashing forces which would help develop 'backward' countries, thus increasing the prosperity both of the world as a whole and of all its constituent national parts.<sup>3</sup> However, American postwar planners' concomitant belief in *procedural* multilateralism - i.e. that the form and purposes of multilateral institutions should be arrived at by international negotiation between prospective member countries - also had the potential to undermine the implementation of these very principles. In other words, the processes of negotiation might in fact force the United States into compromises which subverted the purposes for which she had entered negotiations in the first place.<sup>4</sup>

This chapter will suggest that such a process did in fact take place. First, it will examine the thinking which lay behind American and Allied planning for the United Nations, and the extent to which this thinking was reflected (and/or modified) in the eventual UN Charter. Second, it will investigate the ways in which, in the immediate postwar years, these precepts were, to differing degrees, perpetuated and challenged within UN fora, in particular during the trade negotiations

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<sup>2</sup> See, for example, Public Record Office, London (henceforward PRO) FO 475/3 U131/12/70 (Press release dated 15 Dec. 1944 of a speech by Leo Pasvolsky on the Dumbarton Oaks proposals).

<sup>3</sup> Geoffrey L. Goodwin, *Britain and the United Nations*, Oxford University Press, London, 1957, p. 278; Cristobal Kay, *Latin American Theories of Development and Underdevelopment*, Routledge, London, 1989, p. 5

<sup>4</sup> James N. Miller, 'The Pursuit of a Talking Shop: Political Origins of American Multilateralism, 1934-1945', paper presented to the 25th annual meeting of the Eastern economics association, Boston, Mass., 12 Mar., 1999

conducted at Geneva and Havana in 1947-8. In so doing, it will address the question of whether or not the proposed moves towards freer trade on a non-discriminatory basis were consistent with the aspirations of poor agricultural countries to economic development. It will be argued that procedural multilateralism under UN auspices did permit underdeveloped countries to challenge, with a degree of success, the dominant affirmative response to this question. This was a harbinger of further challenges to intellectual economic orthodoxy that would subsequently emerge from UN bodies, most notably ECLA, UNCTAD, and the UN DEA. Accordingly, the chapter will conclude by examining the interpretation placed upon these immediate post-war developments by Raul Prebisch in his report to the first UNCTAD conference; for the rejection of the economic universalism he and others perceived as inherent in the post-war international settlement provided an intellectual basis for the radical developments of the 1960s and 1970s, and this explicit critique of the post-war 'system' helped stimulate aspirations towards a 'New International Economic Order'.

### **The lessons of the inter-war years**

The Japanese attack on Pearl Harbor on 7 December 1941 facilitated the end of United States isolationism, in economic relations as well as in foreign policy. The alternative, universalist policy of international economic cooperation, which consequently gained such a boost, was predicated on an analysis of the perceived failures of isolationism in the interwar years. America had erred, not only through non-participation in the League of Nations, the UN's predecessor, but through 'economic nationalism', manifested through its high tariff policy. This had contributed, in the words of Edward Stettinius (US Secretary of State from November 1944 to July 1945), to a vicious circle of isolationism and economic depression, culminating in war. US participation in the economic and social activities of a new world organization would create an opportunity to

break this cycle ‘once and for all’.<sup>5</sup> Although such an analysis required there to be a national psychological shock such as Pearl Harbor before it could become the dominant discourse, its roots were significantly older, dating back at least until WWI.

On 8 July 1916, Democratic congressman Cordell Hull argued in the House of Representatives that the President of the United States should call an international trade conference, to be held in Washington at the close of the war, for the purposes of establishing ‘a permanent international trade congress’. (Later, in 1925, he used the term ‘International Trade Organization’.) As he recalled in his memoirs, Hull had come to the conclusion that ‘unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war.’ The proposed trade congress, he told the House, would thus be to consider ‘all international trade methods, practices, and policies which in their effects are calculated to create destructive commercial controversies or bitter economic wars, and to formulate agreements with respect thereto, designed to eliminate and avoid the injurious results and dangerous possibilities of economic warfare, and to promote fair and friendly trade relations among all the nations of the world.’ Hull appears to have influenced President Woodrow Wilson, with whom he discussed his ideas.<sup>6</sup> Wilson’s Fourteen Points, the president’s agenda for a peace settlement, included, third on the list, ‘The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.’<sup>7</sup> The clear implication here was that freer trade was a precondition of the maintenance of peace, and this would later be an underlying assumption, too, in American planning for the United Nations.

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<sup>5</sup> PRO FO 475/3 U4416/12/70 (Text of broadcast by Stettinius 28 May 1945). Similarly, see Sumner Welles, *The World of the Four Freedoms*, Columbia University Press, New York, 1943, p. 20, and Blum, *Wallace Diary*, p. 149 (entry for 18 Dec. 1942)

<sup>6</sup> Cordell Hull, *The Memoirs of Cordell Hull: Volume One*, London, Hodder and Stoughton, 1948, pp. 81-2. For Hull’s 1925 remark, see US Senate Committee on Finance, Hearings on International Trade Organization (80) S821-O-A, p. 41

<sup>7</sup> Wilson’s address to Congress, 8 Jan. 1918, cited in Thomas A. Bailey, *Woodrow Wilson and the Lost Peace*, Quadrangle Books, 1963, p. 333

But the eventual WWI peace settlement did not live up to the idealism that the Fourteen Points expressed. The Paris peace conference did not deal with economic questions except insofar as the victorious powers aimed at extracting reparations from Germany. The perception of the harshness of the terms was crystallised in the public mind by John Maynard Keynes's *The Economic Consequences of the Peace* (1919). Keynes wrote his book chiefly chiefly with an English and American audience in mind. He argued that, by aiming at the economic subjection of Germany, and that by making no provision for economic reconstruction, the Treaty of Versailles ignored the need for social and economic peace, and would 'sow the decay of the whole civilised life of Europe.' Moreover, one of the positive remedies that he advanced to help 'repair the mischief' was the establishment of a 'free trade union' under the auspices of the League of Nations. Countries adhering to it would undertake 'to impose no protectionist tariffs whatever against the produce of other members of the union.'<sup>8</sup> (Arguably, like Hull's proposed trade congress/organization, this idea was a precursor of the International Trade Organization proposed in the 1940s). Whether or not US policymakers during WWII were directly influenced by Keynes's ideas, there was certainly a tendency to endorse the tenor of his arguments. As Vice President Wallace argued, 'the seeds of the present world upheaval were sown in the faulty economic decisions that followed the war of a generation ago. The vast sums of reparations imposed on Germany...were an indigestible lump in Europe's financial stomach.'<sup>9</sup>

Another perceived post-WWI error was the US Congress's refusal to allow American participation in the League of Nations. Nevertheless, in spite of this refusal, the United States did, in the inter-war years, gradually come to associate itself with many the League's economic

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<sup>8</sup> JMK II, xix, xxiii, pp. 50, 142-3, 168

<sup>9</sup> Henry A. Wallace, *The Century of the Common Man*, cited in Georg Schild, *Bretton Woods and Dumbarton Oaks: American Economic and Political Postwar Planning in the Summer of 1944*, Macmillan, London, 1995, p. 16.

activities (which included attempts to reduce trade restrictions).<sup>10</sup> These activities, considered as a whole, were perceived by British and American contemporaries as a success, at least by comparison with the League's political failures. The International Labour Organization in particular was singled out for praise.<sup>11</sup> Although financed from the League's budget, the ILO had in practice won for itself almost total independence, and the USA had joined, although not a member of the League. The ILO's *raison d'être* was to promote better labour standards throughout the world, and, by so doing, to prevent nations and employers from competing unfairly by imposing poor conditions of work.<sup>12</sup> Preparations for the ILO's inception had been well advanced before 1914 – that is to say, there was a 'felt need' for it independent of the post-WWI peace-making process – and it continued to exist when the League itself became defunct. As Evan Luard has argued, it to some extent became a model for the future. Its success within its field encouraged the notion of establishing similar specialized agencies in other fields; and the benefits which were believed to have derived from its *de facto* independence encouraged the idea that such agencies, if created, should similarly be allowed a wide measure of autonomy.<sup>13</sup> Intellectual beliefs about the failures and successes of the interwar period were thus reflected in Allied planning for postwar reconstruction.<sup>14</sup>

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<sup>10</sup> Clark M. Eichelberger, *Organizing For Peace: A Personal History of the United Nations*, Harper Row, New York, 1977, pp. 18-20; see also Clair Wilcox, *A Charter for World Trade*, The Macmillan Company, New York, 1949, pp. 5-9

<sup>11</sup> See, for example, *Foreign Relations of the United States* (henceforward FRUS) 1943 Vol. I, p. 765, and Ernest Bevin to Anthony Eden 8 Dec. 1942, Bevin Papers 3/2, Churchill College, Cambridge

<sup>12</sup> The function of the ILO was to raise 'the common standard of the conditions of life, so that those nations which lead the world on social reform may not be placed at an undue disadvantage by those which compete with them by the exploitation of their labour...If international markets are necessary for prosperity, international labour legislation is a vital element in world recovery.' James T. Shotwell, *Introduction to The Origins of the International Labour Organization, Vol 1, New York, Columbia University Press, 1934, p. xix.*

<sup>13</sup> Evan Luard, *A History of the United Nations Volume 1: The Years of Western Domination, 1945-1955*, Macmillan, London, 1982, pp. 13-14

<sup>14</sup> However, there were, disagreements within the US government about the precise role that the UN should play. Leroy Stinebower, a State Department economist, and later US representative to the United Nations Economic and Social Council, recalled of wartime discussions (presumably referring to his immediate colleagues): 'it was fairly clear in our own minds that we expected the specialized agencies to be operative in their own fields, but much more highly coordinated by the United Nations than was ever achieved.' He also claimed that the Department of Agriculture was 'always determined that the United Nations was not going to do anything other than receive reports and try to see that the agencies were working together', and that

## Planning for the United Nations

That planning process began in earnest in America in the aftermath of Pearl Harbor. Moreover, on 1 January 1942, the 'Declaration by United Nations' was issued, signed by twenty six countries pledged to defeat Nazism. The countries also subscribed to the principles laid down in the Anglo-American 'Atlantic Charter' of 14 August 1941, which included aim of 'the fullest collaboration between all nations in the economic field with the object of assuring, for all, improved labour standards, economic development and social security.'<sup>15</sup> For the next three years, the term 'United Nations' would have a double meaning, denoting both the countries participating in the existing military alliance and a putative international organization with the purpose of establishing economic, as well as military, collective security. But how was such security to be achieved? One key proposal was initiated by Keynes, now an adviser to the British Treasury.

Under Article VII of the Mutual Aid Agreement, signed in February 1942, the United States was entitled to 'consideration' from Britain in return for Lend-Lease aid. This took the form of a commitment to 'the elimination of all forms of discriminatory treatment in international commerce, and the reduction of tariffs and other trade barriers.'<sup>16</sup> In order to make progress towards meeting this obligation, the British Treasury adopted Keynes's plan for an international clearing union, which he had first mooted (in the form of an 'International Currency Union') in September 1941. The plan went through many drafts before emerging as a government White Paper in April 1943.<sup>17</sup> Its purpose was to create balance of payments equilibrium between all

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the Treasury was wary of excessive UN control over the specialized agencies. Leroy Stinebower Oral History, 9 June 1974, pp. 29-30, Harry S. Truman Library, Independence, Missouri

<sup>15</sup> FRUS 1942 Vol. I, pp. 25-6; Cmd. 6321, 1941

<sup>16</sup> D.E. Moggridge, *Maynard Keynes: An economist's biography*, Routledge, London, 1992, p.668

<sup>17</sup> Cmd. 6437, 1943

nations, without poorer countries having to undertake internal deflationary policies in order to achieve this.

An important element of Keynes's scheme was his hope also hoped that it could be used to finance an international buffer stock scheme to stabilise the prices of important primary commodities. His aim was to reduce short-term price fluctuations without disturbing longer-term price trends while maintaining a roughly constant reserve.<sup>18</sup> In 1938, when he had first addressed this question, he had argued in favour of short-period stabilization of commodity prices, as 'Assuredly nothing can be more inefficient than the present system by which the price is always too high or too low and there are frequent meaningless fluctuations in the plant and labour force employed.' Yet 'attempts at the long-period stabilisation of individual prices' should be viewed with suspicion.<sup>19</sup> As he put it in 1942, the purpose of the scheme was 'to ensure that the necessary changes in the scale and distribution of output should take place steadily and slowly in response to the steady and slow evolution of the underlying trends.'<sup>20</sup> Keynes's proposal was not adopted by the British government, owing to opposition from the Bank of England.<sup>21</sup> US proposals for an International Commodity Stabilisation Corporation also fell by the wayside during Anglo-American wartime negotiations.<sup>22</sup> However, the question of primary commodity price stabilization was revived postwar in the charter for the proposed International Trade Organization, and later still in the creation of the UNCTAD Common Fund.<sup>23</sup>

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<sup>18</sup> Moggridge, *Maynard Keynes*, pp. 679-80

<sup>19</sup> JMK XXI, pp. 456-70

<sup>20</sup> JMK XXVII, p. 136

<sup>21</sup> JMK XXVII, p. 199

<sup>22</sup> Moggridge, *Maynard Keynes*, p. 730

<sup>23</sup> H.W. Singer, 'The Terms of Trade Controversy and the Evolution of Soft Financing: Early Years in the UN', in Gerald M. Meier and Dudley Seers (eds), *Pioneers in Development*, Oxford University Press, Oxford, 1984, pp. 279-80

The American counterpart to the Clearing Union plan was Harry Dexter White's scheme for a 'United Nations Stabilization Fund', and, in addition, an international 'Bank for Reconstruction and Development' (which would finance White's proposed commodity corporation, mentioned above). White was Assistant Secretary to the US Treasury; his plan was made public at the same time as Keynes's, and, in due course, it was broadly speaking White's ideas which became the basis for Anglo-American agreement. As White explained in the scheme's first draft, the Fund was 'to provide an instrument with the means and the procedure to stabilize foreign exchange rates and strengthen the monetary systems of the United Nations.' Its resources, subscribed by member countries in accordance with quotas determined by a complex formula, would be available to countries in temporary balance of payments difficulties. In return, member nations' rights to maintain exchange controls and to vary exchange rates would be limited, and domestic policy would be subject to Fund supervision, based on a 4/5ths majority decision (which, given the proposed size of its quota, would give the USA an effective veto). The corollary of monetary stability, in White's eyes, was the adoption of liberal trade policies by the Fund's members. His vision for the proposed international Bank was that it should be 'an agency with resources and powers adequate to provide capital for economic reconstruction...to provide relief for stricken people...to increase foreign trade, and permanently increase the productivity of the United Nations.'<sup>24</sup>

An indication of the close link envisaged by the Americans between the UN and economic reconstruction is the fact that White, unlike Keynes, specifically related his ideas to a United Nations framework. In due course, the International Monetary Fund and the World Bank, to which they gave rise, became UN specialized agencies. However, both he and Treasury Secretary Henry Morgenthau were allegedly 'determined that the United Nations was never

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<sup>24</sup> Blum (ed), *From the Morgenthau Diaries: Years of War 1941-1945*, Houghton Mifflin Company, Boston, 1967, pp. 230-1

going to tell the World Bank or the International Monetary Fund what to do.’<sup>25</sup> This tension between the formal UN status and the de facto operational independence of the IMF and the World Bank has been a constant feature of the international scene ever since.

In all this, there was no apparent recognition that the interests of countries participating in the proposed multilateral regime might differ - there were no special concessions to countries with less developed economies. Furthermore, close cooperation between the British and American delegations to the July 1944 United Nations Monetary and Financial Conference at Bretton Woods (which set up the World Bank and IMF) helped ensure that the voices of developing countries were drowned out. As Gerald M. Meier has noted, several Latin American countries put forward proposals for stabilizing the prices of, and increasing world markets for, primary commodities; yet these came to naught.<sup>26</sup> The postwar United Nations Conference on Trade and Employment would, however, see a significant shift in these power relations, enabling the primary producing countries to put their case on such questions to much greater effect.

### **An international commercial union**

That conference in turn had its intellectual origin in a proposal put forward by James Meade of the Economic Section of the British Cabinet Secretariat. Meade was an avowed disciple of Keynes, and in July 1942 put forward the idea of an international commercial union as a complement to the Clearing Union scheme. Meade argued that Britain, whose trade in the past had been largely of a multilateral character, would benefit from a general reduction of barriers and restrictions in international markets, and from the removal of those discriminations and rigidly bilateral bargains that removed the opportunities for multilateral trading. Multilateralism and the removal of trade restrictions ‘do not, however, imply *laissez-faire*, and are in no way

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<sup>25</sup> Stinebower Oral History, pp. 29-30

<sup>26</sup> Meier, ‘The Formative Period’, in Meier and Seers, *Pioneers*, pp. 9-10

incompatible with a system of state trading.’ Membership of the proposed union would bring the obligation not to extend preferences or other price advantages to any other member country without extending it to all countries. Discrimination of any kind would be allowed against nations which had not joined the union, and were therefore themselves not pledged not to discriminate in turn. Also, ‘discrimination of a defined and moderate degree in favour of a recognised political or geographical grouping of states’ would be permitted, which ‘would thus permit the continuation of a moderate degree of Imperial Preference.’ Equally, countries with severe balance of payments difficulties would be allowed to impose certain protective devices until such point as those difficulties were cured.<sup>27</sup>

This last point was particularly important, as it was a forerunner of the various special exemptions that the developing countries would later, with some success, attempt to claim for themselves during the UN’s attempt to create an ITO. But Meade does not seem to have had such countries in mind when he drew up this stipulation; he was thinking, surely, of Britain’s own likely postwar economic problems. Similarly, the provisions on state trading and imperial preference showed an acute awareness of the political sensibilities of both main British political parties. This skilful drafting helped ensure that Meade’s proposal became the basis of Anglo-American discussion. Much of the impetus from the American side came from Cordell Hull, who, as Secretary of State from 1933 to 1944, formed ‘a personal link between the dream of Woodrow Wilson and the present.’<sup>28</sup> But the Americans were allergic to the suggestion that preferences might continue in any degree or form.<sup>29</sup> They were also wary of state trading, although not openly hostile, for they did not wish to preclude Soviet participation in the proposed new international arrangements. J.G. Winant (US ambassador to London, and later

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<sup>27</sup> Howson (ed), *The Collected Papers of James Meade Volume III: International Economics*, pp. 27-35

<sup>28</sup> The words were those of Stettinius, who would become Hull’s successor. Thomas M. Campbell, *Masquerade Peace: America’s UN Policy, 1944-1945*, Florida State University Press, Tallahassee, 1973, p. 14

<sup>29</sup> L.S. Pressnell, *External Economic Policy Since the War Volume I: The Post-War Financial Settlement*, HMSO, London, 1986, pp. 118-9, 129

US representative on the United Nations Economic and Social Council) felt that the widespread support for state trading in British political circles represented a 'failure to grasp the importance of reconciling planning with an advantageous territorial division of labor.'<sup>30</sup> In the immediate postwar years, differences between the British and the Americans over commercial policy would become yet more acute, with crucial implications for the outcome of the UN-sponsored ITO negotiations.

### **A UN Economic and Social Council**

More immediately, however, the negotiations to establish the United Nations Organization itself involved important debates about that body's own proper economic role. These emerged at the Dumbarton Oaks conference (August-October 1944) where the great powers discussed their respective preliminary plans for the new world body. The key American proposal was that it should have an economic and social council, to initiate studies and work with individual governments, with a view to promoting full and effective use of the world's economic resources.<sup>31</sup> This was in line with the recommendations made by the League of Nations' Bruce Committee on the eve of war. As Thomas M. Campbell has noted, this was a major American contribution to the eventual shape of the UN - neither the British nor the Russians made such proposals - and reflected the belief that the the new organization should not concern itself solely with military security.<sup>32</sup> Rather, the American vision was of a 'one tent' organization covering international relations generally, with autonomous functional agencies.<sup>33</sup>

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<sup>30</sup> FRUS 1944 Vol. II, pp. 8-9

<sup>31</sup> Some within the US government had, however favoured a different arrangement. Leroy Stinebower recalled: 'there were those of us who wanted...an economic council and a social council; not an economic and social council. We had what proves to be a well-founded fear that social objectives and well-meaning objectives would always override any hardheaded economic assessment of the consequences.' Stinebower Oral History, pp. 39-40

<sup>32</sup> Thomas M. Campbell, *Masquerade Peace: America's UN Policy, 1944-1945*, Florida State University Press, Tallahassee, 1973, p. 35; Walter R. Sharp, *The United Nations Economic and Social Council*, Columbia University Press, New York, 1969, p. 2

<sup>33</sup> FRUS 1944 Vol. I, pp. 735-6

The Soviets, for their part, were highly sceptical, Molotov's previously quoted burst of enthusiasm for a wide-ranging UN economic role notwithstanding. The Russians 'earnestly and exhaustively argued that the League's experience demonstrates that an intermingling in the same organization of responsibilities for both the maintenance of peace and for economic and social matters will work out to the detriment of security.' Rather, there should be a separate economic organization.<sup>34</sup> Insofar as can be determined, it seems likely that the Soviets were eager to join the UN, in recognition of their great power status, but were only interested in international economic bodies insofar as keeping open the option of joining them facilitated their own political game-playing. Linking economic and military security in one body would complicate this strategy. (Subsequent Soviet actions over membership of the IMF and the GATT tend to bear this analysis out.) Roosevelt, however, was adamant that the new organization's Assembly 'should have adequate functions with respect to economic and social problems', although he conceded that 'the actual provisions written into the proposals might be in general terms.'<sup>35</sup> The British gave general backing to the US line - even though Churchill himself would remain doubtful about the wisdom of the UN 'getting into social or economic things.'<sup>36</sup> The Soviets backed down, and, in the agreed Dumbarton Oaks proposals, it was stated that one purpose of the UN was 'To achieve international cooperation in the solution of international economic, social and other humanitarian problems'. An Economic and Social Council should be established to help achieve this.<sup>37</sup>

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<sup>34</sup> FRUS 1944 Vol. I, pp. 733, 735; Fred L. Israel (ed), *The War Diary of Breckinridge Long: Selections from the Years 1939-1944*, University of Nebraska Press, Lincoln, 1966, p. 370 (entry for 18 Aug. 1944); Schild, *Bretton Woods and Dumbarton Oaks*, p. 71

<sup>35</sup> FRUS 1944 Vol. I, p. 732

<sup>36</sup> Thomas M. Campbell and George C. Herring (eds), *The Diaries of Edward R. Stettinius, JR., 1943-1946*, New Viewpoints, New York, 1975, p. 232 (entry for 1 Feb. 1945)

<sup>37</sup> Leland M. Goodrich, Edvard Hambro and Anne Patricia Simons, *Charter of the United Nations: Commentary and Documents*, (3rd edition) Columbia University Press, New York, 1969, pp. 665, 672

To some extent, however, this victory rebounded on the United States at the San Francisco conference (April - June 1945) which finalised the UN charter. In this document, the Dumbarton Oaks proposals were expanded. Thus, ‘the United Nations shall promote...higher standards of living, full employment, and conditions of economic and social progress and development’.<sup>38</sup> The American delegation opposed the term ‘full employment’, preferring the phrase ‘high and stable levels of employment’, or, in the case of some delegates, no reference to the question at all. These delegates alleged in private that ‘full employment’ smacked of communism and collectivism. Moreover, as one of them, Republican Senator Arthur Vandenberg, asked, ‘How...would it be possible to get Communists and capitalists to collaborate to promote full employment?’<sup>39</sup> But, isolated, the Americans gave way. This would have vital repercussions during the postwar trade negotiations. The full employment provision would help certain countries, particularly less-developed ones, resist trade liberalization measures which they claimed were incompatible with that aspiration. As will be seen, this was a factor which helped unite the newly emergent underdeveloped bloc.

But at the point when the UN organization was being designed, there was no such self-aware, self-defining group of countries. (Nonetheless, at San Francisco, the smaller states did succeed in upgrading the status of the proposed Economic and Social Council to a ‘principal organ’ of the UN.)<sup>40</sup> There was little recognition of the special economic needs of such countries in the UN Charter itself, or in the intergovernmental discussions which gave rise to it and to its specialized agencies.<sup>41</sup> To be sure, there were references to ‘economic development’, that is to

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<sup>38</sup> *ibid.*, p. 687

<sup>39</sup> Vandenberg was an isolationist turned (cautious) internationalist, who, as chairman of the Senate Foreign Relations Committee, became one of the architects of President Truman’s bipartisan foreign policy. FRUS 1945 Vol. I, pp. 850-7; Stephen E. Ambrose and Douglas G. Brinkley, *Rise to Globalism: American Foreign Policy Since 1938*, (8th edition), Penguin, Harmondsworth, 1997, p. 80

<sup>40</sup> Sharp, *The United Nations Economic and Social Council*, p. 3

<sup>41</sup> One exception was Keynes, who was an early advocate of soft financing, as the American embassy in London reported in January 1944: ‘Keynes pointed out that the United States Treasury proposal for a United Nations bank of reconstruction and development aims at “sound” international investment and this soundness applies to the financial prospects of the investments. Therefore, international investment in

say, there was a keen awareness that some countries were very poor and that something should be done about this. But the prescribed recipe for prosperity was the same for these nations as it was for the richer ones. (One State Department economist later recalled of the immediate post-war period that 'Most of us...felt that economic problems are economic problems wherever they happen to be. You wanted to know the facts of a particular country and situation, of course, but detailed knowledge of a particular country wouldn't make much difference as to exchange rate policy or the investment situation or trade regulations and so on.')<sup>42</sup> In April 1944, a Canadian government memorandum on 'Post-War International Economic Policy' summed this recipe up. The broad objectives of the United Nations, it noted, were those expressed in the Atlantic Charter and the Mutual Aid Agreements, i.e. international economic cooperation based on the principle of non-discrimination. These broad objectives might be given practical effect 'from the standpoint of a broad international approach; one in which all the United Nations could participate in the formulation and control of arrangements...and assume obligations on a multilateral basis in contrast to the alternative of bilateral agreements or exclusive undertakings within regional or special groupings.'<sup>43</sup> Again, in this overall vision, there was no conception that such obligations press harder on poor countries than on rich ones.

### **The idea of underdevelopment**

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projects that raise productivity but fail to bring financial returns might not come within its operations even though many projects that fail even to produce sufficient direct financial returns to service the loans are of the greatest benefit. Keynes, of course, appreciates the political difficulties of setting up an international investment body without stressing financial 'soundness' as a fundamental principle...Keynes stressed the importance of international loans that can be used by borrowers to obtain consumption goods to sustain workers engaged on capital projects. In some of the Asiatic countries external aid is needed for this purpose rather than for the import of capital goods.' But the political obstacles to such an approach remained insuperable, and the Bank was committed to the principle of sound finance. FRUS 1944 Vol. II, pp. 3-4

<sup>42</sup> Joseph D. Coppock Oral History 29 July 1974, p. 37, Truman Library. As well as being an adviser to the State Department on international Trade Policy from 1945-53, Coppock was a member of the US delegation to the UN Economic and Social Council (from 1946-52).

<sup>43</sup> *Documents on Canadian External Relations* (henceforward CANEX), Volume 11 1944-1945 Part II, p. 78

If the founders of the UN overlooked such issues, they did not do so in the face of well elaborated and recognized theories of economic underdevelopment. In the inter-war period, it is remarkable how little mainstream Western economists had to say about the development of countries outside Europe, except those of European settlement. This issue was very rarely on their intellectual agenda.<sup>44</sup> And notably, the economic research undertaken by the League of Nations centred on the problems of its (predominantly industrialized) member countries. (One main strand of this research focussed on trade issues, and, linked with this, exchange rate regulations; the other on business cycle analysis.)<sup>45</sup> Even when, during the Second World War, economic development began to be of increasing interest to governments and public opinion, the pioneering work of P. N. Rosenstein-Rodan and Kurt Mandelbaum was done in relation to South-eastern and Eastern Europe.<sup>46</sup>

The term ‘development’ was certainly in use by this time, but it had usually carried one of two different senses. It had often been used in a colonial context to denote the exploitation of natural resources of land and minerals, without carrying any connotation of thereby promoting native welfare. (Used in this sense, it clearly enjoyed a certain measure of popular currency, being referred to ironically, for example, in Joseph Conrad’s 1915 novel *Victory*.)<sup>47</sup> It had also been

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<sup>44</sup> H.W. Arndt, *Economic Development: The History of an Idea*, University of Chicago Press, Chicago and London, 1987, pp. 22-9

<sup>45</sup> Gabriele Kohler, ‘The Early Developers: The economic research of the League of Nations and its influence on development economics’, in Jorg Glomobowski, Anna Gronert and Henk W. Plasmeijer (eds), *Zur kontinentalen Geschichte des ökonomischen Denkens/History of Continental Economic Thought*, Metropolis Verlag, Marburg 1998, pp. 283-306

<sup>46</sup> Harry G. Johnson has argued that the influence of these and other émigré economists lent a strongly nationalistic slant to subsequent discussions of development policy: ‘While fundamentally concerned with policies for developing the Balkan states on the German model, the central concepts were presented as universals and later proved equally congenial to the psychological attitudes of the new nations in the relations with the developed countries and in their conception of their development problems.’ These economists, he suggests, were also responsible for the strong emphasis on the need for industrialization, and for protectionist policies in order to achieve it. Harry G. Johnson (ed), *Economic Nationalism in Old and New States*, University of Chicago Press, Chicago, 1967, pp. 131-2

<sup>47</sup> The novel, which was completed in May 1914 and published the following year, is set in the Malay archipelago. A plan, which subsequently fails, to exploit coal deposits in the region (‘Tropical Belt Coal’) briefly generates fears amongst locally-based independent European traders that they will be driven out of business by the advent of steamers. One (unidentified) character observes: ‘That’s what they call

used to indicate the way in which national economies and societies evolved, implying that development was progressive. Heinz Arndt argues that Marx was ‘the first to aim explicitly at a theory of economic development’.<sup>48</sup> For the Marx of *The Communist Manifesto*, however, the economic development of backward areas would come through the expansion of Western capitalism. He believed that they would progress through a capitalist phase before arriving at socialism, and that their industrialization would follow the European pattern. Arndt thus suggests that it was the Chinese nationalist leader Sun Yat-sen who was the first, in his book *The International Development of China* (written in English in 1918 and published in 1922), to advocate economic development in something like the modern sense of the term.<sup>49</sup>

What was new in the 1940s was the gradual emergence of the term ‘underdeveloped’, which blended the reverse of the two different senses of ‘development’, to imply that all countries had the potential to progress economically by a more intensive use of their resources.<sup>50</sup> This implication was drawn out in the work of Eugene Staley for the ILO, first published in the monograph *World Economic Development* in 1944. As early as 1939, Staley had proposed a ‘world development program’.<sup>51</sup> He now examined the likely effects of the economic development of new areas of the world on existing industrial areas. He saw the key to such development as ‘vastly increased production’. Thus he defined economic development (which he saw a broader term than ‘industrialization’) as:

a combination of methods by which the capacity of a people to produce (and hence to consume) may be increased. It means introduction of better techniques; installing more and better capital equipment; raising the general level of education and the particular skills of labour and management; and expanding internal and external commerce in a manner to take better advantage of opportunities for specialisation.

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development - and be hanged to it!’ Joseph Conrad, *Victory: An Island Tale*, Penguin (Popular Classics edn.), 1994, p. 34

<sup>48</sup> Arndt, *Economic Development*, p. 36

<sup>49</sup> *ibid*, pp. 36-8, 16

<sup>50</sup> Raymond Williams, *Keywords*, London, Fontana Press, 1976, p. 103

<sup>51</sup> Arndt, *Economic Development*, p. 46

Staley's central conclusion was that the advantages to industrial areas from development elsewhere, as a result of international investment, would far outweigh the dangers and disadvantages. He proposed an International Development Authority of a 'multilateral, supra-national character', in order to achieve the greatest mutual benefit. Its proposed functions included raising capital which would be advanced for approved development projects; coordinating technical assistance; and conducting a survey of world resources. In the second edition, published in 1945, Staley suggested that the World Bank would be an appropriate organization to undertake some of these functions. He also argued that the Bank should construe its mandate broadly and think 'in developmental rather than mere money-lending terms', although he nonetheless put strong emphasis on sound finance that would produce a return to the lender.<sup>52</sup>

Staley's emphasis on growth through specialization, on multilateral institutions, on sound finance, and on reduced trade barriers as a precondition of international development, placed him in the mainstream of economic thought. He implicitly ruled out more radical development solutions such as import-substituting industrialization. The real significance of his work was in the explicitness of his attempt to define economic development, and his early use of terms such as 'less developed areas' that would shortly become common currency, not least within the United Nations.<sup>53</sup>

### **Initial dissent by developing countries**

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<sup>52</sup> Eugene Staley, *World Economic Development: Effects On Advanced Industrial Countries* (2nd edn.), International Labour Office, Montreal, 1945, pp. 2, 5, 22, 97-104, 59-60

<sup>53</sup> However, Wilfred Benson, a former member of the ILO secretariat, was probably the first (in 1942) to use the term 'underdeveloped areas' in the sense that it was used post-war. See Arndt, *Economic Development*, p. 47

This tendency showed itself particularly in the early discussions of the Economic and Social Council (ECOSOC). This body, in its first sessions, was dogged by organizational quibbling, as the Council attempted to define the compositions and functions of its commissions. The effort to provide on paper for all possible contingencies led one of the Canadian delegates to remark privately that ‘one of the most depressing characteristics of the Council was its apparent conviction that its commissions would be composed of morons who had to have everything spelled out for them.’<sup>54</sup> But there were also important debates about development strategy, arising, in the first instance, from the proposal to convene a UN conference on trade and employment. A draft resolution to this effect was introduced by J.G. Winant, the American representative on the Council, in February 1946. Moreover, in the belief that previous international conferences in the commercial field had failed because they had been confined to abstract discussions, the USA had invited fourteen other governments to negotiate reductions in specific trade barriers and discriminations in advance of this general conference.<sup>55</sup> ECOSOC’s blessing was considered important for this latter enterprise, for if it would agree to designate these countries as the Preparatory Committee for the conference, this would remove possible objections to the preliminary negotiations on the grounds of that they were exclusive.<sup>56</sup> Yet also, of course, this gave other countries a chance to influence the committee’s terms of reference.

Winant introduced the US proposal with rhetoric of the kind that had become standard in American circles during WWII. The ‘economic anarchy’ prevalent after 1918, he argued, was the consequence of ‘blindly nationalistic and selfish trade policies’ which had ‘eventually retarded all free exchange of goods across frontiers’. An international organization to deal with trade and employment was the major piece of machinery still needed to make world co-operation in the economic field effective.<sup>57</sup> Given the American attitude at San Francisco, it is

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<sup>54</sup> CANEX Vol. 12 1946, p. 891

<sup>55</sup> Annex 1a (draft resolution E/4) ECOSOC minutes I, 1946, pp. 124-6

<sup>56</sup> CANEX Vol. 12 1946, p. 886

<sup>57</sup> ECOSOC minutes I, 11 Feb. 1946, p. 64

difficult not to suspect that the reference to employment was simply intended as sugar on the pill of freer trade. Nevertheless, the Colombian representative, Lleras Restrepo, launched an attack upon the American analysis. Claiming that Colombia supported the tendency to greater freedom in international commerce, he nonetheless argued that:

just as a certain freedom of trade is considered necessary for the maintenance of high standards of employment and of economic stability, so, too, it should be accepted, from the outset, that the diversification of production and progressive industrial growth in under-developed countries are also essential conditions for achieving full employment and a high standard of living.

Moreover, 'Free trade means free competition. And free competition means the elimination of those who find themselves in less favourable conditions.' It would also imply an international distribution of labour 'as conceived by the early classical writers'. But this could only be achieved 'after painful and vast upheavals', and would place the underdeveloped countries at a permanent disadvantage:

Certain nations, Colombia among them, would be confined to one or two fields of production, for which nature has given us special facilities. And the great industrial countries which, as the result of various historical circumstances, surpassed the others in the sphere of manufacturing industry, often with the aid of a rigid policy of protection, would establish for themselves a privileged situation indefinitely.

Arguments of this kind were later to figure in structuralist analyses of development, particularly those produced by the Economic Commission for Latin America. Restrepo went on to consider the question of full employment:

For the United States, full employment is to be achieved by the expansion of world trade within a system of economic freedom.

For us, the words "full employment" have a special and quite different meaning. What, indeed, can it mean to us that all our workers are employed, so long as they work in the least productive branches of economic life for wages ten times lower than those of other

nations? And how can we ensure stability in this “full employment” if we are limited to producing a commodity which is exposed, as coffee is, to such violent fluctuations of price and volume of consumption on the international market?

Therefore, he argued, full employment in reasonable conditions was inseparable from the attainment of two fundamental objectives: variety of production, and an increase in manufacturing industries which, through their ability to command higher wages than those normally obtained in extracting industries, could raise the general standard of living ‘and shape a mentally and morally superior working class’. Thus, ‘The Council should ask itself if such an evolution can be assured by depriving young industries of all protection, and if it is not more natural that a policy of trade freedom should be developed in harmony with the peculiar conditions prevailing in industrially backward countries.’<sup>58</sup> Accordingly, the Americans agreed a version of an amendment to the resolution put forward by the Colombians (which also received particular backing from Peru). The Preparatory Committee would be instructed to study, when preparing the agenda for the conference, the special conditions prevailing in countries whose manufacturing industry was still in its initial stage of development, and the question of commodities ‘subject to special problems of adjustment in the international markets’.<sup>59</sup>

These questions continued to be a matter for controversy within ECOSOC itself. In June 1946, Philip Noel-Baker, the British representative, in the course of a debate on employment, argued that although ‘no undue restrictions should be placed on the industrialization efforts of poor and less developed areas’, it was necessary to ensure that any industrial goods produced were of real use to the peoples of the countries producing them, that they reached the people who needed them, and that they were not produced at prohibitive cost. Indeed, ‘A rising standard of living would mean not a lesser, but a greater, international division of labour.’ But the Soviet representative, Nikolai Feonov, repudiated these remarks. He argued, on the contrary, that the

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<sup>58</sup> *ibid.*, pp. 73-6

<sup>59</sup> Annex 1b (proposed amendment E/5) ECOSOC minutes I, 1946, p. 127; ECOSOC minutes I, 12 Feb. 1946, pp. 78-9; *ibid.*, 13 Feb. 1946, p. 83

UN should help industrialize under-developed areas, ‘starting, for example, with the heavy industries which were the basis of all economic production and development.’ Noel-Baker quickly backtracked, saying that he had not meant that the development of the under-industrialized areas should be restricted: ‘He had simply endeavoured to stress the danger of unwise tariff policies to protect national industries...He was convinced that an increase in the international division of labour...would mean not less, but more and more diversified industrialization throughout the world.’<sup>60</sup> This realization by the western powers that it might be unwise to be seen as opposing the industrialization of the poorer countries, plus those countries’ own increased articulacy, had important results during the preparations for the conference on trade and employment.<sup>61</sup> Moreover, these preparations, and the conference itself, were significant not only as an attempt to deal with these problems within a UN forum, but also as a key part of the postwar international settlement in relation to which subsequent intellectual actors within the UN defined their own positions on trade and development.

### **Emerging issues of trade and employment**

The preparatory committee to the conference met for the first time on October 15, 1946 at Church House, Dean’s Yard, Westminster. This was where the British parliament had met during the bombing raids of 1941 and the 1944-5 flying bomb attacks. The Soviets, although invited, were absent. They had supported the ECOSOC resolution that established the

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<sup>60</sup> ECOSOC minutes II, 5 June 1946, pp. 59-60, 63-4. It may also be noted that Noel-Baker’s boss, Ernest Bevin, had in 1945 (prior to his appointment as Foreign Secretary) welcomed the industrialization, specifically, of India: ‘I am glad they are going to industrialise on a state basis.’ As Noel-Baker’s predicament showed, the British Labour government’s ideological commitment to such dirigiste state planning, in the colonies as well as at home, sat uncomfortably with its commitment to the liberalization of international trade. Labour Party Annual Conference Report 1945, p. ?

<sup>61</sup> But if Anglo-US policy was thus to some extent based on political expediency, even before the full outbreak of the Cold War, Soviet policy was merely posturing. In the years before Stalin’s death in 1953, the repeated dogmatic insistence that heavy industry was the only possible basis of economic development was not matched by any concrete contribution to UN programmes of technical assistance. Alvin Z. Rubinstein, ‘Soviet Policy Toward Under-Developed Areas in the Economic and Social Council’, *International Organization* 9 (1955) 232-243

conference; this implied support for, or at least not radical dissent from, the long-established US trade strategy of whereby trade concessions made to one country were extended to *all* countries granted 'most favoured nation' (MFN) status, as the planned trade negotiations were to proceed on a similar basis. But at the Paris peace conference (July - October 1946), Molotov denounced the 'most favoured nation policy' of the US as 'a device of the devil to ensnare and enslave small countries.'<sup>62</sup> The Soviets gave transparent excuses for non-attendance in London, ranging from lack of personnel to preoccupation with security.<sup>63</sup> But even without a potentially disruptive Russian presence, it quickly became apparent that opinion at the London meeting would divide between the highly industrialized countries and those aspiring to rapid industrialization. A Canadian government report later recorded that 'This latter group became known as "the under-developed countries"', the term clearly still being something of a novelty. Indeed, it seems not to have been used quite in the modern sense, for Australia, a major primary-producing nation, identified itself with the group and even assumed de facto leadership of it.<sup>64</sup>

The matter under discussion was the draft charter for an international trade organization put forward by the United States. This was an elaboration of the joint Anglo-American proposals agreed in December 1945 at the time of the US loan to Britain. These committed the British to enter into negotiations for the substantial reduction of tariffs and the elimination of tariff preferences, as its contribution to a 'mutually advantageous' reduction in world trade barriers.<sup>65</sup> (It should be emphasised, however, that the US administration was pressing not for complete free trade but only for *freer* trade.)<sup>66</sup> There was a clear suspicion amongst the underdeveloped

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<sup>62</sup> Stinebower Oral History, pp. 49-51

<sup>63</sup> FRUS 1946 Vol. I, pp. 1355-6

<sup>64</sup> CANEX Vol. 14 1948 p. 900-1

<sup>65</sup> Cmd. 6709, 6 Dec., 1945

<sup>66</sup> Clair Wilcox, defending the proposed charter to Congress on behalf of the US administration in March 1947, denied that there was anything in it that would lead to free trade: 'I do not think that any of the nations participating in the framing of this, or the Government of the United States, believes that free trade is practicable or obtainable or I should say desirable.' Such was the Congressional hostility to the ITO, that

countries that Britain had been coerced into agreement on this as the price of the loan. And although the proposals emphasised that membership of the ITO would expand opportunities not only for trade but for economic development, these were attacked for being negative, and for consisting merely of a series of prohibitions concerning what nations should not do in the way of maintaining barriers to trade, rather than of positive measures to expand it.<sup>67</sup> Moreover, as R.K. Nehru, leader of the Indian delegation (and a cousin of Pandit Nehru), put it, ‘we deplored the fact that so little understanding was shown to the problems and needs of the undeveloped countries.’<sup>68</sup>

Of these, much emphasis was placed on ‘full employment’. This was really a way of expressing concern about the stability of international demand. Stress was laid, particularly by Australia and Britain, on the need for expansionist policies. In the words of the previously quoted Canadian report, ‘This clearly reflected the new economic ideas associated with the name of Lord Keynes.’ It was maintained that the level of employment in major economies had more influence on world trade than the raising or lowering of trade barriers.<sup>69</sup> There was a fear, triggered by memories of the inter-war depression, that, in a liberalized world economy, damaging trends in the US could have rapidly contagious negative consequences elsewhere. In particular, it was widely believed that the underdeveloped countries’ ability to maintain markets for their primary

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Wilcox also had to deny that it would lead to a planned economy. Of course, the only way that these disparate criticisms could be squared was by the suggestion that communists in the government were promoting free trade in order to undermine the United States. Republican congressman Daniel Reed argued, ingeniously, that this was indeed the case. US Senate, Committee on Finance, Hearings on ITO: (80)S821-O-A, pp. 80, 101; Thomas W. Zeiler, *Free Trade Free World: The Advent of GATT*, University of North Carolina Press, Chapel Hill and London, 1999, p. 167

<sup>67</sup> FRUS 1946 Vol. I, p. 1361; CANEX Vol. 14 1948, p. 900

<sup>68</sup> Preparatory Committee 6th Plenary Session (E/PC/T/32) 26 Nov. 1946, Philip Noel-Baker Papers 4/753, Churchill College, Cambridge. Clair Wilcox later suggested that India was ‘influenced less by the substance of the *Proposals* advanced by the United States than by the fact that the United Kingdom had accorded them its formal support.’ Be that as it may, the Indians’ later warmer attitude, in the face of concessions to their stated point of view, suggests that they were prepared to be open-minded. Clair Wilcox, *A Charter for World Trade*, The Macmillan Company, New York, 1949, p. 31

<sup>69</sup> CANEX Vol. 14 1948, p. 900; See also Richard N. Gardner, *Sterling-Dollar Diplomacy in Current Perspective: The Origins and the Prospects of our International Economic Order*, Columbia University Press, New York, 1980, pp. 271-80

products hinged on US willingness to keep up her demand for them.<sup>70</sup> But as Clair Wilcox, head of the American delegation, reported, although this appeared, superficially, to be a point of vital importance, ‘Actually no delegation proposed any positive international measures to expand or maintain employment.’ The proponents of the employment issue were satisfied with recognition of the fact that a persistent US export surplus or a sudden, sharp decline in American demand for imports would put other countries in balance of payments difficulties; and with a provision giving countries in such difficulties greater freedom than initially envisaged to use quantitative import restrictions to protect their monetary reserves.<sup>71</sup> However, the concern with employment would later find expression in the work done on this issue within the UN’s Department of Economic Affairs, which in turn dominated ECOSOC’s discussions in 1950.

Another key issue was the industrialization of undeveloped areas. The Australians, with the support of the Indians, Chinese, Lebanese, Brazilians and Chileans urged that affirmative provision be made for this. Wilcox reported that the real purpose of this drive was to obtain freedom to promote industrialization by using import quotas, and noted that initially this appeared to be the most difficult problem before the Preparatory Committee.<sup>72</sup> It was resolved, however, when the US delegation drafted and introduced into the draft charter a new chapter on economic development. Under this chapter, members of the ITO would ‘recognize that the industrial and general economic development of all countries and in particular of those countries whose resources are as yet relatively undeveloped will improve opportunities for employment, enhance the productivity of labour, increase the demand for goods and services, contribute to economic stability, expand international trade and raise levels of real income, thus strengthening

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<sup>70</sup> See John M. Leddy Oral History 15 June 1973, pp. 64-5, Truman Library

<sup>71</sup> FRUS 1946 Vol. I, p. 1361; *Report of the First Session of the Preparatory Committee of the United Nations Conference on Trade and Employment*, (E/PC/T/33) United Nations, London, 1946 (henceforward *Preparatory Committee I*), p. 5; See also Gardner, *Sterling-Dollar Diplomacy*, pp. 280-4

<sup>72</sup> FRUS 1946 Vol. I, p. 1361

the ties of international understanding and accord.’ Members would undertake to promote ‘the continuing industrial and general economic development’ of their respective countries. They would also pledge to cooperate ‘within the limits of their power to do so’ with international organizations to promote development. The possibility was also raised that the ITO itself would provide technical assistance to members, a provision that was ultimately included in the final charter in spite of doubts about whether this was consistent with a proper division of responsibilities between international agencies. And, critically, members would ‘recognize 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.’ They would, however, also recognize that ‘an unwise use of such protection would impose undue burdens on their own economies and unwarranted restrictions on international trade’. The ITO itself would be responsible for judging countries’ applications to be allowed to take such measures.<sup>73</sup>

William L. Clayton, the American Under Secretary of State for Economic Affairs later justified the chapter during Senate hearings on the ITO: ‘In those cases in which there is a sound basis for developing an industry in an underdeveloped country, it seems to me to be in our own interest that steps of one kind or another be taken to facilitate such development...To the extent that the resources of any country are developed, wealth is created in which we and all other countries are bound to share through the processes of trade.’ New industries should, however, be ‘natural’ ones, capable of competing, in time, without heavy protection.<sup>74</sup> This, in essence, was the argument previously put forward by Eugene Staley. The US line represented by the new chapter may thus not have been especially radical, but the underdeveloped countries were somewhat mollified, not least by the mere recognition of the development issue. At the close of

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<sup>73</sup> *Preparatory Committee I*, pp. 27-8; see also *The U.S. and the Restoration of World Trade*, pp. 289-91

<sup>74</sup> US Senate Committee on Finance, Hearings on International Trade Organization (80)S821-O-A, pp. 5-6 (20 March 1947)

the London session, R.K. Nehru admitted: 'some of us who were a bit sceptical as to the outcome of this Conference, are now inclined to take a somewhat different view...We recognize...there is some change in the attitude of the more advanced countries.' However, he asked, 'have we gone far enough?' Even if allowed to use protective tariffs and export subsidies, developing countries might not find it possible to give up 'more direct methods' of trade regulation, 'which may be vitally necessary for the execution of its development plans.'<sup>75</sup> This, presumably, was a plea for freedom to make greater use of quantitative restrictions than the balance of payments provision would allow. Thomas Zeiler may therefore be right to suggest that, although this first preparatory meeting looked, superficially, like an overall success for the US, the effect of the concessions made was not to buy off the opposition, but to embolden the dissenters, leading them to press for more concessions later.<sup>76</sup>

### **Gamani Corea on Protection**

Further doubts about the proposed charter were revealed in 1947, during the British Commonwealth talks prior to the preparatory committee's second session. Australia, New Zealand, Southern Rhodesia, Burma, and Ceylon all expressed trepidation; only Canada, Britain, and South Africa expressed enthusiasm (in varying degrees). H.C. Coombs of Australia noted that the provisions on full employment and the maintenance of demand were not 'policeable'. U Nyun of Burma doubted the value of the charter to the underdeveloped countries. For Ceylon, G.C.S. Corea (a future Secretary General of UNCTAD) attacked 'the biassed nature of the Charter' as well as 'its rigidity and lack of realism'.<sup>77</sup>

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<sup>75</sup> Preparatory Committee 6th Plenary Session (E/PC/T/32) 26 November 1946, Noel-Baker Papers 4/753

<sup>76</sup> Zeiler, *Free Trade Free World*, p. 72

<sup>77</sup> 'British Commonwealth Talks: Draft Minutes of the 7th meeting of the General Subjects Committee' (TN(P)BC(GSC)47 7th), 6 May 1947, Austin Robinson Papers ROBN 6/6/1, Churchill College, Cambridge

Previously, Corea had outlined his objections more fully in a short memorandum. First, he believed that the process via which underdeveloped countries would apply to the ITO for prior approval to employ protective measures was too cumbersome. Second, the general prohibition on the use of quantitative restrictions would force developing countries to have recourse to this mechanism if they wanted to use this 'essential' device, with potentially damaging consequences. The need to use quantitative restrictions would arise quickly, in response to difficult situations; but 'There can be no doubt that it will be months, to say the least, before a decision can be obtained from the Organisation and even if it were ultimately favourable it might be useless as the industry which it was sought to protect would have been killed by competition in the meantime.'<sup>78</sup> Corea developed these views further during the course of the Commonwealth talks. The impression had grown on him, he said, that the effect, if not the purpose, of the articles in question would be 'to preserve the trade of manufacturing countries at the expense of under-developed countries.' Moreover, he claimed, the development of backward countries would help increase world prosperity: 'The older countries including the USA, had used protective quotas for development purposes. Ceylon would not be imposing quotas to restrict world trade, but in such a way as to increase production and therefore to increase the market for the products of the older manufacturing countries.'<sup>79</sup>

Corea, in his hint that the developed countries were hypocritically seeking to deny other countries the use of methods that had contributed to their own economic success, was echoing older arguments. Most notably, Friedrich List (1789-1846), architect of the German *Zollverein*, had argued that suitable countries at a certain stage in their development should employ temporary protection for infant manufacturing industries, in order to shelter them against competition from other countries, notably Britain, that had developed earlier. List may have

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<sup>78</sup> G.C.S. Corea, 'Note on some aspects of the Draft Charter' (TN(C)(47)2), 15 April 1947, Robinson Papers ROBN 6/6/1

<sup>79</sup> 'British Commonwealth talks 14th meeting' (TN(P)(BC)(GSC)(47)14th), 13 May 1947, Robinson Papers ROBN 6/6/1

been influenced by the ideas of Alexander Hamilton (1755-1804) and was certainly impressed by what he saw of 'the great American system' Hamilton helped to create. Hamilton believed that the benefits from free trade were more imaginary than real, as foreign countries would place barriers in the way of US exports.<sup>80</sup> Many American protectionists subsequently put forward variants on this argument. Calvin Colton, for example, argued in 1853 that Great Britain had developed a successful manufacturing sector through 150 years of protection and adopted free trade principles only late in its history: 'It is never true that the strong want protection against the weak; but it is always true that the weak want protection against the strong...The manufacturing [country] will be in favour of free trade, because, in that way, it can make other [countries] dependent for those fine things, which will be wanted as soon as they are seen, but which can not be produced at home.'<sup>81</sup>

Corea's comments had a great deal in common with such sentiments. Although his remarks were not quite so explicit as Colton's, he was certainly understood by the British to be making a dramatic and damaging claim, which they attempted to refute. James Helmore of the Board of Trade thus argued that 'Mr. Corea was incorrect in thinking that the highly industrialised powers wished to use the Charter in order to maintain a privileged position in world trade...Better than any general permission to use quantitative restriction (which would certainly lead to an unnecessary expansion of that device), would be a general undertaking not to use it except in certain exceptional circumstances.'<sup>82</sup>

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<sup>80</sup> Michael Yaffey, 'Friedrich List and the Causes of Irish Hunger', in Helen O'Neill and John Toye (eds), *A World Without Famine? New Approaches to Aid and Development*, Macmillan, London and Basingstoke, 1998, pp. 84-106; Henry W. Spiegel, 'Hamilton, Alexander', in John Eatwell, Murray Milgate and Peter Newman, *The New Palgrave: A Dictionary of Economics Volume 3*, Macmillan, London and Basingstoke, 1987, p. 587

<sup>81</sup> Calvin Colton, *Public Economy for the United States* (New York: A.S. Barnes, 1853), cited in Judith Goldstein, *Ideas, Interests and American Trade Policy*, Cornell University Press, Ithaca and London, 1993, p. 37n

<sup>82</sup> 'British Commonwealth talks 14th meeting' (TN(P)(BC)(GSC)(47)14th), 13 May 1947, Robinson Papers ROBN 6/6/1

## **Continuing controversy on the right to protect**

The second session of the preparatory committee met in Geneva from April to August 1947. Tariff negotiations, resulting in the General Agreement on Tariffs and Trade (GATT), were conducted simultaneously with the continuing discussions on the draft ITO charter. These discussions showed that, in spite of the apparent accord reached at London, the concerns that emerged during the Commonwealth talks were also held by the developing countries more widely. India, rather than Australia, now took the unofficial leadership of the underdeveloped countries; but she showed no signs of exercising the moderating influence that Australia had previously shown. These countries, as Dana Wilgress of Canada later noted, 'continued their efforts to secure more latitude for themselves in using for their rapid economic development measures inconsistent with the basic principles of multilateral trade.' These efforts concentrated on freedom to use protective devices such as quantitative restrictions, differential internal taxation, mixing regulations, and preferences between neighbouring states, for the purposes of development.<sup>83</sup> Another issue was the treatment of private foreign capital invested in underdeveloped countries; there was a general unwillingness to give guarantees as to its security, and, in some cases, a feeling that such capital in itself was suspect, and a likely tool of foreign exploitation.

I.I. Chundrigar, of the Indian delegation, declared himself dissatisfied at 'the grudging and apologetic way' in which the draft charter recognized and conceded the right to protection. He suggested that the whole spirit of the charter was 'still that of free trade, modified only to suit particular industries...that kind of philosophy has no bearing on present day conditions in a large part of the world.' Quantitative restrictions should not, he argued, be seen as inherently bad and inadmissible. P.S. Lokanathan, also of India, claimed that 'protection should be regarded not as

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<sup>83</sup> CANEX Vol. 14 1948, p. 901

a mere concession to weakness, but as a legitimate instrument for development.’<sup>84</sup> In his closing speech to the conference, Harold Wilson, Parliamentary Secretary to the British Board of Trade, sought to damp down such sentiments, particularly insofar as they related to the desire for rapid industrialization: ‘we sympathise with the aspirations of those of our friends who have made the position of the under-developed countries a key point in the discussions here.’ However, ‘we do feel it is possible to over-stress the distinction between developed and under-developed countries. No country’s economy is static: each must undergo a constant process of readaptation.’ Moreover,

A country which is at present mainly or wholly agricultural will undoubtedly benefit both its own economy and the world economy by sound measures to increase its productivity. This does not mean that such development should necessarily involve too wide a range of new manufacturing industries. We must not overlook the very real advances which can be made in the field of primary production, which can be achieved by irrigation, power and transport projects and by the use of modern methods and scientific discoveries...

Wilson saw the UN Food and Agriculture Organisation as a key resource to help bring about the necessary ‘revolutionary advances in productivity’.<sup>85</sup> Nonetheless, in spite of this attempt to soft-pedal the industrialization issue, the British had, in line with the developing countries’ desires, themselves been eager to amend the draft charter so that prior ITO approval would not be needed for the use of quantitative restrictions in the case of balance of payments difficulties.<sup>86</sup> The reason for this, naturally enough, was Britain’s own dire balance of payments situation, the urgency of which was compounded by the massive run on her dollar reserves during the summer’s convertibility crisis. In fact, ‘prior approval’ was retained in the charter - although such approval would be automatic if it were found that quantitative restrictions were unlikely to

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<sup>84</sup> Records of Geneva discussions (E/PC/T/A/PV/3: 3rd meeting of Commission A) 28 May 1947, pp. 3-4, 10, World Trade Organization (WTO)

<sup>85</sup> *ibid.* (E/PC/T/PV.2/6: Verbatim report, 6th meeting) 23 August 1947, p. 29, WTO

<sup>86</sup> FRUS 1947, Vol. I, p. 965

be more restrictive of trade than other reasonable or practicable alternatives.<sup>87</sup> But, it seems reasonable to suggest, Britain's increasingly evident doubts about the ITO may well have encouraged the underdeveloped countries in the increased militancy they showed at the Havana Conference.

As Clair Wilcox subsequently noted, 'The most violent controversies at the [Havana] conference and the most protracted ones were those evoked by issues raised in the name of economic development.' He also noted that the leadership of the underdeveloped countries had shifted once more, this time to the Latin American states, and attacked those countries' 'extreme' views:

Wealth and income, they argued, should be redistributed between the richer and the poor states. Upon the rich, obligations should be imposed; upon the poor, privileges should be conferred. The former should recognize it as their duty to export capital for the development of the backward areas; the latter should not be expected to commit themselves to insure the security of such capital, once it was obtained. The former should reduce barriers to imports; the latter should be left free to increase them. The former should sell manufactured goods below price ceilings; the latter should sell raw materials and foodstuffs above price floors. Immediate requirements should be given precedence over long-run policies, development over reconstruction, and the interests of regionalism over the world economy...The voluntary acceptance, by all states, of equal obligations with respect to commercial policy must be rejected as an impairment of sovereignty and a means by which the strong would dominate the weak.<sup>88</sup>

Wilcox could have been assured that the congressional audience at whom his book was chiefly aimed would have found such views inherently ridiculous, as it seems clear he did himself. Wilgress, the Canadian delegate, was scathing too. He claimed privately that the Latin American countries were disturbed about the implications for them of the Marshall Plan: 'They felt the fairy godmother of the North was deserting them in favour of Europe...Some of them even went so

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<sup>87</sup> Gardner, *Sterling-Dollar Diplomacy*, p. 367

<sup>88</sup> Wilcox, *Charter*, pp. 48, 32

far as to deny the right of richer countries to assist in the reconstruction of European countries because these countries had once enjoyed prosperity at the expense of the under-developed countries.’<sup>89</sup> The division of opinion was summed up effectively by Ricardo Jimenez Castillo, the delegate of El Salvador: ‘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.’ (Jimenez himself felt that a compromise needed to be found between these two points of view.)<sup>90</sup> As T.N. Srinivasan has pointed out, this claim for unequal treatment was conceded later, under the so-called enabling clause, which emerged from the 1979 Tokyo Round of the GATT. This clause required that developing countries be given ‘differential and more favourable treatment’ and be excused from having to reciprocate concessions and commitments undertaken by developed countries.<sup>91</sup> But this message was unwelcome to the developed countries at Havana, largely because of its content, but also because of the sometimes extreme manner of its expression. Indeed some countries, notably Argentina, do seem to have been out to deliberately wreck the conference.<sup>92</sup>

Another concern of the underdeveloped countries, again interesting in the light of future developments, was the perceived inequality in the terms of trade between primary commodities and manufactures. The Chilean representative justified his country’s use of exchange controls

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<sup>89</sup> It may be noted that in January 1949 one US State Department official (Howard H. Tewksbury, Chief of the Division of River Plate Affairs) conceded that the ‘The whole E[uropean] R[ecovery] P[rogramme] is in a very real sense discriminatory against Latin America. While an attempt is made to confine this discrimination within the bounds of necessity and to balance it with programs assisting Latin America, some discrimination is inherent and unavoidable.’ CANEX Vol. 14 1948, p. 902; FRUS 1949 Vol. II, p. 480

<sup>90</sup> Records of Havana Conference (E/Conf.2/23: Heads of delegations: summary record of meeting), 24 December 1947, p. 6, WTO

<sup>91</sup> T.N. Srinivasan, *Developing Countries and the Multilateral Trading System: From the GATT to the Uruguay Round and the Future*, Westview Press, Oxford, 1998, p. 21

<sup>92</sup> In view of his later criticisms of the Havana Charter, and his previous role as a public servant in Argentina, it should be noted that Raul Prebisch was not a member of the Argentine delegation, having been out of favour with the Peron government, and excluded from office, since 1943. FRUS 1948 Vol. I, p. 831; Stephen R. Niblo, *War, Diplomacy, and Development: The United States and Mexico 1938-1954*, SR Books, Wilmington, Delaware, 1995, p. 210; Mateo Magarinos, *Dialogos con Raul Prebisch*, Banco Nacional De Comercio Exterior/Fondo de Cultura Economica, Mexico, 1991, p. 124

and import quotas by arguing that ‘The discrepancy between prices paid for the export of basic goods and the import of industrial merchandise was the cause of a serious disequilibrium in the Chilean balance of payments’, which necessitated these methods.<sup>93</sup> Another approach to the problem was the idea of inter-governmental commodity agreements in order to stabilize the prices of primary products. The draft charter recognized that the difficulties surrounding primary products might at times necessitate such agreements, and laid down rules governing their use. Agreements were to be limited in duration and subject to periodic review, and were to afford consuming and producing countries an equal voice.<sup>94</sup> From the American point of view, commodity agreements were fundamentally inconsistent with the other provisions of the charter; but, believing that primary producing countries would inevitably enter into them, they thought 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.<sup>95</sup>

The commodity provisions, which tended, overall, to reflect this lack of enthusiasm, were thus attacked at Havana from the underdeveloped side. Corea, head of the Ceylon delegation, was the key critic. He claimed the charter showed ‘a complete lack of realism’ on the subject. He argued that ‘A very unhealthy situation arises when the prices of manufactured goods are allowed to soar to unprecedented heights, while the prices of primary products are kept down to uneconomic levels.’ In order to protect primary producers, commodity agreements should be encouraged, and should be confined to producers only. Corea recommended a simpler and more efficient procedure for conducting them than that laid down in the draft charter.<sup>96</sup> These objections were to no avail; Corea himself (believed by the Canadians to reflect the ‘extreme-

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<sup>93</sup> Records of Havana Conference (E/Conf.2/SR.7: Summary record of seventh plenary meeting), 29 November 1947, p. 4, WTO

<sup>94</sup> *Report of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment* (E/PC/T/186), United Nations, Geneva, 1947, pp. 42-5; Wilcox, *Charter*, pp. 58-9

<sup>95</sup> US Senate Committee on Finance, Hearings on ITO (80)S821-O-A, 31 March 1947, p. 475 (Testimony of William Taylor Phillips, Acting Chief, International Resources Division, Department of State)

<sup>96</sup> Records of Havana Conference (Press release ITO/86: Address by G.C.S Corea), 1 December 1947, pp. 3-4, WTO

left' views of his government) does not appear to have carried much weight at the conference.<sup>97</sup> The charter, as finally agreed, did, in fact, recognize 'that the conditions under which some primary commodities are produced, exchanged and consumed are such that the international trade in these commodities may be affected by special difficulties such as the tendency towards persistent disequilibrium between production and consumption, the accumulation of burdensome stocks and pronounced fluctuations in prices.'<sup>98</sup> Despite such apparent concessions to the case for market failure, Prebisch later argued that 'the predominant idea that ultimately emerges is that basic market trends should not be impeded.'<sup>99</sup>

In all, then, the underdeveloped countries achieved a mixed success at Havana. Demands for complete freedom to employ quantitative restrictions for development purposes were faced down by Wilcox, who said that if agreement on the lines proposed by the US could not be reached, America herself might reluctantly employ such restrictions herself in the future, thus damaging the welfare of other countries.<sup>100</sup> Nevertheless, much more liberty to employ protection in this way would be allowed under the charter than had ever been envisaged in the original Anglo-American proposals - to the fury of the British.<sup>101</sup> In addition to the exceptions already granted at Geneva, the ITO would be expected to give automatic approval to quantitative restrictions on commodities not covered by trade agreements if any of a number of conditions were filled. Among these conditions was that the industry was started between 1939

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<sup>97</sup> CANEX Vol. 14 1948, p. 904

<sup>98</sup> Cmd. 7375, April 1948, 'United Nations Conference on Trade and Employment: Final Act and the Havana Charter', p. 56

<sup>99</sup> *Proceedings of the United Nations Conference on Trade and Development: Geneva, 23 March-16 June 1964 Volume II: Policy Statements* (E/Conf.46/141, Vol. II) (henceforward UNCTAD I Vol. II), United Nations, New York, 1964, p. 18

<sup>100</sup> Gardner, *Sterling-Dollar Diplomacy*, pp. 367-8

<sup>101</sup> Harold Wilson, now President of the Board of Trade, told the US ambassador (Lewis W. Douglas) in February 1948: 'we had given way on so many things which did not directly affect ourselves but which were of advantage, e.g., to India and to Latin American countries in allowing them to build up their industries under protection, that the result would be to limit the volume of world trade instead of restricting protective practices. We ourselves, however, were to be the only exception and we doubted whether the scheme which now appeared to be emerging at Havana would be in any way acceptable to us.' PRO FO 371/68883 Bevin to Lord Inverchapel 20 February 1948.

and 1948, this being intended to cover the case of uneconomic industries started during the war or immediate post-war periods. Moreover, the ITO would be expected to give approval to new regional preference agreements, if they conformed to certain agreed standards.<sup>102</sup>

Arguably, then, the fact that the United States pursued its trade goals in a multilateral United Nations forum had played a key role in watering down its initial proposals. The inclusion of newly independent, underdeveloped nations in the negotiations did result in real concessions to their point of view, not merely in the payment of lip-service to the question of development. Nonetheless, these very concessions - together with the failure to bring to an end the British imperial preference system - fuelled domestic US hostility to the ITO. This was because free-trade purists, objecting to the weakening, as they saw it, of the charter, were pushed into an 'unholy alliance' with protectionists. In this latter camp, one Republican Congressman noted that measures which received the negative label 'protectionism' at home received the positive one 'development' abroad.<sup>103</sup>

Diverse arguments were also employed in favour of the ITO. Jacob Viner, an ardent advocate of freer trade, argued that, if adopted, the charter would 'bring some, though by no means all, of the degree and type of order in the international trade field which our country needs... There are no alternatives.'<sup>104</sup> Hans Singer, by contrast, later recalled that the provisions in the charter for 'positive discrimination' in favour of the developing countries were what, to him, justified the attempt to create an ITO.<sup>105</sup>

That attempt did not succeed, as the United States failed to ratify the charter. Sensing the strength of opposition, the Truman administration (the attention of which was now increasingly

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<sup>102</sup> Gardner, *Sterling-Dollar Diplomacy*, pp. 367-8, 366-7

<sup>103</sup> Zeiler, *Free Trade Free World*, p. 148

<sup>104</sup> Jacob Viner, 'Conflicts of Principle in Drafting a Trade Charter', *Foreign Affairs* 25 (1947), pp. 612-628

<sup>105</sup> Singer, 'Early Years in The UN', in Meier and Seers (eds), *Pioneers*, p. 281

diverted towards Marshall Aid and other cold war issues) delayed putting the proposal before Congress. Hearings did not begin until April 1950, whereupon the administration witnesses were pushed onto the defensive - the new Democratic majority notwithstanding. The main American business organizations had come out against the charter, and, as Richard N. Gardner has pointed out, given that the members of these were supposed to be key beneficiaries of the project, this stand greatly diminished the chances of congressional approval. The emergency of the Korean war, which broke out in June 1950, further distracted the administration's attention from the ITO; that december, it was quietly announced that the charter would not be resubmitted to Congress.<sup>106</sup>

### **Prebisch's later view of the 1940s debate**

This meant that world trade continued to be regulated by the GATT, which had only ever been envisaged as an interim measure, prior to the establishment of the ITO. Each contracting party to the GATT had one vote, which meant that in theory that developing countries could have a significant influence on decisions. However, as Srinivasan has argued, they tended to see the GATT as promoting the interests of the developed countries, and many did not participate effectively until the Tokyo Round.<sup>107</sup> After 1964, UNCTAD was seen as an alternative forum for discussing trade issues; and in his report to its first conference Prebisch advanced a detailed critique of the Havana Charter, and of the GATT system as it had developed in practice. Here, many of the ideas that had circulated at London, Geneva and Havana in embryonic form, were developed with greater clarity and force. As Prebisch put it, 'We can now see clearly things which were still confused and vague in the Havana days':

The absolute necessity of industrialization for the peripheral countries had not been recognized or realized nor had the need to intensify this process as advanced techniques

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<sup>106</sup> Gardner, *Sterling-Dollar Diplomacy*, pp. 371-380; Zeiler, *Free Trade Free World*, pp. 147- 164

<sup>107</sup> Srinivasan, *Developing Countries*, p. 3

permeated into agriculture. Another thing which was not properly understood was the persistent trend towards external imbalance, which was attributed more to the inflationary policy of Governments than to the nature of the growth phenomenon.

He went on to ask why the GATT had not been as effective from the point of view of the developing countries as it had for industrialized countries. He suggested that this was because, first, it was based on the 'classic concept that the free play of international economic forces by itself leads to the optimum expansion of trade and the most efficient utilization of the world's productive resources'.<sup>108</sup> Moreover, 'The free play concept is admissible in relations between countries that are structurally similar, but not between those whose structures are altogether different as are those of the industrially advanced and the developing countries.'<sup>109</sup>

Prebisch argued that these structural differences resulted in a deterioration for primary producers in the terms of trade, and disparities in international demand. These points were not, he suggested, given the importance they deserved in the Havana Charter: 'Thus, in seeking to lower or eliminate tariffs and restrictions with a view to promoting trade, neither the Charter nor the [GATT] Agreement draws any distinction between developed and developing countries. And since there is an initial assumption of homogeneity, such reductions have to be equivalent everywhere.' There was thus, he claimed, a failure to take into account the fact that those equivalent concessions would intensify the trend towards trade imbalance inherent in the disparity of international demand instead of helping to correct it: 'Herein lies the concept of the symmetry of a situation that was not symmetrical...A clear distinction must be made...between this conventional and real reciprocity.'<sup>110</sup>

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<sup>108</sup> UNCTAD I Vol. II, pp. 17-19

<sup>109</sup> *ibid.*, pp. 17-19

<sup>110</sup> *ibid.*, pp. 18-19

Second, the industrialized countries had, when it suited them, ignored the principle to which they claimed to adhere – that freer trade on a non-discriminatory basis was universally beneficial – even if they stuck to the letter of the GATT rules. He made particular reference to agricultural protection by industrial countries aiming at agricultural self-sufficiency (the GATT did not cover agricultural products). He suggested that in practice, whenever industrial countries had needed to safeguard their domestic production, whether in agriculture or in mining, they had found direct or indirect means of doing so.<sup>111</sup>

Prebisch thus presented and defined his own positive views on trade and development in explicit contrast to the international settlement which US planners and others, during and immediately after WWII, had sought to make the economic basis of the UN system. His was certainly not the most violent attack ever made on the post-war international economic settlement, but it was without doubt one of the most cogent.<sup>112</sup> Prebisch's central criticism - that the Bretton Woods/GATT system was based on a failure to recognize the fundamental differences between the industrial centres and the periphery of the world economy, and thus sought to apply common principles to what was fundamentally different<sup>113</sup> - was largely correct. He did, however, underestimate the significance of some of the concessions extracted by the underdeveloped countries at London, Geneva and Havana.

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<sup>111</sup> *ibid.*, pp. 17-19

<sup>112</sup> As an example of a more radical approach, it is interesting to take the statement of Ernesto 'Che' Guevara Serna, Minister of Industry of Cuba, also at the first UNCTAD conference. He argued of the Havana Conference that 'the intention was to create a world order that suited the competitive interests of the imperialist Powers...At that Conference, and at the previous meeting at Bretton Woods, a number of international bodies were set up whose activities have been harmful to the interests of the dependent countries of the world. And even though the United States of America did not ratify the Havana Charter because it considered it too "daring", the various international credit and financial bodies and the General Agreement on Tariffs and Trade - the tangible outcome of those two meetings - have proved to be effective weapons for defending its interests and, what is more, weapons for attacking our countries.' *ibid.*, p. 162

<sup>113</sup> *ibid.*, p. 76

Yet it was hardly surprising that the orthodoxy that he decried had ended up predominating. For not only, in the immediate post-war years, were many of the underdeveloped countries inexperienced in international negotiation, but they were also unclear about what was distinctive about their state of underdevelopment. For example, at Havana, the Uruguayan representative defined an underdeveloped country as being one that exported foodstuffs and raw materials. Dana Wilgress was able to point out that this was a definition that fitted his own country very well. Moreover, Canada 'also disposed of more undeveloped square miles than any other country at the Conference with the possible exception of Brazil.' Yet she did not demand any need for the kind of restrictions that the underdeveloped countries were demanding: 'It was not too much to ask everybody to accept the same rights and obligations.'<sup>114</sup> Thus, until countries were able to articulate their needs and concerns more clearly, their mere participation in a United Nations forum would be of limited value to them - for it was one thing to extract concessions, and another to change the overall world-view on which agreement was based. This was what Prebisch and others would later set out to achieve.

## **Conclusion**

The post-war international order was Anglo-American in conception. Keynes and Meade were every bit as creative in contributing to its design as their US counterparts. However, Britain's serious economic exhaustion at the end of the war both weakened its bargaining position in Anglo-American negotiations, and eroded its commitment to a wholly non-discriminatory multilateralism. Consequently, the institutions of the international economic order were shaped by American desires to a great degree. In particular, these institutions were nested within the

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<sup>114</sup> Records of Havana Conference (E/Conf.2/23 Heads of delegations: summary record of meeting), 24 December 1947, p. 4, WTO

UN, albeit with a semi-detached status for the IMF and World Bank. Procedural multilateralism was thereby established as the modus operandi of the new order.

Having created the institutions that it wanted, however, the US was less than wholly successful in reproducing within those institutions its own values and its own analysis of the logic of the international economic situation. On the contrary, the fora had now been created in which divergent values and analysis could make their appearance – and, crucially, the supporters of such attitudes now had an institutional framework within which they could canvass for support. As a result, and somewhat ironically, the United States quickly became the target of accusations of imperialism and colonialism. In fact, the US record on this score was mixed. It included both the granting of independence to the Philippines and the negligent acceptance of renewed French colonial rule in Vietnam. (Moreover, there was strong US sentiment against, in particular, British imperialism, which was an important component of American hostility to the imperial preference system.) Nevertheless, the US was soon seen as the leader not only of the industrialized countries but also of the imperialist powers. This had already happened by the time that the Truman Doctrine ushered in the geopolitics of bi-polarity, and the crusade in defence of free peoples became the defence of all anti-communist governments.

Henceforth, the increasing debate on what seemed to be purely economic questions - the nature of ‘underdevelopment’ and the existence or otherwise of asymmetric economic structures - was never able to divorce itself from issues of unequal political power and the political ambitions of the two Super Powers. At the same time, it was characteristic of these debates to attempt to

do exactly that, to treat the issues as if they could exist in an entirely apolitical context. Global bi-polarity and economism became the strange bed-fellows of the 1950s.