The history of GATT: modern form of British imperial free looting

by Rosa Tennenbaum

The liberalization of world trade has been the leading issue in agricultural policy for some time now. But what is generally overlooked, is that the policy direction of the General Agreement on Tariffs and Trade (GATT) is by no means a recent phenomenon. Rather, it is simply a remake of the free trade policy which the British Crown utilized as a weapon to halt development in other countries, during the time when Great Britain's ships still ruled the seas.

The situation is not so different today, and GATT is the instrument of that policy.

GATT was constituted at the behest of the United States and Great Britain on Oct. 30, 1947. The agreement was signed by 23 nations. Its original intention was to provide the basis for an International Trade Organization, but that initiative failed when the U.S. Congress refused to approve it. Thus, GATT emerged as a provisional arrangement which ended up as the contractual and institutional framework for the present world order of international trade. GATT has grown to comprise 100 nations, and 26 other nations adhere to GATT's rules although they have not officially signed the agreement.

In 1944, the United States reordered the world monetary system to its own advantage. The value of the various currencies were fixed in reference to gold or to the U.S. dollar, and currency exchange rates were held stable within a permitted 1% range of fluctuation. In order to monitor currency rates, the International Monetary Fund (IMF) was established, while the World Bank was founded for the granting of development credits. Both institutions have in the meantime become infamous for their genocidal debt policies toward the developing sector.

GATT is the third pillar of the world economic order created by the Anglo-Americans following World War II. All three institutions are instruments of power whose purpose is to firmly ensconce the predominance of the United States and Great Britain, which at the time was unchallengeable.

The crucial elements of GATT are based on the U.S. Trade Act of 1934, which had been designed to protect American export interests. GATT is based on the assumption that economic growth and increase in the prosperity of all trading partners is best achieved through increases in international trade. Manufacturing plays absolutely no role—as if one could continue trading forever, without ever having to produce the goods first.

The history of free trade

The arguments which clamor around us everywhere from the free traders, are as old and as lying as is the policy which they serve. We are now seeing a rebirth of the same free trade doctrine which oppressed the world 300 years ago, and which bled many nations to death. Adam Smith, the employee of the British East India Company, the British Crown's biggest trading monopoly, made this theory socially acceptable and elevated it into the status of a so-called science. He developed a system which gave top privilege to the trading companies, and which relegated the state to the status of their handmaiden.

Queen Elizabeth I granted the East India Company a monopoly on all trade with India and China. Within only a few decades, the East India Company had impoverished these once-flourishing cultures and rich economies, and they had to hand themselves over without conditions to the desires of the omnipotent company.

Its economic method corresponded precisely with the ideas of today's free traders. The East India Company procured iron from the world's most remote lands, while the colonies were forbidden even to sell nails without British traders being involved. From distant India, cotton was introduced into the British motherland, where it was processed into low-grade textiles and then sold back to India at high prices. Contemporary accounts report that these textiles were of such poor quality, that they would lose one-third of their weight after the first washing.

In Europe, the first great agricultural measure implemented under the banner of free trade, was the lifting of the British import tariffs on grain, which was done on June 25, 1846 under the pretext that workers should stop paying exorbitant prices for bread. Just as today, the consumer organizations

FIGURE 1
Per capita U.S. consumption of iron fell whenever free trade was imposed
(lbs. per capita)

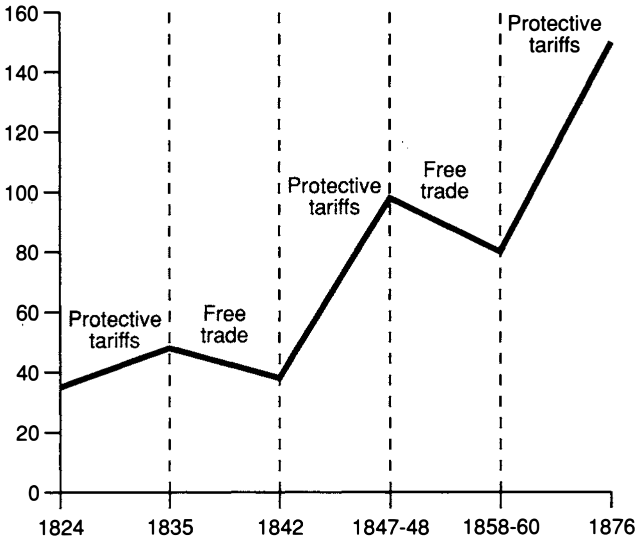
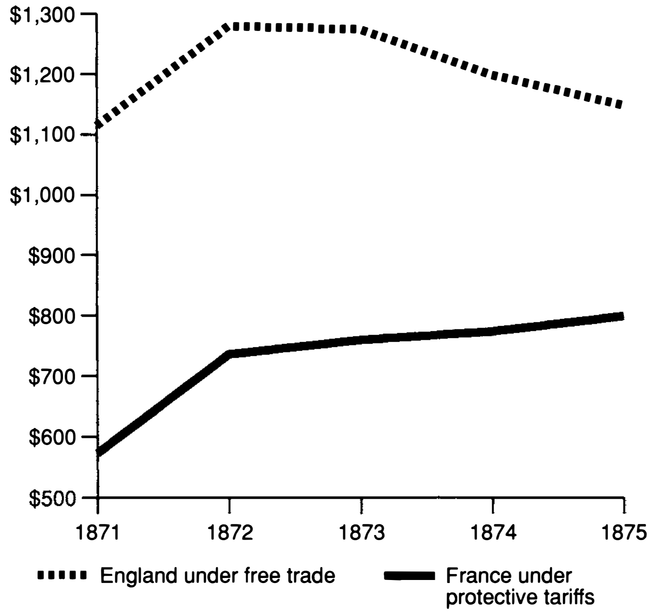


FIGURE 2
British exports stagnated under free trade over 1871-75, while France's climbed steadily
(millions $)



claimed that the cities could buy more cheaply if supports for producer prices were eliminated. The main impetus for abolishing the grain tariffs came from the Anti-Corn Law League, headed by Richard Cobden. Members of the league included many members of the Rothschild family and the Baring banking house; John Stuart Mill, the free traders' court economist; and the country's big textile manufacturers. Indeed, the league's membership list reads much like the list of those who were sitting at the GATT negotiating table before the latest round broke down in early December. Today, too, we see the big banks and trading establishments, which set the tone and are journalistically bolstered by their own corps of "court economists."

The abolition of the corn tariffs had marked effects, but in no way did those effects correspond to what the free traders had promised. Throughout Europe, grain prices sank, production costs rose, and indebtedness greatly increased. In Great Britain, as a result of this measure, the amount of land used to cultivate wheat dwindled from 13.2% of all arable land, to only 6.8% by the end of the century; tubers sank from 10.1% to 7.9%, and the proportion of vegetated land rose from 42% to 58%, since the fallow fields lapsed into that category. Thus, free trade certainly did not profit the farmers.

If we reason strictly according to the free traders' theories, the prosperity of the general population should also have increased over that period.

Yet this was not the case, since 1) the agricultural proportion of the total economic product in those years was many times greater than today, and 2) what holds true for agriculture is equally true for other branches of the economy. **Figure 1** shows how per capita iron production in the United States always dropped under free trade regimes, whereas it climbed whenever protective tariffs were in effect.

Continental Europe protects itself

The fruitful benefits of protective tariffs are evident in the development of agriculture and industry during the initial phase of the European Economic Community, following its establishment in 1958. After the pain had dissipated from the considerable drop in grain prices which West Germany had to agree to in exchange for its membership in the EEC, the system of guaranteed prices and protection from foreign goods ushered in prosperous years in the agriculture and industry of all member countries.

Economic data clearly demonstrate that free trade not only plunges agriculture, but also other economic branches, into crisis—as is shown, for example, in the export data on Great Britain, which has stuck with free trade for centuries. Compare this with the development of France, where the protective tariff system has been adhered to (**Figure 2**).

The world market: a fiction

What the Anti-Corn Law League was actually counting on, was that wages would sink along with grain prices, since the league was the expression of a powerful interest group which could care less about improving the general welfare. While the public was lured by the prospect of lower bread prices, one Member of Parliament explained what was actually behind this free trade measure, namely, "that by free trade we mean no more and no less than achieving a monopoly of our products on all markets, and, by means of the great advantages we possess, preventing all other nations from becoming industrial nations."

That is a declaration of war; and in this instance, the war against France was conducted under the banner of free trade. And it is this same policy which guided the recent GATT negotiations. The United States demanded that within 10 years, all agricultural subsidies—everything that could be even remotely described as support for agriculture, such as cheaper credit, agricultural consulting, cheaper fuel prices, etc.—be reduced to zero and banned internationally.

In the top echelons, it has been more or less agreed that by the end of the 1990s, agricultural income should be determined exclusively by "world market prices"—a pricing unit which does not in fact exist, for there is no such thing as a "world market," but only international markets on which nations offer their goods and accomplishments. Similarly, there is no such thing as a "world market price," but only a process of establishing prices within each national economy. Everything other than that has nothing to do with economics, but rather with high-level political dealings.

So, this "world market price" which everyone is talking about, is as fictitious as the concept itself. It is well known that this price is really set at the grain exchanges in Chicago, and that it is not set there according to supply and demand, but rather entirely according to the requirements of only eight firms and banks which trade on big margins. If GATT has its way, then, the income of farmers and their families in every part of the world will be determined by eight giant corporations.

A Hobbesian nightmare

What will economic life be like under free trade? It will certainly strongly resemble what was described in a report to the British Parliament during the years when the Anti-Corn Law League was active: "Great conglomerations of capital today enable the richest capitalists . . . in depressed times to flood all countries abroad with their own wares, thus opening up for all trade the possibility of being there in order to make large business deals, before the foreign capital can in turn be gathered together in order to withstand price competition with any chance of success. The great masses of capital in this country are the great weapons in the war against the competing capital of foreign countries."

If the world market is liberalized in this way, then in the future goods will be produced only in those locations where it is the cheapest to do so because of natural and labor conditions. Agriculture will be restricted to the so-called high-yield areas, and will be specialized in the extreme. Butter, for example, will be produced only in New Zealand, where it can be produced 30% more cheaply than elsewhere. The market can then be flooded with such cheap products in order to clear the field of competitors once and for all.

Under such conditions, underdeveloped countries would never have a chance to develop into rich economies. They would merely be areas of cheap labor, and would receive limited investments which would go solely into export-oriented areas. The countries themselves would remain enmired in poverty and dependence. The enthusiasm which many developing countries are currently showing for free trade, is therefore extraordinarily tragic, since they imagine this will give them easier access to the markets of the "rich" countries, while they overlook the fact that their position only becomes weaker in the process. Only a few agrarian countries in Ibero-America have even short-term chances for improvement; their agricultural exports would rise, since their production costs are lower and they can offer their goods at lower prices. But under free trade conditions, they would perpetually remain agrarian countries; it would be impossible for them to make the leap into industrialization.

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If the world market becomes liberalized, this will usher in the heydays for the big trading companies. Once domestic circulation of goods is ruined within national economies, producers and consumers become torn so far apart that they are no longer in touch with each other, and nothing can get done without the trader. It will be he who then determines what will be sold and what will be bought. He will determine prices for producer and consumer alike.

Free traders are invariably also advocates of the theory of a one-world government, which would be formed in due course by the trading monopolies. The trading empires are therefore attempting to build up a supranational dictatorship over free trade. The nineteenth-century political economist Friedrich List contrasted these "cosmopolitans," as he called them, to the German industrial firm, since with the former, "under current world conditions, universal free trade would necessarily bring about not the universal republic, but rather universal subjugation." And that is precisely the spirit which emanates from GATT.