The Intellectual Crisis in the WTO: Implications for the Global Governance of Trade

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Introduction

An interesting dimension of the global crisis is the way in which certain key institutions of global governance have apparently undergone a degree of intellectual renewal. This has come as a material consequence of the crisis itself, and is driven, at least in part, by the increasing appeal of heterodox ideas about political economy which question the neoliberal orthodoxy of the past three or four decades. There can be discerned, therefore, an emergent vein of research which questions the extent to which such intellectual soul-searching in, most notably, the IMF and World Bank, represents a genuine break from neoliberalism, or simply an accommodation with it.

Yet regardless of the answer to this question, a more interesting problem relates to why this, to some extent remarkable, opening up of the intellectual edifice of global governance, has occurred in the two main Washington-based Bretton Woods institutions, rather than elsewhere. There has, for example, been little – if any – of the same kind of questioning of orthodoxy in the WTO; indeed, rather than intellectual vibrancy, the sense is very much of institution which is characterised by stagnation. This is, moreover, a critical problem: very real implications for the governance of trade globally flow from a failure of the WTO to rethink and renew itself.

The goal of this paper, therefore, is essentially a counter-factual one. Specifically, it seeks to reflect critically on the reasons for the WTO’s apparent commitment to orthodoxy. It analyses the prevailing institutionalist ways of explaining the inability of the institution to rethink its assumptions and approach, before assessing how particular ideas about global trade politics have been institutionalised to such an extent that they effectively constitute structures of intellectual constraint. The paper ends by evaluating the wider – and concerning – implications for the future governance of global trade.

The Crisis and the ‘Return’ of Heterodoxy

There is no doubt that the crisis has prompted a degree of soul-searching amongst the global intellectual and policy elite, although this has happened in a number of different stages as the crisis itself has unfolded. In his influential analysis of austerity, Mark Blyth (2013), for example, notes how the overarching response to the crisis has essentially occurred in two different stages. The first, which took place up until 2010, was one which was relatively – that is, relative to the character of neoliberal hegemony – radical. It was characterised by the enormous stimulus packages and bailouts in both Europe and the United States, along with calls, which, in the end, have remained largely unheeded, for a fundamental recasting of the extant paraphernalia of global governance. Indeed, it has perhaps faded from memory now, but in the early stages of the crisis,
when Gordon Brown was actively ‘saving the world’ and Barack Obama had recently acceded to office, progressives of all hues were proclaiming the need for nothing less than a ‘Breton Woods II’ to underpin an emergent world order, and this was reflected in the debates taking place in IPE at the time. However, the second stage has been, in every sense of the word, notably more austere. As Blyth further details, under the aegis of German ‘ordoliberalism’, the EU, in particular – but also assisted by the installation of conservative governments in countries like the UK -- has embraced a visciously orthodox and deflationary agenda, apparently putting paid to early experiments in heterodoxy.

Yet as Colin Hay and David Marsh (2000: 6) once argued with reference to globalisation, the way international politics evolves is not pre-ordained, and what might appear to be an inexorable dimension of global change is actually little more than ‘a tendency to which there are counter--tendencies’. Or, put another way, simply because orthodoxy has become embedded in one context neither means that it will inevitably endure, nor, indeed, that alternatives do not flourish elsewhere. As Hay has more recently argued with Anthony Payne (2013), the contemporary period – which they label 'The Great Uncertainty' – is actually markedly more contingent and open-ended that we might instinctively believe. Consequently, although it is evident clear that a genuinely ambitious post-crisis settlement that is truly deserving of the ‘Breton Woods II’ moniker has undoubtedly never materialised, it is equally true that the crisis itself – certainly when conceptualised in the broader terms that Hay and Payne favour, as the confluence of three interlocking crises of shifting economic power, financial crisis and environmental threat – its far from over. Furthermore, the suggest that, when compared to previous structural transformations, the recasting of governance structures to sustain the new order took a good sight longer than four or five years.

Viewed in this way, then, the contemporary period is one of enormous flux. Beyond the (attempted, but hardly achieved) fiscal rectitude of the British Conservatives or the imposition by Brussels and Berlin of their deflationary agenda in the European periphery, there do exist sites where orthodoxy is being questioned in order to effect intellectual renewal and change. Indeed, what is perhaps striking is that many of the most interesting debates that are occurring are taking place within institutions that were formerly considered to be at the vanguard of neoliberalism. Outside of those countries, like Saudi Arabia, which have very distinctive political economies and large reserves of cash, it is the US government which has engaged in one of the most wide-ranging Keynesian stimulus programmes throughout the crisis. Moreover, it is the Washington-based International Financial Institutions (IFIs) -- meaning the World Bank and IMF – which have done most to challenge the pre-crisis orthodoxy.

In the case of the World Bank, questioning orthodoxy – to whatever degree – has been a much longer process than simply a response to the current crisis. The conventional story is that this began with Joseph Stiglitz’s (1998a; 1998b) attempt to recast the neoliberalism of the 1980s by moving towards what he termed the ‘post-Washington Consensus’ during the 1990s. Stunned by the various debt crises of the time and the very real crises of weakened states that had both resulted from, and amplified, their effects – not to mention the stinging critique that came the way of both of the key Washington-based IFIs -- Stiglitz argued for a wider range of measures to underpin World Bank development policy, and this in turn resulted in the broader ‘good governance’ agenda with which we are now familiar. Of course, this was far from controversial at the time, and, indeed, led to the end of Stiglitz’s own career at the Bank (Wade 2002). What is perhaps more important and interesting, though, is that there had actually long been a fervent debate within the Bank regarding the character of the governance agenda that it should pursue. This began as early as 1991 with the now-infamous discussion paper Managing Development: The Governance Dimension (World
Bank 1991) which advocated a relatively radical interpretation of what governance might mean, and the Bank’s own role within it. In a nutshell, the paper which was written after a lively internal debate -- and never published, but rather leaked, and is today prefaced by a number of disclaimers protesting about not wishing to overstep mandates -- suggested, that the failures in project implementation of the 1980s were generally a result of weak institutions, and therefore augmenting the penetrative capacity of the state could and should be a central objective of policy. (As an aside, Francis Fukuyama (2013) has since made a similar argument in rather convincing fashion). Nonetheless, the subsequent direction of travel, as we know, was one in which a distinctly more neoliberal view of good governance, which saw the state as the problem rather the solution, came to be embedded. This involved viewing governance not only as analytical recognition that the state ‘does’ share power with other actors, but also had a much more normative dimension in that the goal of policy, to a certain extent, became about facilitating the process of fragmenting power and distributing it beyond the state. To give one example: the role of civil society actors and global multinationals in public service delivery in large parts of the developing world has been consciously cultivated, with often disastrous implications for state capacity (see Grugel and Bishop 2013). More recently, and despite a general continuation of the broad thrust of post-Washington Consensus policymaking (see Güven 2012), there is little doubt that the Bank has evolved intellectually. For example, as Paul Cammack (2004) noted some years ago, the ‘genuine’ commitment to poverty alleviation and the often uncertain movement into a wide range of what we might term softer areas of development, are not a chimera. It is just that they coexist with a broader context of conformity with the much larger project of capitalist hegemony.

Yet this is not a problem in itself, for an important element of my argument in this paper is that authentic ideational change does not have to signal a fundamental break with capitalism. As Andrew Gamble has reminded us at various junctures, there are many different kinds of capitalism and many different kinds of neoliberalism (Gamble 2009a; 2009b; 2014). A more heterodox and state-centred approach to development, in which public power is utilised to restructure markets and facilitate new patterns of accumulation will certainly remain capitalist, and it may even be liberal in a broad sense; indeed, the outcomes that it provokes in terms of levelling the playing field might actually be more genuinely liberal than the rentierist accumulation regimes that characterise many Western economies today. I am not suggesting that the institutions of global governance could or should advocate dispensing with the whole edifice of global capitalism, as that is plainly implausible. Rather, it is clear that key assumptions have been questioned within the World Bank and new policies developed, which, although fitting with prevailing ideological structures of power, were also clearly unimaginable during the neoliberal Zeitgeist of the 1980s.

Much the same can be said, moreover, about the IMF. Indeed, it is striking just how far the Fund has come since the crisis in fashioning a new intellectual and policy agenda. Many others have reviewed the broad reasons for this, so they do not warrant a detailed recounting here, other than to reiterate that the confluence of two main factors – a demonstrable paucity of clients who, because of either reticence to subject themselves to further structural adjustment or rapid growth and accumulation of reserves had rendered themselves financially independent by 2008, along with a serious degree of underfunding when set in the context of the scale of the bailouts required in the European and North American core – contributed to an apparent lack of mission (as a global lender of last resort worthy of the name) and therefore a serious, and potentially even existential, institutional crisis (Chwieroth 2014; Eichengreen 2007; Grabel 2011). The response to this reality, though, was remarkable. Recognising the gravity of the situation, Dominique Strauss-Kahn compelled IMF economists and researchers to think
expansively about the institution’s response, and this in turn generated a significant degree of intellectual questioning of its mandate and approach. This has, of course, played out in a very uneven way, and has undeniably been controversial within the Fund itself (hardly unsurprising given that a large swathe of its staff are classically trained economists).

Nonetheless, certain dimensions of its approach have been fascinating. Two examples bear brief mention here. One evinces the paradox represented within the discussion above, and is represented by the way in which, under Chief Economist Olivier Blanchard, the Fund has been critical – albeit in the guarded terms favoured by international technocrats – of the self-flagellating policy approach of major Western countries, and notably the UK under the Conservative-Liberal Democrat coalition. The other is, of course, the increased acceptance of short-term capital controls to cool flows of hot money in the Fund’s policy canon, which, in the case of Iceland, actually became not just acceptance, but rather advocacy of controls, and even long-term ones (Sigurgeirsdóttir and Wade 2014). In some respects, of course, this might not be considered such a radical departure from orthodoxy. As Jeffrey Chwieroth (2009) has argued, capital controls were seen to be a crucial tool of policy for much of the IMF’s history, and it was only with the neoliberal ascendency that they were gradually rendered verboten, after much debate within the organisation. So, in a sense, their rediscovery can perhaps be seen as little more than having come full circle in an ideational sense. Moreover, it is true, of course, that tales of IMF heterodoxy do founder somewhat if we consider that, in fact, capital controls and a greater respect for counter-cyclical policy (driven in part by fears of Japanese-style deflation in much of the West) appear to represent the limits of policy change. As Ali Burak Güven (2012) has suggested, the very same processes that have precipitated these changes – the financial independence of major developing countries, most notably – are also inhibiting further change, largely because the IMF (and by implication the World Bank) do not have a sufficient client base to ‘learn from’ as they did during the 1990s when a range of countries as ostensibly similar as Thailand, Turkey and Mexico all experienced a fiscal crisis.

Nonetheless, this does not change our overarching analysis, particularly since the process of intellectual reflection that is clearly underway in the Bank and the Fund is ongoing. Moreover, it takes place, as we have said, in a context of an ongoing crisis – or Great Uncertainty – that still has a long way to go until it is fully played out.

**Explaining Enduring Neoliberalism in the WTO**

If we accept that there has been – to whatever degree – some measure of intellectual renewal in two of the primary institutions of global governance over the past few years, this potentially leaves us with an interesting theoretical puzzle, albeit a counterfactual one. Put simply: why is that there is a not a corresponding processes of critical intellectual reflection evident within the WTO? I am not, of course, suggesting that the WTO should have rejected wholesale its entire pre-crisis thinking; as I will shortly argue, it is does not have the institutional capacity or mandate to do so anyway. However, given that the broader process of deepening multilateral trade rules has been stagnant for almost a decade (see Muzaka and Bishop forthcoming), we might expect, at the very least, some questioning of the core assumptions and ideas on which WTO actors and their activity are based.

Yet this has plainly not happened. When compared – especially – to the relative agility evident in the IMF’s response to the crisis, the WTO has actually appeared rather flat-footed. Barely a murmur of critique passed the organisation’s lips as major Western countries engaged in a whole raft of policies from 2008 onwards, which, at the very
least, contradicted the spirit of global free trade. By contrast, what has appeared rather striking is the lack of appreciation of the changed context of global political and economic realities, along with a steadfast refusal to countenance anything other than continued platitudes regarding the completion of a Doha Round which, in reality, has been dead since at least 2006 (again, see Muzaka and Bishop forthcoming). Anecdotes are often not good guides to reality, but one has stuck in my mind for some time now, and, in fact, provided my motivation for writing this paper (or the initial kernel of an idea for it). I was in Barbados in 2012 at a conference on Caribbean competitiveness policy. In a discussion about banking, I suggested that, in light of the fact that many European banks had either been explicitly bailed out by their states, or enjoyed an enormous range of implicit subsidies, and because much lending was essentially being directed towards speculative activity (and huge bonuses), these mega-banks were failing to perform their role in terms of the provision of the public good of liquidity to productive investment. A different story, but with similar outcomes, can be witnessed in the Caribbean, where banks are generally controlled by the same merchant capital that has long inhibited development in most islands (see Marshall 1998; 2002), and tend to lend primarily to firms -- usually their own conglomerated cousins -- or people involved in purchasing imported good such as cars. As such, I asked, should the state not consider intervening in the market to refashion it in such a way that capital moves into productive activity? This, of course, did not seem to me a particularly controversial statement, given the debates that were underway at the time, both in the more heterodox parts of political economy and the wider public debate which was being increasingly well served by many influential economists like Nouriel Roubini, Joseph Stiglitz, Dani Rodrik, and Paul Krugman, and, in the UK, Ha-Joon Chang, Will Hutton and even Martin Wolf. However, it encouraged a stinging series of rebukes from the three WTO economists at the workshop, one of whom likened the suggestion to little more than a dangerous advocacy of communism (!) This suggested to me that, four years on, and in spite of the fervent public debate occuring around them, WTO officials had not even begun to question first principles. Rather, I drew the conclusion that, for many at the WTO, the crisis was simply a blip in a longer term pattern of rationality -- which, of course, it may well prove to be – and, once it was over, the multilateral liberalisation train could simply be placed safely back on the track.

So, why is this the case? The reasons can be divided into institutional and ideational explanations. On the institutional side of the equation, there is the simple question of capacity. As Jens Mortensen (2011: 77) has put it:

A stark contrast exists between the popular image of the World Trade Organisation (WTO) as a uniquely powerful international organisation (IO) and its actual capacity to monitor national policies and to enforce compliance with WTO rules among its member states. Rather than overseeing policy implementation itself like the International Monetary Fund or the World Bank, the WTO relies much more heavily than other high-profile IOs on a legalist method of surveillance.

As we know, the WTO is a member-driven organisation, and it carries out the will of those members. One enduring irony of the crisis is that, even as the major European countries and the USA have engaged in a significant volte face -- given their historical commitment to supposedly free markets and trade -- in terms of their support for beleagured industries, they have simultaneously engaged in the aggressive pursuit of further liberalisation which goes way beyond the WTO rubric, and, in fact, increasingly makes the potential gains of Doha seem relatively modest in hindsight. This is particularly striking in the case of EU attempts to neoliberalise its developmental agenda by corralling the various African, Caribbean and Pacific (ACP) countries into binding WTO-plus Economic Partnership Agreements (EPAs) (Bishop, Heron and Payne...
2013; Heron 2011; 2013) which essentially mirror its broader commercial agenda which is predicated upon aggressively opening markets by striking bilateral free trade agreements (FTAs) with the fast-growing countries of the rest of the world (Heron and Siles-Brügge 2012; Siles-Brügge 2014). However, it also points to a broader rhetorical commitment to the ideal of free trade within the major centres of Western power, even though this is falsified in practice. Yet the costs for Western countries from engaging in state intervention which contravenes a supposed commitment to free markets are pitifully low. Smaller developing countries are often loath to challenge the major players at the multilateral level, unless they have some specific interests at stake; the costs of litigation are often too great, and the broader costs that can be levied by a slighted major power can be highly destructive after the event (Elsig and Stucki 2011).

Moreover, as Gabriel Siles Brügge (2013) has recently argued, it is not just that key actors use appeals to free trade as discursive cover for activity which contradicts their supposed commitment to openness. Rather, they have internalised what he terms the ‘Smoot Hawley myth’ (i.e. that excessive tariffs and ‘beggar thy neighbour’ trade policy directly precipitated the Great Depression of the 1930s) to such an extent that, aside from what is deemed exceptional, one-off activity (such as the bailouts), policymakers have consciously sought to keep borders open to trade as far as is possible. This in turn brings us to the ideational dimension of paradigm maintenance within the WTO. Put simply, it is very difficult for officials within the institution to question the neoliberal agenda, even were they so inclined. This is partly because the WTO itself was founded on a very straightforward proposition: its role is neither development nor fairness in global trade politics (nor any other objective that we might think pertinent to engendering satisfactory global trade governance, such as managing and rectifying imbalances in the system), but the ongoing liberalisation of substantially all trade. This in turn is predicated on the simple yet extremely powerful idea central to Ricardian economics that relative trade gains will eventually produce the best possible level of aggregate development. So, in sum, there is one very major intellectual assumption underpinning the whole of the WTO’s raison d’être; to begin to unpick this, without the express permission of the key members, could bring the whole house down. Or, put another way, some fundamental assumptions about the WTO’s role and mandate would have to be subjected to critical scrutiny – by people who have been schooled in such a way of thinking for their entire careers – in order for any kind of ideational change to occur. It is not that the ideas are not available, they plainly are. But they would involve a conflict at the ontological, rather than epistemological, level, which is impossible for relevant actors to countenance.

Conclusion

It is clear from this brief analysis that the WTO is struggling to adapt intellectually to a post-crisis era that calls for new kinds of policymaking. The governance of the global political economy is in a great state of flux, and the ideas that underpin it are being challenged -- whether in a fundamental sense, or in a more nuanced fashion -- to a greater extent than in the recent past. Plus the crisis still has a long way to run, and will potentially produce yet more shocks and surprises to the system, with unknown implications for the ideas that shape the global economy beyond it. Agendas shift, ideologies come in out of fashion, resources move, institutions evolve – or ossify – and structural change, whether locally or in the global political economy as a whole, continually forces them to adapt and even potentially renders them redundant. As Andrew Gamble (2014) argued more generally:

A typical example of deadlocks for example are when negotiations between two or more parties to a dispute become blocked, while examples of impasses are when institutions
and sometimes entire regimes can become blocked either because of their internal culture and forms of decision-making or by the veto power of entrenched interests, or by both. A great deal of political activity is about the managing of inescapable blockages and rigidities which must necessarily arise in any society. It is their existence which makes politics as an activity indispensable, seeking to resolve and manage conflicts which are often intractable. At times the way politics works often seems to make the problems more intractable, and politics is often perceived as the problem, but politics can also produce breakthroughs and lead to substantial re-ordering of institutions and policies.

It is therefore quite plausible, in fact, that the high point of the WTO – during the late 1990s and early 2000s, where it appeared to be the site where the key battles of global governance were being fought – is actually already over. The Doha Round is over, and global trade politics is rapidly moving towards a brave new world of bi- and pluri-lateral activity that calls into question the multilateral settlement embodied in the institution (Muzaka and Bishop forthcoming). The richer, Western countries are clearly keen to continue moving in this direction. But much of the Global South -- not simply the emerging powers which have traditionally resisted Northern power in the WTO, but also much poorer countries which have been excluded from new negotiations – has long been suspicious about broad-based liberalisation. Indeed, their dissatisfaction with their gains from the Uruguay Round was at least part of the (rhetorical) justification for why Doha was required in the first place. Yet the WTO has been unable to craft a language or political agenda that builds bridges between these fragmented groups and their interests. The danger is that it will not be able to, and we may find ourselves in a world once more without a multilateral consensus on trade.

References


