REVIEW

The GATT: Law and International Economic Organization. KEN-...
More books have been written about the GATT than about other international economic institutions. In addition to Professor Dam's book, four major volumes on the GATT have appeared within the last five years. Three of the volumes are similar—a chapter on the GATT's history, a chapter on the various articles of the GATT, with a historical commentary on how they have been applied. Another volume studies the law of the GATT.

The most plausible explanation for the concerted attention given the GATT is the availability of information about its operation; there have been a large number of decisions and the process is an open one. Trade issues generate more decisions than do issues involving money, perhaps because the number of commodities is so large. Moreover, in some international institutions, the decisions are made by the international civil servants who frequently act in executive session. In contrast, within the GATT the decisions are made by representatives of national governments, usually meeting openly under the GATT umbrella.

The central issue for these and future books about international economic organizations is whether they focus on questions worth answering. An examination of the GATT or other international economic organizations that seeks to do more than give a descriptive, historical account can be justified on two grounds. The first is that reorganization of the activities or the structure of the international institutions may increase their effectiveness in promoting economic welfare, a goal of central importance to national governments. The second is that international organizations are an important institutional phenomenon, and insights about the activities of one might be useful in understanding the operations of others. Thus, any study of the GATT should be judged in terms of its evaluation of the institution's performance.

The welfare costs of national commercial policies are immense. Since trade barriers entail large costs in the form of forgone income resulting from less efficient production patterns, GNP increases with the elimination of these barriers. Most of these barriers existed prior to the GATT. However, since the GATT largely ignores trade in services (ocean shipping and airlines), trade in goods produced and consumed in the public sector, and trade in the agricultural sector, and focuses solely on trade in the manufactures, its effectiveness in eliminating trade barriers is limited.

Trade has increased rapidly in the postwar period. Tariffs and other

barriers have been reduced. Some analysts attribute the growth in trade to reduction in barriers. Theory is on their side: the smaller the barriers, the greater the trade. But barriers would almost certainly have been reduced and trade would have grown even without the GATT. The critical issue is whether the GATT, with its insistence on generalized tariff reductions, has made a difference.

Two factors are relevant. One is that the most significant changes in commercial policy in recent years have been outside the GATT framework; these include, for instance, the development of regional customs areas, such as the European Common Market and the European Free Trade Area. The second is that much of the resistance to further trade liberalization has arisen from balance of payments problems; unnecessarily high costs have resulted because the problem has fallen between the stools of the IMF and the GATT. The combination of the GATT's stubbornness on export subsidies and tariff surcharges, and a natural reluctance to alter exchange rates, has forced reliance on costly balance of payments policies.

The GATT's great success was the Kennedy Round. The Kennedy Round was a United States response to the across-the-board cuts in the formation of the Common Market. This procedure was adopted on a worldwide basis. But the Kennedy Round was a reflection of the United States' "Grand Design" for Atlantic relations. While the GATT played a substantive role in the negotiation process, it seems highly likely that there would have been a Kennedy Round even without the GATT.

Whether commercial restrictions would have been reduced more rapidly in the absence of the most-favored-nation approach of the GATT is necessarily conjectural. The issue is, however, at the heart of the GATT; it receives much less attention than it deserves.

The second set of issues suggested by the volumes on the GATT involves the functioning of international organizations. These organizations are a recent phenomenon. A good history of what they have done for intelligent prescription of how their effectiveness might be improved. The decision process is obviously complex, involving the interplay of a staff of international civil servants and various national governments. The objectives of the participants differ; the need is to find the denomination around which bargains can be struck. The trade-off is between complexity and payoff—multilateral negotiations are more complex than bilateral negotiations, but their payoffs are probably much greater.

The shortcoming of Professor Dam's book is that it optimizes at the chapter level rather than at the institutional level—it pays too little
attention to and asks too few questions about the central themes of the GATT. The focus is too heavily directed at the GATT process, with inadequate emphasis on the costs and benefits of the GATT efforts to achieve welfare gains in the commercial policy area. Dam's book is, however, highly readable and is an excellent analysis of the GATT process. The volume exhibits a comprehensive understanding of the economic significance of the various articles and a sensitivity to their application. The high level of analysis qualifies this as an outstanding study of an international economic organization, one which should serve as a useful model for scholars interested in studying similar institutions.