

Preface

If the world trading system has a constitution, it is embodied in the Articles of the General Agreement on Tariffs and Trade (GATT) and now its successor organization, the World Trade Organization (WTO). Since the late 1960s legal scholars have actively explored the logic of GATT principles from the perspective of international law. Until recently, however, the GATT/WTO has not been the subject of systematic and formal economic analysis. Our purpose in writing this book is to provide a formal economic analysis of the central features of the GATT/WTO.

It might be expected that a formal economic exploration of GATT principles could proceed from the familiar economic arguments for free trade. After all, fifty-some years of negotiations under the GATT/WTO have resulted in an impressive freeing of trade. Surely it can be argued that a large part of this liberalization is attributable to the desire of governments to reap the efficiency gains of free trade for consumers everywhere, and that GATT principles can be interpreted as harnessing this desire. Yet a pair of observations suffices to explain why the familiar economic arguments for free trade are not of much help in interpreting GATT principles.

A first and fundamental impediment in applying such arguments to the interpretation of GATT principles is that the familiar case for free trade is a unilateral case, and as such it leaves no role for the existence of a trade agreement of any kind. Hence, when viewed from this perspective, the economic logic of the GATT/WTO is immediately suspect. And even if the economic arguments for free trade were couched in reciprocal terms, there is a second impediment to the application of these arguments in interpreting GATT principles. The fact is that virtually every tariff that has ever been lowered by a government as a result of a GATT/WTO negotiation—a tariff “concession” in GATT

parlance—has been lowered for a simple reason: some exporters somewhere in the world valued the market access, and as a result their governments were willing to offer something of value to that government in return (i.e., export access to their own markets through reciprocal tariff concessions of their own). Hence the consumer gain that comes from freer trade is not the liberalizing force that has been harnessed by the GATT/WTO. Instead, the GATT/WTO is driven by exporter interests.

Many economists have interpreted these observations as implying that some form of mercantilist logic lurks at the foundation of the GATT/WTO. And as a result a common view among economists is that GATT principles are, indeed, economic nonsense. According to this view, the GATT/WTO deserves the support of economists, but not because its rules have any demonstrable merit on economic grounds. Rather, the GATT/WTO deserves economists' support simply because negotiations sponsored by and implemented under its auspices have led to remarkably "good" outcomes (i.e., a remarkable freeing of trade).

We describe in this book an alternative perspective according to which the central GATT principles do make economic sense. This alternative perspective does not require the development of "radical" or "exotic" formal models. In fact we develop most of the material in this book within very standard general equilibrium models of the world economy. But this alternative perspective does require that one take seriously an old idea: trade agreements exist to enable governments to escape from a terms-of-trade-driven Prisoner's Dilemma. A central message of this book is that economists have been too quick to reject this idea as a legitimate basis from which to interpret and evaluate GATT principles.

By describing the key institutional features of the GATT/WTO and presenting a unified economic framework within which to explore the logic of these features, we hope that this book can serve several purposes. First, we hope to provide established researchers in this area with a simple way of articulating the underlying problems that GATT principles seem well equipped to address, and with a simple and general framework from which to approach the economic analysis of the GATT/WTO. Second, we hope to entice new researchers into this research area. These include, of course, graduate students of international trade, but we also hope that this book will convince industrial organization economists, contract theorists, and applied game theorists that the GATT/WTO is an institution well worth studying. And finally,

we hope that this book will be useful for those who seek to understand the functioning of this important international institution. In particular, we have attempted to keep technical material to a minimum while emphasizing general results and key insights, in the hope that this book will appeal as well to a more general audience of economists, policy makers, and advanced undergraduates.

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