One of the most important parts of the legacy of Adam Smith is the multilateral trading system. Founded in 1948 as part of the liberal international order, the system marks its 75th anniversary this year, a year that is also the 300th anniversary of the birth of Adam Smith, author of *The Wealth of Nations*. These two occasions should be especially marked at the World Trade Organization (WTO), the steward of the world trading system.

When you visit the WTO, a handsome Italianate building on the shores of Lake Geneva in Switzerland, you will find the entrance flanked by two allegorical figures. They represent Peace and Justice. Inside the lobby, on the right-hand wall in a place of prominence are four small plaques in honor of some of the individuals who most influenced the creation of the WTO and the shaping of the General Agreement on Tariffs and Trade, the GATT, which preceded it.¹

There is at least one tribute that is missing to an individual of central importance to the world trading system. Adam Smith deserves a place of honor at the WTO. The multilateral trading system, administered by the WTO – this grand design of benefit to humankind – is a major part of Adam Smith’s legacy. This institution and its members are indebted to his insights. A formal acknowledgment of Adam Smith and his work is overdue.

**The Adam Smith Plaque Controversy**

Let us suppose that British Prime Minister Rishi Sunak proposes the installation within the WTO building of a commemorative plaque in honor of Adam Smith. This would be a most natural step to take from a current world leader who has been outspoken in his great admiration for the philosophical and practical contributions of Adam Smith.² It is also appropriate that the

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¹ John H. Jackson (Professor of International Economic Law), Jagdish Bhagwati (Professor of Economics and Law), Ambassador Julio Lacarte Muró (Cabinet Minister, Dean of GATT / WTO Negotiators, First Appellate Body Chairman), and Amartya Sen (Nobel Prize in Economic Sciences).
suggestion comes from Great Britain, a principal co-founder of the multilateral trading system that has after a four-decade period of silence at the WTO while it was a Member State of the European Union, emerged to speak with a voice of its own.³

Installing a commemorative plaque for Adam Smith at the WTO – probably in the shape of a medallion, as that is the form of the best-surviving likeness the world has of him⁴ – would, in my views be more than justified. And yet, it would not be without substantial controversy. The driving force behind Smith’s insight was maximizing efficiency. In today’s world, few government officials (and at this point, not all economists) would defend efficiency as a primary objective of trade policy, even though it is the pursuit of efficiency that created much of the growth of what is the real “wealth of nations”.

Why then would an Adam Smith memorial plaque at the WTO be controversial?

One group, consisting of the most extreme critics, would surely say that striving for efficiency brought globalization, and with it human suffering. In this view, the rewards of efficiency were never available equally and the effort did not foster economic developments.

A second group of more moderate critics would argue that there are far more important objectives for policymakers than fostering efficiency.

A third group would tell us that however worthy the thought, commemorating Adam Smith at present would be at best ironic. They would claim to detect more than a loss of momentum at the WTO, perhaps even say that what we are witnessing is the full ebb tide of multilateralism.⁵

And what of the two largest trading countries?

The representative of the world’s largest trader in goods, China, would, if past practice is a guide, say that the WTO is not based on the principle of being market-oriented. He would also claim that there are other ways to organize one’s economy and perhaps the world; that China has found a model that involves a much larger role for the state, and that it is a model that should be emulated.

The representative of the other largest trading country, the United States, a country that was both a primary founder and guarantor of the GATT and the WTO, would express sympathy with the first three objections, that efficiency was not the best or most important goal. The US would also agree that the world went too far in worshipping the market, and it was imperative to preserve the largely unfettered right, the “policy space”, for governments to regulate for the public good.

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³ Not a justification for leaving the EU.
While the European Union (which might one day want to add Hugo Grotius to the commemorative wall) and the middle-grounders (countries like Japan, Canada, Australia, Switzerland, and New Zealand) might express some sympathy for the UK’s proposal to install the commemorative plaque, doing so would not be considered worth the expenditure of too much energy to press the issue further. For some members, once the United States and China had taken opposing sides, they would not wish to get into the middle of the argument. For the members in sympathy with the opponents of the commemoration, multilateralism and its embodiment in the WTO would simply have gone out of fashion.

In my view, these criticisms are largely misplaced. It is the right time to commemorate the contribution of Adam Smith. He discerned laws of economics that are as powerful as those of Newton for the physical world and will prove as durable. As a result, it is inevitable that the multilateral trading system administered by the WTO will ultimately be restored to the center of the institutional arrangements for the world economy. This is a personal faith-based assessment, but grounded in the immutable verities of economics, as far as I know, as I am not an economist or theoretician. I spent most of my life as a trade practitioner – a former US trade negotiator, a trade lawyer, and a former international civil servant as Deputy Director-General of the World Trade Organization. In none of these endeavors did I and those with whom I interacted spend time thinking about the importance of Adam Smith to the world we inhabited – a world that was and is very much shaped by the forces that Smith first identified and explained.

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The Debt We Owe to Adam Smith

As most students who have taken an introductory course in economics know, Adam Smith’s work stands for the proposition that the division of labor for the sake of efficiency

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6 I was raised in New England, at a time and place where the imprint of the Industrial Revolution was still strong. The sea and world trade were only 8 miles away. My father was what he called, with quiet pride, “a merchant”. He dealt in the world’s goods, finding the value that could be found in markets distant from their place of original manufacture. My father lived the life that Adam Smith envisaged as part of a correct ordering of the world.

I was trained as a lawyer, not an economist. When I joined the US Treasury at the beginning of my career and was surrounded by economists, I took a number of courses in economics at night at the George Washington University to make up for the fact that as an undergraduate at Harvard, I only had a one-year basic course in economics. Working at the Trade Representative’s Office, I found that to deal with trade issues we needed a multidisciplinary approach staffed by very good economists, researchers and lawyers. I replicated this structure in private law practice, being perhaps the first to integrate a team of forensic researchers and a group of highly skilled trade economists, led by two with PhDs., and staffed with analysts and statisticians, within the confines of a trade practice housed within a law firm. This combination of skills was deployed uniquely to understand and open foreign markets.

I have dedicated the current chapter of my life to writing about the value of the global trading system, including a book due for release later this month from Cambridge University Press entitled “Revitalizing the World Trading System”. It contains a short history of trade and the WTO. It is a guidebook to how the WTO functions and contains suggestions on how to make the trading system better function. On the cover of the book is a photograph of the winter sun shining on the WTO on the day that the organization’s binding dispute settlement system ceased to exist – December 11, 2019. The enforceability of obligations had been at the heart of the WTO. In this and some other respects, the WTO is a troubled institution, but one of great current and potential value to the world economy.
should be the guiding principle for national economies. They may also know that he favored specialization by country, and therefore favored international trade. This was because central to achieving the efficiencies he sought from individuals’ labor was the extent of the available market – the wider the better. This required exchanges through trade, moving beyond the confines of any one country. He wrote:

As by means of water-carriage a more extensive market is opened to every sort of industry than what land-carriage alone can afford it, so it is upon the seacoast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself;

Such...are the advantages of water-carriage, [that]... this conveniency opens the whole world for a market to the produce of every sort of labour...  

What Adam Smith brought to us is a different way of looking at the world, a frame of reference and a vision that, when acted upon, would bring the greatest expansion of human well-being in the history of our species. It was the opposite of localization. Individuals would now have broader horizons.

To discuss the relevance of Adam Smith to the WTO and the multilateral trading system, I have divided my remarks today into four parts. The first is to review briefly how the trading world prescribed by Adam Smith fared in the period up through 1947, before the creation of the multilateral trading system. The second part is devoted to the last three-quarters of a century, the period that the system has been in place. The third part is dedicated to the current pressures that would cause all too many to sound the retreat from what the system has been built to achieve. The fourth and last part consists of my suggestions to improve the trading system created by the Greatest Generation, those that fought and survived WWII and the Great Depression. It is to urge the continuation of the work that The Wealth of Nations inspired.

7 He wrote in The Wealth of Nations:
As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited... by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men’s labour as he has occasion for.

8 They might be told in current economics courses that onshoring had some limits:
The Wealth of Nations, Book IV, Chapter II: Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland?"

9 The Wealth of Nations, Book I.

10 I do not in these remarks attempt to trace the profound effects of Adam Smith on governments’ thinking about trade and trade agreements. This narrative is based on what I have witnessed in my involvement as a practitioner in various aspects of international trade, including as a negotiator, Head of the Office of Multilateral Trade Negotiations at the US Treasury, and subsequently, the principal lawyer for the US government on trade matters as General Counsel of the Office of the Special Representative for Trade Negotiations in the Executive Office of the President of the United States (an agency now known as “USTR”), succeeding John H. Jackson, a father of the WTO, in that position. For a deeper understanding of the impact of Adam Smith on the trading system, there are many fine books, including:
https://www.wto.org/english/res_e/booksp_e/historywto_e.pdf
Part I: The Doctrine of Specialization and International Trade Agreements Through 1947

Had Adam Smith lived into the 19th century, he would have seen specialization of manufacturing become widespread in earnest. In Great Britain, continental Europe, New England, and elsewhere, the Industrial Revolution brought with it advance after advance in terms of specialization with gains in efficiency. In the town in Massachusetts where I grew up, still operating were a textile mill, a canvas and rubber shoe factory, and a plant that manufactured specialty radios for amateur enthusiasts. Also strewn across the region were abandoned or repurposed mills, large brick structures, the husks of mills from a bygone era that once flourished but now saw industrialization move to the American South.

At the centenary of *The Wealth of Nations* in December 1876, when those mills were still flourishing in the Northeast, the book was celebrated at Delmonico’s in New York City, a restaurant still known today in lower Manhattan. Specialization was spreading across America, and localization was quickly disappearing. Nevertheless, for most of the 19th century, in the United States, the pursuit of specialization and the realization of its benefits did not reach much beyond the water’s edge. International trade policy was restrictive. The average US tariff from 1860 to 1933 was about 50%. There were glimmers of tariff reduction through American reciprocal trade agreements, but these were very limited in scope. During this high-tariff era, trade historians can find a sprinkling of rather narrow American reciprocal trade agreements throughout the last half of the 19th century, with Canada, the Hawaiian Islands, Brazil, and for the island possessions in the Western Hemisphere with Spain, Germany, and France. Much more far-reaching was the free trade policy of Great Britain, which resulted in the Cobden-Chevalier agreement with France in 1860. That landmark agreement may be said to not only have benefitted the economies of both countries, but also cemented an enduring peace after centuries of war between the two.

The single US experiment with more open trade in the early part of the 20th century was the negotiation of a reciprocal trade agreement with Canada during the Presidency of William Howard Taft in 1911. To get authority from Congress to enter into the agreement, Taft had

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11 Revere Knitting Mills.
14 A look at the histories of the Massachusetts towns of North Adams, Lowell, and Malden would, along with innumerable other towns of New England, tell this story.

pulled against the mainstream of the legislature’s leaning on trade, which was generally protectionist. As it turned out, the agreement was a political bridge too far for the Canadian government. Prime Minister Wilfrid Laurier was voted out of office over the agreement.

It was not until the Presidency of Franklin Roosevelt and the series of reciprocal free trade agreements negotiated by his Secretary of State Cordell Hull during the 1930s that momentum gathered to open markets. It took a second world war to lay the foundation for the multilateral trading system. Churchill and Roosevelt knew that a different world had to emerge from that conflagration. They prefigured it in August 1941 in their Atlantic Charter, in which they pledged to:

> Endeavor... to further the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity... 19

With this document and the work of post-war planners, Adam Smith’s vision of the division of labor and the attainment of efficiency for general well-being would be attempted on a global scale.

**Part II: The GATT and WTO - The Era of Multilateral Trading System**

Both the achievement and the difficulty of making multilateral progress with 164 members of the WTO can best be appreciated by understanding the nature of the multilateral trading system. While it is not advertised this way, the system is in reality an international structure to constrain member governments’ actions that would interfere with the flow of trade. The system is founded upon a search for promoting efficiencies by means of curbing the ability of governments to restrict trade. In doing so, it generates opposition from those who seek permanent protection of their interests and from officials who have an innate desire for policy space within which to regulate, unfettered by international agreements. This unspoken objective, to curtail member freedoms on a reciprocal basis, is in accord with Adam Smith’s vision of the role of government. He expressed deep concern with regulation interfering in private transactions, stating:

> The statesman who should attempt to direct private people in what manner they ought to employ their capitals would... assume an authority which could safely be trusted to no council and senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

It is the work of the multilateral trading system to constrain member government interference with the search for efficiency and comparative advantage, which when successful is of enormous benefit to the greatest number. The chief constraints imposed by the trading system include:

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19 The doctrine would promote global efficiency, although Churchill did wish to carve out an exception in order to retain imperial preferences, which involved trade discrimination that was strongly opposed by the United States.
- **Binding commitments** not to increase scheduled levels of protection.

- **Enforceability** of obligations through dispute settlement.

- Prevent **standards** from unnecessarily impeding trade.

- **Reduction of the use of trade-distorting subsidies**, including a ban on export subsidies and domestic substitution subsidies.

- **Trade facilitation** to reduce red tape at the border. In today’s global economy, red tape increases the costs of international trade by a multiple of average tariff levels.

- **Establishing guardrails** for the use of trade remedies to avoid injury from trade, including permitting the use of antidumping and anti-subsidy measures, as well as permitting the temporary imposition of safeguards.

- **Creating an exception** for the preferential treatment granted by free trade agreements.

*The Wealth of Nations* foreshadows some of these elements, particularly with respect to transparency, the binding of tariff rates, and even trade facilitation:

> The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person...  

Even some of the finer points of the current trading system were anticipated by Adam Smith. One aspect, important to the eight rounds of multilateral trade negotiations that were conducted during the GATT (General Agreement on Tariffs and Trade) era, was predicted by Smith two centuries before those negotiations took place – the desirability of gradualism. The case he was addressing was when “the free importation of foreign goods, after it has been for some time interrupted... as when particular manufactures, by means of high duties or prohibitions upon all foreign goods which can come into competition with them”. His suggestion:

> Humanity may require that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection. Were those high duties and prohibitions taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home-market as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable.  

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21 The Wealth of Nations, Book IV, Chapter II.
Smith downplayed the risks of disruption but understood that disruption could take place. Nowhere did he endorse a halt to the process of searching for ways in which to promote specialization and thus efficiency. Smith’s prescription has in fact been followed for every multilateral round of tariff negotiations. Due to a respect for gradualism, during the entire decade of the 1990s pursuant to the Uruguay Round Agreements that established the WTO, the United States lowered its tariffs by only a very modest two percentage points.

Each agreed limit on a member government inserting itself into the regulation of trade can be deemed to be aligned with Adam Smith’s thinking, although no multilateral agreement designed to rein in the state with respect to trade was contemplated during Smith’s lifetime.

Part III: Sounding the Retreat

There are a multitude of reasons why governments shy away from promoting openness for international trade. In this section, we examine three categories of causes driving the movement away from seeking greater efficiency through trade: a) those that are built into the current WTO rules, b) departures from the rules that are now being considered; and c) the political setting, the sea of troubles in which governments make policy.

a) Built-In Deviations From The Search For Efficiency Contained Within the WTO Rulebook

While the primary thrust of the rules of the multilateral trading system is to ensure efficiency, a number of exceptions are explicitly allowed. To discover these, one should first look for departures from non-discriminatory treatment. Every deviation has costs.

So-called “free trade agreements”, which are more accurately “preferential trade agreements”, are not judged by Jacob Viner’s rule of thumb (i.e., whether such agreements are more trade-creating than trade-diverting), contrary to the unwritten foundational principle of seeking to promote efficiency. Most bilateral trade agreements would probably not pass that test. A number of regional agreements would arguably provide benefits to the world economy that exceed the costs from trade diversion. This category would include the European Common Market (now the European Union), the North American Free Trade Agreement (now USMCA), the Comprehensive and Progressive Trans-Pacific Partnership (CFTPP), perhaps the Regional Comprehensive Economic Partnership (RCEP), the Association of Southeast Asian Nations (ASEAN), and in prospect, the African Continental Free Trade Agreement (AfCFTA). Adam Smith favored the trade-creating effects of a bilateral trade agreement. He was sharply critical of an agreement that mostly created trade diversion, for example, favoring Portuguese wine over that of France, while yielding access to a much smaller market for British woolens, for example.[24]

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23 "Retreat (Bugle Call)." YouTube. September 30, 2015. [https://www.youtube.com/watch?v=ulQmtwY9g7I](https://www.youtube.com/watch?v=ulQmtwY9g7I)
"Sunset (Bugle Call)." YouTube. August 27, 2018. [https://www.youtube.com/watch?v=Nplf-c2P_0Q](https://www.youtube.com/watch?v=Nplf-c2P_0Q)
24 There is a very interesting paper which holds that Adam Smith understood the trade policy of the Portuguese wine for British woolens exchange better than David Riccardo did.
The WTO currently has inadequate disciplines over domestic subsidies that promote trade distortions, contrary to the most efficient use of productive resources. When it comes to having subsidies, Smith was highly skeptical:

*The bounty to the white-herring fishery is a tonnage bounty; and is proportioned to the burden of the ship, not to her diligence or success in the fishery; and it has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty.*

To explore each of the departures from the unfettered market that Smith would have had his contemporaries aspire to could easily be the subject of a book. What we would be looking for is not really what Smith thought or would have thought had the subject been raised with him, but what the costs are of departing from trade that is free from interference. Nevertheless, it is instructive when one comes upon a nugget in *The Wealth of Nations* that sounds very current and relevant today. In an especially cutting passage with respect to subsidies and import protection to promote domestic industry, Smith wrote:

*by means of glasses, hotbeds, and hotwalls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland?*

The list of built-in deviations from efficiency in the current multilateral trading system would include the following:

- **Less than full transparency.** Shortfalls in the notification of subsidies and other measures allow trade restrictions to increase largely undetected.
- **Lack of full enforceability of obligations.** The absence of binding dispute settlement for most WTO members reduces adherence to the rules, allowing inefficiency-producing trade measures to proliferate.
- **Free access to using the claim of national security to justify trade protection.**
- **The complete freedom to impose export restrictions on food** despite the needs of food-importing nations, thus undermining food security.
- **Failing to live up to the requirement that when export restrictions are applied to**

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Robert W. Dimand Adam Smith versus David Ricardo on Portuguese wine and English cloth. Department of Economics, Brock University, St. Catherines, ON Canada.


goods, provisions ought to make an equitable share available to other countries. (This shortcoming became evident during the onset of the COVID-19 pandemic with respect to trade in essential goods and medical supplies).

- The inability of WTO members to come to grips with improving the existing rulebook.

- Special and differential treatment (S&DT) for developing countries not reflecting real development needs, not targeted, and not made operational through customized negotiated outcomes. The purpose should be to enable rather than exclude developing countries from being able to benefit from the full obligations and benefits of the system.

- Differentiations in levels of obligation between original WTO Members and those that acceded to the WTO after its creation in 1995 (also known as Article XII Members).

- Outdated reference periods. Another set of differentials exists because many WTO obligations are based on realities during the Uruguay Round era (1986-94), such as disciplines on agricultural subsidies. They do not reflect current trade.

- The differential treatment of the rebate and imposition of indirect and direct taxes has no economic justification, but it is a possible problem to which no negotiated solution is available.

Each of these elements is a departure from attaining greater efficiency through reining in the state in its interventions in trade. To whatever extent they are justified, these shortfalls have continuing costs to global economic growth. Wherever there is a distortion, favoring some and not others, where efficiency is not the reason for the differentiation, it would fall afoul of what Adam Smith saw in his strong opposition to the Methuen Treaty with Portugal, through which the UK favored goods from a smaller country over those from a larger one, France.

**b) Departures From The Rules That Are Under Consideration**

While every deviation from the search for efficiency has its costs that should be weighed, not every carve-out is unjustified.

Measures favoring sustainability will often create costs, and governments consider them worthwhile. The costs may be offset by other savings, as are expected to occur in creating a circular economy.

Meeting the challenge of climate change may not be “efficient” per se, but saving the planet outweighs making policy choices determined primarily by measurements of efficiency. There will be a debate, for example, over whether the benefits of carbon border adjustment measures (CBAMs), green steel, or other sustainability initiatives are sufficiently worthwhile to sacrifice more open trade.
Many policy objectives will be backed by a proliferation of subsidies, and these can have benefits that outweigh the costs. Some subsidies will be more distant from having a direct competitive effect on outcomes in the market – subsidies for education or research and development, for example. Others will be more trade distorting, and result in losses of efficiency, such as measures that subsidize consumption of only locally produced goods and services.

Policies of strategic decoupling, and improved resilience in supply chains for national security reasons and other purposes, need to be evaluated by countries imposing these measures as to whether the benefits are sufficiently clear and substantial to justify the possible losses of efficiency – that is whether there is a net benefit from these measures. The WTO/GATT’s national security exception may be increasingly invoked to promote diversification of sourcing for critical imports and limitations on strategic exports. Put simply, for geoeconomic reasons limiting to whom a country’s businesses sell, and from whom they buy, increases costs that need to be evaluated.

Morality will have an increasing role to play in the setting of rules for global trade. Although there is self-interest involved in the Global North extending support to the development of the Global South, there is something more, a sentiment that goes beyond assuring efficiency and economic growth. The moral element plays a role in governments recognizing their stewardship of the planet, whether when considering special and differential treatment, forced labor, fossil fuel subsidies, or plastic waste in the oceans. It is not too great a jump to see a seed in Smith’s writings of this way of thinking. He writes in his book *The Theory of Moral Sentiments*:

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.  

Adam Smith was not uncaring or unthinking when it came to the well-being of individuals. His philosophical frame of reference was not confined to believing in the market and in freedom for trade. He cared, for example, about equality. He specified in a consideration of levels of rent that should be paid for housing:

> “The rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion.”

He also opposed taxing wages and preferred to tax property. He did not look to trade as a cause of income inequality, but as a benefit to workers generally. His moral sense informed his practical judgment of the economic policies that were needed. He wrote:

> No society can surely be flourishing and happy, of which the far greater part of

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27 The Theory Of Moral Sentiments, Part I, Section I, Chapter I, p. 9, para.1.
c) The Political Setting: The Sea of Troubles in Which Governments Make Policy

The high-water mark of confidence and support for the world trading system occurred with the founding of the WTO and in the organization’s first years. A number of world leaders, including Nelson Mandela, Tony Blair, and Bill Clinton, came to Geneva in 1998 to express their good wishes for the new organization that was designed to continue the opening of markets in a rules-based system. The US Council of Economic Advisers issued a report in 1999 that cited Adam Smith’s *The Wealth of Nations* to underscore the American belief in “the economic benefits of specialization and the degree to which these benefits depend on a large market” and that “countries gain from specialization.” One should not expect any statements of this sort from current American officials.

What happened? The collapse and dissolution of the Soviet Union (as the world’s largest state-capitalist economy during most of the 20th century), the triumph of Western democratic capitalist systems, and the “end of history” (proclaimed by Francis Fukuyama in 1992) – all of which formed the geopolitical and geoeconomic setting for the creation of the WTO – are distant memories. The Great Financial Crisis is not. Since 2008, IMF forecasts for global GDP growth have been revised downward on an annual basis. That same year, the light inside the last major round of multilateral trade negotiations (known as the Doha Round), the only attempt at this kind of negotiation during the WTO era (1995 – present), flickered out.

Today, there are no calls from any world leader or trade minister for global trade liberalization. Populism has not waned. Inequality is too often attributed to international trade rather than technological change or domestic policies. In too many countries, the government posture is defensive – buy-local, “my country first” (with little left over for others), and an overlay of a major geopolitical contest between the United States and China that will be played out in international trade relations. The default for governments is increasingly to hector businesses to worry about resilience and reliability over efficiency, where national security is concerned. Businesses resist excessive interference from the government, for the reasons Adam Smith articulated. But they also seek protection. One type of government response, especially where technological change is most in evidence and disruptive, is the proliferation of what former WTO Director-General Pascal Lamy has labeled “precautionism”, imposing pre-emptive protectionist measures.

Rather than seeking to negotiate multilaterally in a forum of 164 participants, governments have turned to sub-multilateral trade agreements which they believe might be easier to achieve. For the EU, for example, agreements are being negotiated with Australia, India, Indonesia, and the Philippines. For the UK, China, and a few others, the CPTPP is an agreement

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29 The Wealth Of Nations, Book I Chapter VIII, p.96, para. 36.
31 “Global Economy Set For Years of Weak Growth, IMF Chief Kristalina Georgieva Warns.” Financial Times. April 6, 2023. [https://www.ft.com/content/309d5a00-879d-4cd8-a0d7-41563f1cb16b](https://www.ft.com/content/309d5a00-879d-4cd8-a0d7-41563f1cb16b)
of choice. For the US, this means some narrowly focused agreements of convenience for sharing limited supplies of critical minerals. While non-multilateral agreements can light the path to global understandings, they cannot provide maximum gains for world economic growth. A grander vision, searching for greater gains from specialization and finding greater efficiencies, is largely missing. Due to the temper of the times, seemingly easier paths are taken.
Part IV. Recommendations

The ideas of Adam Smith were well-known to America’s founders. James Madison, Alexander Hamilton, and John Adams mined Smith’s works. When the founding fathers created the United States, they created a single market. Completely free trade was to eventually flourish domestically across the American continent during the 19th century. In the last half of the 20th century, the single market was also to be achieved in a “United States of Europe”, the European Union. In this century, the vision first advanced by Adam Smith and embroidered upon by David Riccardo is pursued in the African Continental Free Trade Agreement. The global challenge is to apply efficiencies of open trade on a worldwide scale, an endeavor that the WTO is pledged to support.

A series of steps could be taken in the context of the World Trade Organization to apply the works of Adam Smith to enhance global economic growth:

- The WTO Secretariat should be given a mandate to provide as near complete transparency as possible of trade-distorting measures.

- Appropriate incentives should be provided for governments to notify these measures, including providing copies to the WTO of any instructions to limit trade.

- Secretariat reports in connection with Trade Policy Reviews should be clear and objective assessments, free of sugar-coating or diplomatic softening of judgments. They should also be publicized in the country subject to the review.

- A rule should be adopted that any policy with material effects on trade should be accompanied by an “efficiency impact assessment”, much like requirements for environmental and social impact assessments.

- Preferential trade agreements should be reviewed for their compatibility with WTO objectives on the basis that they are more trade-creating than trade-diverting, in line with a clear objective of Adam Smith’s.

- It should be recognized that the WTO is based on countries engaging in trade on “market-oriented” terms, meaning that any entity engaged in international commerce should base its purchases and sales on commercial considerations and not government policy.

- Any departures from non-discrimination should be reviewed, including measures and agreements docked with the WTO, for their impact on efficiency.

- WTO members should justify to their own peoples and trading partners (where relevant) actions and measures that depart very substantially from the service of global efficiency. The idea is to learn from the largest trade policy decision of the current period, namely Britain leaving the European Union. Had this requirement
been in place, the UK would have needed to provide a clear explanation of the probable economic effects of its departure from the European Union. Another example would be American measures that apply discriminatory rules of origin.

- Global agriculture should be prepared for greater resilience in the face of climate change, including by making trading rules fit for the purpose of fostering this objective. Greater agility to move food from places of surplus to places of need must be emphasized.

- A reassessment is needed to examine whether the obligations imposed by the rules of the trading system are justifiable in light of current capabilities. Obligations negotiated on the basis of trading relationships in the 1980s are not likely suitable four decades later.

- Trade can aid in bringing about stability through economic growth. Attention must be paid to fragile and conflict-affected countries to assure that peace through trade remains an objective of the trading system.

Efficiency is not the sole goal of the multilateral trading system, but it is an extremely important, underlying, unspoken, and yet necessary condition among valid and competing objectives. The WTO will have to evolve to place a greater emphasis on resilience in the face of future pandemics and climate change. It will have to take into account geopolitical rivalry. The overriding challenge is to allow the market to determine competitive outcomes to the maximum extent possible, given the myriad of policy objectives, whether of sustainability or national security. Politics and morality will have roles to play. Departures from specialization have costs. They need to be identified and weighed. The pressures for assuring policy space and preserving full freedom of action should not be allowed to stifle the engine of growth that Adam Smith clearly foresaw.

Three hundred years ago, Adam Smith wrote in *The Wealth of Nations*:

> Every town and country... in proportion as they have opened their ports to all nations, instead of being ruined by this free trade, as the principles of the commercial system would lead us to expect, have been enriched by it.33

The multilateral trading system founded in 1948 with the adoption of the GATT has proved this statement to be true. None would revert to the world before the system existed. None would leave the WTO now. An additional two dozen countries are negotiating to join the organization, seeking to better the economic conditions of their people. The creation of the world Adam Smith envisioned, largely open to trade, will always be a work in progress. This is the task ahead: improving the trading system based on a 21st-century set of values centered on sustainable development, anticipating threats to global health, urgently mitigating and adapting to climate change, and more – but never straying from the foundation and vision that Adam Smith provided

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as the cornerstone of the global economic system.

**Conclusion**

Let us picture a gathering at the WTO of world leaders at a 75th-anniversary celebration, an as yet unscheduled diamond jubilee, of the founding of the multilateral trading system. To rival the 50th anniversary, it would need to have present Rishi Sunak, Joe Biden, Xi Jinping and Ursula von der Leyen, Narendra Modi, Luiz Inácio Lula da Silva, Cyril Ramaphosa and others - for this purpose, a plaque commemorating the importance of the legacy of Adam Smith to the organization. Do you think that all present would agree to this tribute, to that legacy and to the trading system? They each govern countries in which nationalism and populism are strong. They have among them very different appreciations of the role that the market should play, in their economies and in the world economy. The idea of honoring Adam Smith would likely create a debate among them about how market-oriented world trade should or could be.

Adam Smith acknowledged the difficulties involved in making arrangements within a society. He wrote:

> The man of system... seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chessboard. He does not consider that in the great chessboard of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it.\(^{34}\)

How much more difficult would it be to achieve international agreements among 164 sovereigns at the WTO, or even among just the short list of leaders that I have named? They would debate the right of a government to regulate irrespective of the interests of other countries. They would also likely be divided on whether reining in the state would be welcome when it diminishes policy space. However, the unavoidable fact is that they will face common problems and will need common solutions. The trading system will need to evolve, and they will have a major say in the shape it will take. In the end, world trade will tend toward greater freedom due to the validity of what Adam Smith saw clearly. For countries and their peoples to prosper, their governments must be on the side of greater openness, allowing world commerce to flow, if not unimpeded then at least regulated only to the extent necessary for the public good.

Obligations under international agreements among sovereigns are confined to the letter of what they have agreed. That is, they are not bound to act in the spirit of the agreement, however desirable it is that they do so. Historian Jon Meacham has written about “the soul of America”, a national vision and purpose that, in his view, allows the country to find its way back when it has strayed. If there is a soul of the multilateral trading system, it consists to a large degree of a premise first identified by Adam Smith.

\(^{34}\) *The Theory Of Moral Sentiments*, Part VI, Section II, Chapter II, pp. 233-4, para 17.