From reconstructing Europe to constructing globalization: the OECD in historical perspective

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draft chapter prepared for Mahon, Rian and Stephen McBride, eds, The OECD and Global Governance (Vancouver: University of British Columbia Press). This chapter is based in part on (Wolfe, 1993), and on more recent confidential interviews with Canadian and OECD officials in Paris and Ottawa. I appreciate the helpful comments of Nicholas Bayne, Anthony Burger, Ken Heydon, and Knud Erik Jørgensen. The many people who helped in both stages of this project are responsible neither for the opinions expressed nor for my errors.
The story of the Organisation for Economic Co-operation and Development (OECD), created in 1961, begins with the political and economic reconstruction of a stable and prosperous international order after the second world war.¹ In his famous Harvard University commencement speech of June 5, 1947 reflecting on the plight of Europe after the frightful winter of 1946-47, U.S. Secretary of State George Marshall declared that U.S. policy “should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist” (OECD, 1978: 227-229). This liberal idealism is still the rock on which the OECD rests.

Two themes emerge from the history of the organization: economic cooperation can serve political purposes, and the way to get to the desired policies is through social learning more than reciprocal obligation. I begin with a description of the origins and demise of the OECD’s predecessor, the Organisation for European Economic Co-operation (OEEC), and then outline the evolution of the OECD before looking more closely at the two central aspects of its work, money and trade, and the relation between OECD and other international organizations, notably the G-8 and the WTO. I conclude with some reflections on the organization’s changing role as the European Union expands far beyond the original membership of the OEEC and globalization continues to transform governance. European reconstruction is long finished, but developing the consensual knowledge needed to construct globalization is an expanding work in progress.

Origins: The Organisation for European Economic Co-operation (OEEC)

The Marshall Plan was not in fact a plan, but an invitation to the European countries to tell the United States what needed to be done to assist postwar reconstruction, implying that aid would be contingent on their ability to work together. After a failed attempt to negotiate a joint response with the USSR, on July 3, 1947 the Foreign Ministers of Britain and France invited all European countries to meet in Paris to draw up an economic recovery plan for transmission to Marshall. The conference created the Committee of European Economic Co-operation to manage the initial phases of the European Recovery Program. As the need became apparent for a more permanent body, the OEEC was created in April 1948. Canada and the United States were soon “associated” in OEEC work. Spain, then still under Franco, was excluded, but otherwise the membership was self-selected: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom, and Western Germany. By 1958, all were also members of NATO except the neutrals (Austria, Ireland, Sweden and Switzerland).

The OEEC by developing the disciplines of cooperation and networks of officials laid the basis for subsequent efforts at European integration (Marjolin, 1989). A.F.W. Plumptre, a senior Canadian official, recalled that OEEC developed

¹ For an early but comprehensive description of the origins and work of the OECD, see (Aubrey, 1967).
An elaborate code and procedure for European trade liberalization ... supported by credit facilities provided through the European Payments Union (EPU)....During the 1950s, the OEEC code of intra-European commercial conduct was supplemented by the introduction of other codes of regional economic conduct dealing with capital movements, shipping and other forms of transportation, and other international transactions...[each]... supervised by a committee, and other committees concerned with the problems and possibilities of each of the main European industries were set up. The headquarters of the OEEC ...became a centre for intra-European consultation and collaboration on economic matters (Plumptre, 1977: 129-130).

The Americans had wanted the OEEC to be a vehicle for European integration by requiring that the organization allocate Marshall aid but the OEEC could not bear this burden. The organization carried on for nearly a decade, but it was undermined by a growing emphasis on the NATO economic committee, and was finally doomed by structural change in trade and payments. In trade, the achievement by December 1958 of 90% liberalization of quantitative restrictions, even by France, ended the value of this role just at the moment when the OEEC’s limited role in managing the European payments system ended when European currencies became convertible. Europeans were also embroiled in debates about how to respond to the creation of a common market among six OEEC members, following on the Treaty of Rome, signed earlier in 1958 (Griffiths, 1997). When the Council of the OEEC met on December 15, 1958, its main business was the question of intra-European trade, and specifically the scheme for a free trade area that was being pressed hard by the British, non-members of the new European Economic Community (EEC). An Anglo-French confrontation about discrimination and retaliation led to disarray (Shonfield, 1976: 7-13).

The Council of the OEEC never met again. In Europe, the EEC Commission and many influential French officials felt that the cohesion of the Six, the political purpose of the Treaty of Rome, would be undermined if trade liberalization were pursued either through an OEEC-wide free trade area or a free trade link between the Six and the Seven countries of the European Free Trade Area (EFTA). American preferences for liberal global trade rather than European discrimination led Douglas Dillon, then U.S. Under-Secretary of State for Economic Affairs, to propose in November 1958 what came to be known as the Dillon Round of multilateral trade negotiations in the GATT (Curzon, 1965: 98). The tensions, still pressing a year later, were taken up at a Western Summit (France, the United States, the Federal Republic of Germany and the United Kingdom) in Paris where the political imperative of Atlantic cohesion during the Cold War was as salient as economic policy cooperation. Leaders agreed that they should now be “devoting cooperative efforts to furthering the development of the less developed countries,” and they elaborated a set of principles for discussion of the commercial problems caused by the coexistence of multilateral and European economic regional organizations. This Communiqué launched the process of high level meetings and drafting groups that ended in the signing of the OECD Convention a year later.
Canada and the USA became full participants in the new body: like NATO, it was to be an Atlantic not a European organization. Members, believed that commercial conflict led to war; that the GATT and the IMF were the first line of defence; that regional conflict could undermine this broader objective; and, therefore, that the OECD could help, both by promoting the broad objectives of the regimes for trade and payments, and by encouraging the leading industrial countries to work together. The Council of the OECD met for the first time in December 1961, with Donald Fleming, Canada’s Minister of Finance, in the chair.

What the OECD does

In the early years, the OECD’s tasks fell in three groups. The first set of tasks, which involved member countries alone, derived from the high degree of similarity and interaction among the economies of the advanced industrial countries. The next set of tasks, involving third countries, derived from the desire of OECD countries to order their relationship or to co-ordinate their strategy vis-à-vis other groups of countries. The last set of tasks involved the coherence and effectiveness of the international economic system (Camps, 1975: 14). Change in how Members understand good policy, and structural change in the world, has altered these tasks. Members now place more stress on good national policy than on coordinated international action, and they spend more time talking to third countries than they spend talking about them. Engagement with the most dynamic global economies is now central to the OECD’s role.

The OECD has no regulatory responsibility, no independent source of funds, no money to lend, and no instruments within its control. Where the preamble of the GATT speaks of a desire to enter into ‘reciprocal arrangements’, Article 1 of the OECD Convention says that the organization shall ‘promote policies’ designed to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries. My focus below will be on two policy areas most relevant to global governance—money and trade—but OECD is also active in all the substantive domains of modern governments, from the environment through tax to public management. Energy was not an original head of cooperation for the OECD, but part of the collective response to the first oil shock was a conference that led to the establishment in November 1974 of the International Energy Agency (IEA). Members (of which France was not one, until the 1990s) decided that the IEA should have autonomy in its operational role but that it should work closely with the OECD on policy.

Article 1 also provides that members will ‘contribute’ to sound economic expansion in non-member countries in the process of economic development. A.F.W. Plumptre recalled that “The Americans hoped to encourage greater participation by European countries in programs of economic aid to developing countries; the United States appeared to have been carrying the greater part of the load and the U.S. administration was anxious, not only to obtain some relief for U.S. balance of payments, but also to reassure Congress that this particular ‘white man’s burden’ was being shared with reasonable equity. Thus D for development became one of the initials of the new organization (Plumptre, 1977: 131).” The OECD was never intended to be a development
assistance institution, however. Its role, as discussed by Ruckert [this volume] was to facilitate burden-sharing and policy discussion among donors. Development Assistance Committee (DAC) principles define the structure of national aid agencies; DAC definitions of ODA and “technical assistance” become national definitions.

Here too the OECD has sometimes been used to manage political tensions among its leading members. The first time an American Secretary of State led the US delegation to the OECD Ministerial was 1975 (Camps, 1975: 9). The double issue provoking such interest was the problem of the collective response to the collapse of Bretton Woods, along with the response to the first oil shock. The result was a declaration on relations with developing countries under which the Americans agreed to the Conference on International Economic Cooperation (CIEC) (Putnam and Henning, 1989: 22), which itself was in part a response to problems in negotiations with the Group of 77 elsewhere. The initial group was succeeded by a Group on North-South Economic Issues to coordinate the participation of OECD countries in the various instances of the “north-south dialogue.” Since the end of the Cold War, OECD has become a forum for policy consultations with non-members, including the countries in transition, and leading developing countries in Asia and Latin America. Many non-member countries now participate in the activities of OECD subsidiary bodies.

In Article 3 of the convention, members agree: a) to furnish the Organisation with the information necessary for the accomplishment of its tasks; b) to consult together on a continuing basis; and, c) to co-operate closely and where appropriate take coordinated action. The closer an activity is to the beginning of the list, the more common it is at OECD. Consistent with the first two items of Article 3, the development and sharing of standardized information is the basis of all the rest. OECD adds value to national data by coordinating definitions and measurements. In any domain a single country can conduct comparisons to itself through time, but OECD helps conduct rigorous comparisons to other similar countries at the same point in time. The UN cannot do this job at the same level of detail and sophistication because of its wide membership; similarly the IMF and the WTO develop information for the different purposes of their near-universal membership.

Surveillance, sometimes called peer review, has been part of the process of sharing and evaluating information, of developing a common understanding of how the world works with a view to better policy making and better policy implementation. (For more on peer review, see Porter and Webb, Jackson this volume.) OECD surveillance over macroeconomic policies is two-sided: the coherence between domestic policy objectives and the conduct of policy is examined in the Economic Development Review Committee (EDRC); the way policies add up and, more specifically, the international coherence of national policies has been the focus of the Economic Policy Committee (EPC) (Koromzay, 1991: 164). One of the particular strengths of the OECD is that this surveillance is carried out in a number of policy fields drawing on Secretariat expertise in a dozen microeconomic domains (Pagani, 2002). Each reinforces the others. In addition to the traditional surveillance of economic, energy, development, capital, and investment policies, there are now surveillance exercises of education, employment, science and
technology, environment, and regional policies.

The third item of Article 3, coordinated action, is relatively rare at OECD, although in certain areas its long association with the process of regional cooperation in Europe has made it a useful forum. The legal force of OECD obligations is problematic. In Canada they rarely even require Cabinet let alone parliamentary approval, and they are not “enforceable” in the usual sense because the OECD has nothing approaching a dispute settlement system. OECD commitments work to the extent that they are subject to surveillance by fellow members whose good opinion of one another is of some value. The Export Credit Arrangement, to take one example, was probably negotiated at the OECD for negative reasons: debilitating competition among the OECD countries needed to be restrained, but no other forum was available involving only this group of countries, and having a competent secretariat (Moravcsik, 1989: 198). No doubt similar reasons exist for the OECD work on money laundering and for the OECD Convention on the Corruption of Foreign Public Officials, negotiated shortly before the MAI failure. The Anti-Bribery convention was successful because at the time the OECD could still be said to encompass the home countries of the major global infrastructure contractors and heavy equipment manufacturers, making it the relevant group of countries for dealing with the problem. The investment story, discussed in detail by Williams (this volume) goes in the other direction. Investment was discussed in negotiations for the Charter of the International Trade Organisation (1948), but it did not enter GATT at all until the 1980s when the United States challenged the performance requirements imposed on investors by the Canadian Government through the Foreign Investment Review Agency (FIRA). In the absence of other fora for negotiations, the OECD played an active role. The Code of Liberalization of Current Invisible Operations and the Code of Liberalization of Capital Movements were important as a focus for an emerging normative consensus. The 1976 Declaration on International Investment and Multinational Enterprises was adopted to forestall UNCTAD efforts to craft a code on multinationals. The declaration and the codes did not go far enough for some American officials, who pushed first for a Wider Investment Instrument, and then in the mid-1990s for what came to be known as the Multilateral Agreement on Investment. The OECD being unsuited to negotiation of binding reciprocal obligations, the MAI failed, not least because it would have reduced the flexibility of signatories in a potential comprehensive WTO negotiation with the many significant countries that do not belong to the OECD.

The Organization

The purposes and methods of OECD imply the need for an unusual organization. It relies on strong participation of delegates from national governments in its subsidiary bodies, as does the WTO. It also has a highly competent professional secretariat, as does the IMF. The committee structure (see the Appendix) reflects the organization of member governments and the evolution of various policy communities. Officials find the OECD useful for exchanges of ideas with colleagues who face similar problems. Often there is nowhere else for such consultations, or consultations at OECD provide more and faster information about policy intentions than is available elsewhere. While its importance for officials is undiminished in most sectors, its value to politicians and senior officials
seems to have declined.

The annual meeting of the Council at Ministerial level, the “Ministerial,” was once the highlight of the OECD year. The Communiqué signaled themes to the public, to markets, to other governments or institutions, and to bureaucrats. It could be a directive to the Secretary-General, a normative statement of good intentions, and a signal of policy decisions to come, depending on the conjuncture. Attendance fluctuated, but with many more opportunities to meet, fewer senior ministers now participate. (In contrast to the Council ministerial, sectoral ministerials—for example, of the agriculture committee—usually attract the relevant ministers.

When the OECD was created, there was no body that would provide a regular forum for senior officials whose responsibilities touched on the management of the international economic system. The Trade Committee and the Economic Policy Committee do not do much work in common, a fact that reflects the division of labour in capitals more than the nature of the issues. When U.S. President Nixon made his famous statement about a New Economic Policy in August 1971, he called for a new linkage between trade and monetary policies. As in the creation of the OECD 12 years earlier, American fears of a new step for the EC (in this case, enlargement) were part of the political context. The only way for the Americans to use OECD to follow up their President’s linkage of trade and monetary policy was to call for a new restricted body, which eventually held its first meeting in December 1972. It came to be called the Executive Committee in Special Session (ECSS) the next year. Its creation did respond to the American interest in having a forum where trade and monetary policies could be considered together, but it is debatable whether the body ever fulfilled its potential. In the 1980s, ECSS frequently played a role in preparing issues for subsequent Ministerial discussion, which allowed it, on occasion, at least, to have an overview of international economic cooperation, but its role gradually declined, and now senior officials rarely attend.

The European Community/Union and the OECD
European integration and cooperation has always affected the evolution of the OEEC and the OECD. In 1947, political disarray in Europe was the reason the United States tried to use the OEEC to foster European integration. In 1958, the creation of the Common Market and the end of the European Payments Union fatally undermined the OEEC. In 1972, the enlargement of the EC contributed both to a sense that OECD had lost its way and to the creation of the ECSS. In the late 1980s, as the EC appeared to be revitalized by the Single European Act, people began to mutter again about the OECD being adrift. The European Commission wanted to join the OECD, but was ignored. Instead Protocol 1 to the Convention allows the Commission to “participate in the work” of the OECD, something more than the Observer status granted other international organizations. The Commission, which has its own Delegation in Paris, has practically the same rights as a member, with two exceptions. The Commission has no vote in the formal adoption of Acts of the OECD; and, not being a member, it pays no part of the general budget (Schricke, 1989: 805-7).

Nineteen of the OECD’s current 30 members are EU states. Many people wonder if the
ever-closer integration of the EU will render the OECD irrelevant. EU enlargement poses a challenge for the OECD because member states maintain their individual voices, yet the range of things on which they can speak without reference to collective decision-making is diminishing. If the Atlantic area was still the focus of OECD work, this imbalance would be serious, as it would be if formal decisions of the Council were important, but the continuing relevance of the OECD goes beyond the north Atlantic.

Non-members and new members

The OECD has always been a forum for concerting the policies pursued by member countries in other fora but in the 1990s the organization began to face pressures to include non-members in its own work. The Group of the Council on Non-Member Countries was created in May 1988 to oversee the developing dialogue with what were then called the Dynamic Asian Economies. In recognition of the reality that in a globalized world economy, understanding developments in OECD economies requires a window on their partners. The organization has also applied its standard working methods and analytic frameworks in major studies of non-members (for example, see OECD, 2007). These studies, which in themselves demonstrate the continuing relevance of the OECD, are useful both to members and to the countries under examination. In 1992, ministers for the first time agreed to elaborate principles for the participation of non-members in OECD work, and eventual membership. Debates on who should be allowed to join the OECD have echoed some of the less edifying debates on EU expansion, but the organization had to manage a set of rather delicate questions. On the one hand, OECD cannot divert human and financial resources to programs and activities tailored to non-members without a loss to existing members. On the other hand, the fundamental goal of the OECD is enlarging the zone of stable peace by spreading the knowledge of how the liberal economy works to a larger group of countries. Many OECD economies did not share these values at the outset, and the postwar pattern of cooperation was aimed at building such a community of values.

The major geographic expansion of the OECD area took place in 1964 when Japan’s place in the Atlantic community was signified by its membership, followed by Australia and New Zealand in 1973. It subsequently admitted Mexico (1994) and Korea (1996) and a number of European countries. In 2006, a former Mexican foreign minister, Angel Gurria, took office as the new Secretary-General. Enlargement and engagement with non-members was a contentious theme at the June 2007 ministerial Council. Ministers agreed first to a process of “enhanced engagement” with Brazil, India, Indonesia, China and South Africa. (Indonesia was added at the last minute at the insistence of Australia.) Second, they agreed to open accession negotiations with Chile, Estonia, Israel, Russia, and Slovenia. The EU was unhappy that the list included only two of its eight new members states not already in the OECD, but others emphasised the global role of the organization by not making OECD membership automatic on joining the EU. A higher priority likely will be placed on the enhanced engagement countries than on accessions, especially after the June 2007 G-8 Summit where leaders asked the OECD, together with the International Energy Agency, to act as a platform for dialogue with the major emerging economies of Brazil, China, India, Mexico, and South Africa on issues
including innovation, freedom of investment, corporate social responsibility, development in Africa, and energy efficiency. OECD’s expanding global role complements its traditional role in money and trade.

**Economic Policy Cooperation**

Under the first head of cooperation in the OECD convention, members are committed to promoting policies designed “to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy.” Assessing OECD performance in this area is difficult because the questions are simultaneously highly technical and completely political.

The Bretton Woods system of fixed exchange rates succeeded only to the extent that the United States supplied the system with liquidity by running a budget deficit. As long as people believed that the dollar was literally as good as gold, the illusion could be maintained. After the European currencies became convertible in 1958, cracks began to appear. The system relied on American balance-of-payments deficits to provide liquidity, but this chronic deficit over the long run undermined confidence in the system. The first run on the dollar came in November 1960. Some authorities maintain that the Bretton Woods system only began to operate in pure form when the European currencies became convertible. The IMF did not prove to be a useful forum, and consultations among the major countries shifted to the OECD, reflecting both the increase in membership of the IMF and a European desire to meet on more equal terms with the Americans (Fischer, 1988: 27). The EPC working party on Policies for the Promotion of Better Payments Equilibrium, known as WP 3, was meant to have a limited membership that would keep financial developments under close and continuous review. Members were senior representatives from the Treasuries and Central Banks of countries most affected by world trade and short-term capital movements—Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. It was useful both as a place for senior officials to talk freely and for the analytic work of the secretariat (Plumptre, 1977: 184-5). Later, the General Arrangements to Borrow (GAB) was created in the G-10, with WP 3 as its secretariat, as part of the process by which the rest of the OECD financed American predominance while putting pressure on the American authorities to deal with the dollar problem.

The greatest public prominence for OECD probably came with its 1966 report on the balance of payments adjustment process (OECD, 1966; for a discussion, see Crockett, 1989). But if the OECD was the forum for international economic cooperation in the 1960s, did this activity amount to anything? Michael Webb argues that “Multilateral surveillance in the [OECD] was supposed to encourage countries to pursue policies that were consistent with international equilibrium, but it had no impact on monetary and fiscal policies (Webb, 1992: 160).” In his study of the making of American foreign economic policy in the 1960s and 1970s John Odell concluded that “Coordination certainly took place among central bankers and within the Group of Ten, the IMF, and
the OECD. This interaction gave rise to attitudes of professional camaraderie. Even occasional coalition-building in this field may have taken place, as in the fall of 1971. But when major new directions were determined, the decisions were made by the President and by senior officials whose attitudes were little affected by these networks (Odell, 1982: 349-50).” Barry Eichengreen concludes that resolution of liquidity problems in the 1950s was largely accomplished through the market power of the United States, but this factor was less important than coordination in the 1960s because U.S. political and market power alone was insufficient to ensure the stability of the international monetary system (Eichengreen, 1989: 258). Adjustment required strategic action among the largest players, coordinated by communication among them, which often took place in WP 3 at the OECD.

The international monetary system did collapse in 1971, in spite of the existing institutions for cooperation. Reform of the system was discussed at the OECD, but it was also on the agenda of the revived Group of Twenty at the IMF, which became the Interim Committee. When the IMF was reformed in the 1970s, the new Article IV surveillance undermined the role of the OECD. Even as new mechanisms for policy coordination were created, the OECD remained a political forum for consensus building on issues of economic management. This role was evident in the mid-1970s when stagflation troubled OECD governments. The beginnings of the new sound money paradigm (what other chapters in this volume characterize as “neo-liberalism”) are already apparent in the 1977 McCracken report on how to achieve both full employment and price stability (OECD, 1977; for critiques, see Keohane, 1978; and Cox, 1987: 283).

In the mid-1970s, OECD was renowned as a redoubt of British economists espousing Keynesian principles (Fratiani and Pattison, 1991). Conventional wisdom assigns blame to OECD Keynesianism for the supposed disaster of the Bonn Summit package of 1978, which influenced monetary and fiscal policies to move in the wrong direction (Putnam and Henning, 1989: 54-5). The agreement, which began life at OECD, is a famous example of both the benefits and the disasters of coordination. For a time, multilateralism came to be seen as at most the coordination of national policies as countries concentrated on putting their own houses in order (Llewellyn and Potter, 1991: 8). Later the leading countries became more interested in active international economic cooperation, understood as joint action among the largest economies, but that task was assigned to the G-7, not OECD.

The OECD has had an ambiguous relation with the annual Economic Summits precisely because their tasks overlap. OECD relations have been especially unsatisfactory with the G-7 Finance Ministers who began work in the mid-1980s, negotiating their Plaza and Louvre accords far from the Chateau de la Muette. Balance of payments problems were perceived to be severe in the 1980s, especially during the period of concern over the so-called “twin deficits” in the United States, but accounts of the controversy over the significance of the imbalances and how they came to diminish in importance do not even

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2 For an assessment of the institutional and intellectual changes that have affected the OECD, see the historical survey in the fiftieth anniversary issue of the *Economic Outlook* (OECD, 1991).
mention OECD WP 3 (Krugman, 1991).

From the beginning, countries excluded from the Summit tried to influence its deliberations (Putnam and Bayne, 1987). The custom was therefore established, from 1976 onwards, of holding the annual Ministerial council of the OECD a few weeks before the Summit itself. Work prepared for the ministerial was often meant to contribute to Summit preparations. Shortly after the Summit, the sherpa of the host country would visit the OECD to give an account of what happened. This process gave the non-participating countries outside the European Community some sense of being involved in the Summit process. In addition, the Summit declarations often linked the understandings reached by the leaders with the work of other economic organizations, notably the IMF, World Bank and GATT. These devices helped to render the Summits, with their highly selective format, acceptable, or at least tolerable, to a wider circle of influential nations. The use of the OECD and, less directly, other bodies for reassuring non-participants was one aspect of the interaction of the Summit and international organizations. But the Summits also turned to the international organizations to provide continuity in the subjects which they addressed only at yearly intervals. Maintaining the OECD link to the Summit is therefore important for the effectiveness of the Summit. It is hard to imagine a useful Summit discussion of issues that involve all OECD members that would not involve some relation to further OECD work. On the one hand, the Summit cannot replicate the analytic work of the OECD. On the other hand, the OECD cannot provide the high-level attention generated by a Summit. The difficulty now is that one participant in what has become the G-8 is not a member of the OECD—Russia proved unable to draw successfully on OECD resources in preparing the St Petersburg summit in 2006—while attention is shifting to what some call the G8 +5 (Brazil, China, India, Mexico, South Africa now have a side meeting with G8 leaders), four of whom also are not OECD members.

Meanwhile the EPC has not talked about “policy coordination” in years. Even by the time of the Plaza Accord in 1985, the centre of gravity in EPC discussion was “get your own house in order”. Coordination is still very much on the agenda, but not as collaboration. Discussion of coordination now involves the development of what one OECD official has called a “common policy culture,” which ensures that approaches to policy in different countries reflect broadly common objectives and a shared understanding of the ways policies should be implemented.

Trade Policy

It is hard to imagine an OECD “common policy culture” that did not include a trade dimension both as a microeconomic instrument for adjustment and as an element of international economic cooperation. Under the OEEC, closer cooperation in trade was seen as a means to political integration in Europe. Trade conflicts arising over different understandings of integration brought down the OEEC, and so in reconstituting the organization states hoped to create the capacity for the political management of trade friction.
Recall that where the GATT preamble speaks of a desire to enter into reciprocal arrangements, Article 1 of the OECD Convention says that the organization shall promote policies designed to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations. Nevertheless, during the time that the OECD convention was being negotiated, the GATT was struggling inconclusively with the Dillon Round. Some people thought it possible that the OECD would prove to be a better vehicle for trade liberalization than the GATT. This ambiguity is the reason that although the Trade Committee is one of the organization’s most important bodies, it is surprisingly difficult to assess its work. Cooperation on trade ranges from exchanges of information on trade policies through analytic work on how to conceptualize new issues to discussions about the management of the trading system. Discussion and coordination of action to be taken elsewhere has been important, though now in decline, but attempts at joint action to remove obstacles to trade liberalization were not successful.

The OEEC had an operational role in trade liberalization through the removal of quantitative restrictions, but it had always left tariffs to the GATT (Brusse, 1997), and the OEEC Code of Liberalization was not carried over to the new organization. The Americans would not be bound by agreements others had negotiated and the Canadians were insistent that nothing be done at OECD that might usurp the role of the GATT. Some minor operational agreements were subsequently negotiated at OECD, but it is questionable whether such political actions as the 1974 Trade Pledge have been worthwhile. The early notification process gradually fell into disuse as members made more use of GATT dispute settlement procedures, and it became redundant with the many notification requirements incorporated in WTO obligations after 1995. The periodic reviews of “main developments” in the trading system withered away as the new WTO Trade Policy Review Mechanism came into use.

In 1961, it was not self-evident that the GATT would have such a bright future. In retrospect, given the Kennedy, Tokyo and Uruguay Rounds, it is clear that the Trade Committee has been valuable precisely because it was not operational. It is the place where the principal trading states could assess the state of the trading system without having to hedge their analysis for fear of being tightly bound by their conclusions. The secretariat can be asked to conduct studies of issues not yet ready for formal negotiations. Strategy for UNCTAD negotiations with developing countries can be discussed in private. When politics makes trade too hot to handle, the OECD could assess the significance of East-West trade, as it did in the early 1980s as part of U.S. Secretary of State George Shultz’s strategy for defusing the Soviet pipeline fiasco. The committee’s strengths and weaknesses are illustrated by an example from the Tokyo

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3 This section is indebted to the admirable work of Serge Devos (Devos, 1991; see also Stone, 1984; Blair, 1993; and Cohn, 2002).

4 The Reagan administration angered Europeans when it tried to use U.S. export control legislation to prevent the European affiliates of U.S. corporations from providing high tech components for a gas pipeline from the Soviet Union to Europe.
Round. The OECD had begun discussions on government procurement in 1962, when Belgium and the United Kingdom complained against the U.S. Buy American Act. In subsequent years the secretariat and the U.S. delegation produced draft guidelines, and the matter remained under discussion until it was transferred to the Tokyo Round in 1976, Gilbert Winham reports that “This lengthy discussion essentially uncovered the political problems and resolved some terminological difficulties of the subject, but the major trading powers were unable to reach agreement on the matter in isolation from other areas of international trade (Winham, 1986: 140; emphasis added).”

In the aftermath of the Tokyo Round, states were worried about growing protectionist tendencies and the danger that the move towards greater liberalization might grind to a halt, or at least slow. The response was “Trade Issues in the 1980s,” a project involving most directorates, launched after a comprehensive discussion of trade at the 1981 Ministerial. Work involved most OECD bodies in a report to the 1982 Ministerial, which preceded the GATT Ministerial of that year. The proposals in the subsequent horizontal Ministerial trade mandate (MTM) work program concerned, first, problems that could result in immediate action (including safeguards, for example); second, longer-term trade and related questions, and systemic problems arising initially in a number of sectors, including high technology; and third, the links between trade and other policies: structural adjustment, investment and competition. The Trade Study was the foundation for the Trade Committee’s invaluable role in the preparations for the Uruguay Round, both on services (Drake and Nicoloaidis, 1992), and, in cooperation with the Agriculture Committee, on farm trade (OECD, 1987; OECD, 1990).

The organization had begun its important work on domestic agriculture policies in the time of the OEEC, but the work on agricultural trade really only began in the early 1980s. The well-established domestic agricultural policies of the industrialized countries caused few troubles for anybody but the taxpayers who supported them until an unhappy conjuncture of factors led to extreme conflict between the principal exporters (Wolfe, 1998). The MTM allowed states to work together when the issue was not yet ripe for negotiation and in the absence of a forum in which it could be negotiated. The analysis demonstrated analytically a point that was important politically: the study showed that a multi-country multi-commodity approach to negotiations was essential. The OECD work also made the negotiation of reform possible, by developing the concept of the producer and consumer subsidy equivalents (PSE/CSE), which was the basis for the WTO Aggregate Measure of Support. (On the origins of the PSE in FAO work, and on other details on OECD role, see Josling, Sanderson and Warley, 1990: 440ff.)

In both agriculture and services, the problem was how to think about the issues to be negotiated. Work at the OECD on the conceptual problems posed by the new issues was not easy, but it was only possible because governments knew that negotiations over binding obligations would take place in another forum. The third part of the MTM called for an analysis of the most appropriate methods for improving the functioning of world agricultural markets. It was not easy to get this part of the work launched. Its fruits were reform commitments in the 1987 Communiqué which, as demonstrated in the annual monitoring reports, countries ignored until the WTO agriculture agreement entered into
force. The Uruguay Round would have been difficult without the OECD work, but analysis is only useful to a point, and the OECD is not the place for negotiation.

Even before the creation of the WTO, members wondered whether OECD still had a trade role. When the GATT had infrequent meetings, a highlight of the OECD Trade Committee used to be no-holds-barred discussions in private among senior trade policy people from capitals, but Members now have many more occasions to meet at formal and informal WTO meetings, and the people they most need to see to resolve negotiating impasses are their counterparts from Brazil, India, and China. To take the Canadian example, the head of multilateral trade policy in Ottawa attended every meeting of the Trade Committee in the 1980s, often accompanied by a junior official. More recently, however, someone from Ottawa attended one in every three meetings, at best. Senior attendance from other countries has been equally sparse, although the level of attendance has picked up recently under the chairmanship of Crawford Falconer, New Zealand’s WTO ambassador and chair of the Doha round agriculture negotiations. It might pick up more were it not that Trade Committee discussion is dominated by the 19 countries that are also member states of the EU, who have no competence under section 133 of the Maastricht Treaty for trade policy. The EU members therefore relish Paris as their one multilateral chance to speak (the Commission speaks for them in Geneva), but other OECD members are bored by the Euro-centric repetition of arguments they have already heard. EU efforts to work through how they are to be represented in international bodies will become more important as more of their members join the OECD.

The analytic role of the OECD continues, however. Unlike World Bank research on trade, the OECD has tried not merely to provide negotiators with useful background but to advance the negotiations. It maintains good links with the WTO secretariat, and senior members of the WTO secretariat attend the Trade Committee. The Trade Directorate undertook useful work in the early years of Doha when WTO Members were still scoping out the ambition and range of negotiations. Their ability to contribute declined markedly over time, but more due to the refusal of OECD members to allow work to proceed in a range of areas for fear of it negatively influencing their interests in the negotiations. Take three examples. First, secretariat ideas for work on improving services negotiating modalities were rejected because the Committee thought it too close to the negotiations. Second, it has the best comparative data on the main agricultural exporters, the sophisticated models, and the analytic tools to prepare country studies of the leading developing countries, including calculating PSEs, but members have blocked analytic work that might have developed ideas that they did not want to hear. Third, two members of the committee are “developing countries” in WTO terms: they blocked vital work on “differentiation” among developing countries, presumably because the conclusions might have affected their own status.\(^5\) In contrast to these lapses, the WTO has been particularly appreciative of OECD work on trade facilitation, and preference erosion, among others, all areas with a strong development dimension and that have involved close cooperation with non-OECD countries. Perhaps the most valuable work has been on making sure aid

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\(^5\) Expanding membership may also have undermined the confidentiality of Trade Committee deliberations.
works for trade, and on managing the joint WTO-OECD database on trade-related technical assistance and capacity building. One of the main contributions of the OECD to the Aid for Trade Task Force was to focus the debate on improving effectiveness rather than confine attention to providing additional financial resources.

The OECD’s future role depends on its ability to consider where the WTO agenda will be next decade, not next week. The OECD can use its unparalleled access to networks of experts in all policy domains to bring new ideas into the consideration of commercial problems. EU member states can participate in such discussions without turning Trade Committee debates into a pale reflection of the WTO meetings from which they are excluded. With ever increasing trade being one driver of globalization, and the vector by which OECD members are brought into ever deeper contact with the non-members on its “enhanced engagement” list, trade policy remains a vital aspect of its evolving common policy culture.

Conclusion

The topic of the future of the organization has been indelibly inscribed on the OEEC/OECD agenda since Ministers first met in Paris in July 1947. The peaks in interest came in the 1947-50 period, when European integration was first mooted, and again in the late 1950s, after the signing of the Treaty of Rome. The turmoil and uncertainty in the multilateral system of trade and payments provided a dramatic backdrop for the round of soul-searching stimulated in the 1970s by the enlargement of the European Community. It is surely no accident that the 1990s round of introspection took place at a time of further European integration and disarray in international economic cooperation. In the 21st century, transatlantic tensions persist, but the principal threats to global economic stability are elsewhere. The OECD contributes not by being a political forum, but by applying its traditional analytic tools to the new economic powers (OECD, 2006) and by helping its members and its new partners think through the challenges of globalization.

The central OECD challenge as always is good domestic policy, and the message is about how adjustment to globalization does not always take place at the border, which is why OECD work must still embrace so many policy domains. OECD analysis goes much more deeply into the detail of domestic policy than do WTO negotiations, but with a smaller group of similar countries and no binding obligations, which makes discussion of such intrusive matters easier. OECD is more than a think tank because it develops not merely new ideas but consensual knowledge about how the world works. The most important thing that changes because of the OECD might be the thinking of the people from technical officials to ministers who attend its meetings or participate in its peer review process. The ideas it develops can have influence far beyond the organization—the “polluter pays” principle, for example, was first developed there. Yet it does not move that knowledge to joint action. Once issues are well understood, and the likely positions of all parties are known, it makes sense to move to a table that is equipped for bargaining. The OECD is not an executive, rule-making body. Nothing in the Convention mandates such a task; little in decades of experience suggests that it would have fruitful results. The OECD contribution lies in influencing policy by
identifying norms and principles for negotiations that take place in the many other international organizations that use its ideas, especially the G-8 and the WTO.

The OECD began by promoting European integration, which required collective policy action notably in the domains of trade and money. After the creation of the EEC, the OECD was not needed for collective action in Europe, but for helping to manage the transatlantic tension generated by European integration. The methods and principles it developed for that task have proved remarkably resilient. Rather than promoting European integration, the OECD message is about adapting to globalization, but the broad principles are the same—liberalization and integration are better than protectionism and autarchy. This message is increasingly brought to a wider group of countries: the OECD is no longer centred in the Atlantic, let alone western Europe. Other authors in this volume analyze the different variants of liberalism manifest in OECD advice, but the underlying belief in open markets and trade as the basis for peace has never wavered.
References


