

**From World Order  
to  
Global Disorder**



**From World Order  
to  
Global Disorder**  
**States, Markets, and Dissent**

**Dorval Brunelle**

Translated by Richard Howard



**UBC**Press · Vancouver · Toronto

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Originally published as *Dérive globale* © Les Éditions du Boréal 2003

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16 15 14 13 12 11 10 09 08 07 5 4 3 2 1

Printed in Canada on acid-free paper

LIBRARY AND ARCHIVES CANADA CATALOGUING IN PUBLICATION

Brunelle, Dorval, 1941-  
From world order to global disorder : states, markets, and dissent /  
by Dorval Brunelle ; translated by Richard Howard.

Original French title: *Dérive globale*.  
Includes bibliographical references and index.

ISBN 978-0-7748-1360-0

1. Globalization. 2. Regionalism. 3. Canada – Politics and government – 1935-. 4. International economic relations. I. Title.

JZ1319.B7813 2003 327.101 C2007-902091-7

## Canada

UBC Press gratefully acknowledges the financial support for our publishing program of the Government of Canada through the Book Publishing Industry Development Program (BPIDP), and of the Canada Council for the Arts, and the British Columbia Arts Council.

This book has been published with the help of a grant from the Canadian Federation for the Humanities and Social Sciences, through the Aid to Scholarly Publications Programme, using funds provided by the Social Sciences and Humanities Research Council of Canada.



Canada Council  
for the Arts

Conseil des Arts  
du Canada

UBC Press  
The University of British Columbia  
2029 West Mall  
Vancouver, BC V6T 1Z2  
604-822-5959 / Fax: 604-822-6083  
[www.ubcpres.ca](http://www.ubcpres.ca)

I DEDICATE THIS BOOK  
TO MY CLOSEST COLLABORATOR,

Marina Greciano



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# Abbreviations

|         |  |
|---------|--|
| CAP     | Common Agricultural Policy   |
| CARIFTA | Caribbean Free Trade Association   |
| CIFE    | Council of Industrial Federations of Europe (Conseil des fédérations industrielles d'Europe) |
| CNPF    | National Council of French Employers (Conseil national du patronat français)                 |
| CUFTA   | Canada-United States Free Trade Agreement  |
| CMIT    | Committee of Ministers on Internal Trade   |
| EC      | European Community   |
| EEC     | European Economic Community  |
| EES     | European Economic Space  |

## ABBREVIATIONS

|        |  |
|--------|--|
| EFTA   | European Free Trade Association                            |
| ECAFE  | Economic Commission for Asia and<br>the Far East           |
| ECOSOC | Economic and Social Council                                |
| ECLA   | Economic Commission for Latin<br>America                   |
| ECLAC  | Economic Commission for Latin<br>America and the Caribbean |
| FTAA   | Free Trade Area of the Americas                            |
| GATT   | General Agreement on Tariffs and<br>Trade                  |
| IBRD   | International Bank for<br>Reconstruction and Development   |
| ICC    | International Chamber of<br>Commerce                       |
| ICFTU  | International Confederation of Free<br>Trade Unions        |
| ILO    | International Labour Organization                          |
| IMF    | International Monetary Fund                                |
| ITA    | Internal Trade Agreement                                   |
| ITO    | International Trade Organization                           |
| LAFTA  | Latin America Free Trade<br>Association                    |
| LAIA   | Latin American Integration<br>Association                  |
| MAI    | Multilateral Agreement on<br>Investment                    |

## ABBREVIATIONS

|            |  |
|------------|--|
| MERCOMUN   | Central American Common Market   |
| MERCOSUR/L | Southern Common Market   |
| MNC        | multinational corporation  |
| NAFTA      | North American Free Trade Agreement                                    |
| NEP        | New Economic Policy (US)   |
| NGO        | non-governmental organization  |
| NTB        | non-tariff barrier   |
| OAS        | Organization of American States  |
| OEEC       | Organisation for European Economic Co-operation                        |
| OECD       | Organisation for Economic Co-operation and Development                 |
| PICE       | Economic Integration and Co-operation Program (Brazil-Argentina)       |
| TB         | tariff barrier   |
| UNECA      | United Nations Economic Commission for Africa                          |
| UNECE      | United Nations Economic Commission for Europe                          |
| UNESCAP    | United Nations Economic and Social Commission for Asia and the Pacific |
| WEF        | World Economic Forum   |
| WSF        | World Social Forum   |
| WTO        | World Trade Organization   |



# Preface

THE PURPOSE OF THIS BOOK IS TO LOOK AT PRESENT-day globalization through the framework created in the aftermath of the Second World War. With its clear-cut demarcations between international, national, public, and private, this framework was put to the test with a measure of success on numerous occasions over the ensuing years, but eventually crumbled under the onslaught of a new set of political and economic forces. By juxtaposing today's global order with that of the postwar period, this book highlights the major pitfalls that mar our globalization and its fascination with chaos.

This study owes an important intellectual debt to Susan Strange's *States and Markets* and Robert W. Cox's *Production, Power, and World Order*. I was most impressed by their unconventional approach to their respective disciplines, the former in the field of international relations and the latter

in political economy, and it is this unconventionality more than anything else that prompted me to write this book.

Yet unconventionality is a feeble pretext without an objective, and my objective here has been to further understanding of the complex relations among basic institutions and the means at our disposal for reforming or changing them. I first tested this approach in a course on globalization that I have been giving for over ten years now and in countless talks to civil society organizations. In both cases, I was reacting to momentous events for which there were no ready-made explanations. For instance, why would Canada and the United States open free-trade talks when they already had the world's most integrated economies? What was the meaning of this free trade as opposed to free trade between, say, Canada and Costa Rica? What were the consequences of such a decision on the multilateral system? How might this free trade affect the Canadian polity? What were we citizens to do about this? All these questions, and many more, were raised over the years. Answers were needed and it was our responsibility as citizens and researchers to provide them.

Research and social mobilization in Canada and the Americas generally – under the aegis of the Hemispheric Social Alliance, for example – have played an important role in advancing popular awareness on these issues, as witness the demise of the Free Trade Area of the Americas project in 2005 and the mounting criticism of free trade and liberalization throughout the world. Unfortunately, neither research nor mobilization has had a comparable impact on the ongoing process of integration with North America.

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# Introduction

TO UNDERSTAND WHAT SETS TODAY'S GLOBAL ORDER apart from the world order built in the aftermath of the Second World War, I propose to compare the two, beginning with the framework on which the old order rested and going on to look at the 1989 Canada-US free-trade agreement as the forerunner of globalization. I will show how the postwar order was buttressed by a broad vision that, for the first time, brought together three complementary and mutually reinforcing objectives – security, justice, and welfare – that were entrusted to a complex network of international and national institutions. Globalization, however, has a single core purpose in the accumulation of wealth, an objective that supersedes all others, just as the institutions created to support it override those of postwar reconstruction. Unlike the earlier order based on a clear division of labour between the public and private spheres, the global order engages in the dismantling of state jurisdictions which,

in turn, leads to a redefinition of responsibilities linking governments, international organizations, and big business.

Now I am well aware that this distinction may seem abrupt, but there is no consensus around the precise meaning of globalization<sup>1</sup> and I do not propose to add to the existing definitions, since I do not see that search as a determining factor at this time. However, to justify what follows I should explain what I believe to be the negative features of globalization.

A world view stems from a set of interconnected principles and objectives that are attached to various national and international institutions. It embodies a homology and complementarity of principles, objectives, and levels of intervention that in turn depend on two fundamental divisions and differentiations – first, between international or regional and national and, second, between public and private spheres. These divisions and differentiations accommodate a state separate and distinct from civil society and the domestic market. A “global” approach does exactly the reverse, since it relies on a single overarching strategy, which is the removal of barriers between international and national and public and private spheres for the benefit of private right holders. A global perspective is neither holistic nor universal, international nor national, but highly focused on its objectives and all-encompassing in its means. It targets all normative and regulatory obstacles, especially those that prevent private predatory practices against common or collective goods. In this sense, it has a profound effect on the redefinition of relations between the state, civil society, and markets and between collective and individual rights as well.

My goal in writing this book is thus both simple and ambitious. Comparing two historical moments separated by some fifty years, I want to distinguish a world order that emerged in the immediate postwar period from a global order surfacing in the dawn of the new millennium. I want to distinguish a vision steeped in universalism and internationalism from the particularizing, selective approach that now prevails. And even though the postwar vision was, as we shall see, deeply steeped in liberal philosophy and tradition, its overall objectives can still be effective in critically questioning the present global order. I have no intention here of basking in nostalgia or reviving a liberal world view, but I do believe there is still much meaning in the broad perspective on which the postwar world order was built, and the best way to separate the substance of its objectives from the trumpery of liberalism – winnow the wheat from the chaff – is to look at the founding parameters and how they were given effect.

The qualification of the postwar world order as universal and inclusive does not mean that it was without blemish, just as I do not claim that globalization is devoid of loftier ideals. The opposition between the two is basically set up for methodological purposes and each case should be seen as an ideal type.

The past decade or so has seen a significant collective critical effort to find ways of reforming the global system and alternates to market liberalization, but, to my mind, these attempts suffer from a fatal flaw – an amnesia that clouds the deep-seated sources of our present difficulties. This is why I have chosen to begin by looking at the founding

principles of the postwar world order, examining the inner logic that links state action domestically and the postwar international system at a theoretical or abstract level. This process will illustrate the shortcomings that dogged the implementation of some lofty ideals. It will also help us understand why, instead of creating a single world market, the compromises made over the years have led to the coalescence of economic blocs, and how this outcome, far from fostering solidarity among peoples and a fairer redistribution of wealth, is taking us along a path towards aggravated economic inequality and social exclusion.

As far as the analysis and interpretation of globalization itself are concerned, I intend to begin my examination with the reasoning that led to the free-trade negotiations between Canada and the United States in 1985, primarily because I will use that free-trade agreement as the foundation on which economic globalization as we know it was built. Doing so will enable me to clarify some of the major differences between a world order and a global order.

Since my whole argument rests on a clear-cut contrast between two concepts, a word of explanation is warranted. I choose to start with the world order as created in the aftermath of the last general conflict because the scope and ambition of the thinking that produced it were such that the overall plan had little in common with anything done before. Although exchanges on a grand scale and international relations are ancient, as writers such as Arnold Toynbee, Fernand Braudel, and Immanuel Wallerstein have shown, the normative and institutional framework set up in the 1940s was unique.

The labours of historians are indispensable for anyone wanting to analyze the basic features of modern capitalist internationalization, whether in terms of capital mobility, trade flows, and migratory patterns or to clarify the roles of institutional, technological, and ideological innovations or progress in political economy. Although these and many other factors are essential for understanding international capitalism over the long term, the Second World War was still a pivotal moment for launching an audacious plan to build institutions that should have brought lasting peace to a tormented world. Indeed, this normative postwar institutional system staked out such highly original conceptual and institutional ground that it could well represent an ideal starting point and standard of comparison with the present global order, showing us the facts in a wider perspective and affording us a deeper grasp of today's complex issues.

In this sense, the amnesia evoked earlier as an obstacle to understanding our present predicament has to do not with indifference to long-term historical cycles or trends but with short-term memory loss that blurs the significance of a normative and institutional framework established some sixty years ago. This framework has had a direct and immediate impact on our present global order – much more than any other previous legal or institutional innovation.

But my argument goes farther than this and evolves as follows: just as the previous world order was heir to the many international meetings held in the period 1944-48, when a given set of parameters and institutional innovations was sanctioned and applied, the present global order is heir to the free-trade agreement between Canada and the United

States that helped define a new set of parameters and institutions, ushering in a new wave of “global” market integration. The most striking difference between these two processes is that the former rested on a top-down approach from states to economies while the new approach operates the other way, bottom-up from markets to states. This reversal highlights the contrast between the role played by politics in setting up the postwar order and today’s domination by market forces that are immune to politics, understood as the pursuit of the common good and the redistribution of wealth. Moreover, as we shall see, post-Second World War politics were basically universal and inclusive, whereas today’s politics are particularistic and selective, just as markets are. Virtually all political entities were invited to join in and build the postwar order, while globalization works from a narrow slate of candidates for market integration with massive exclusions at the planetary and local levels.

Finally, since the Canada-US relationship is still the world’s biggest bilateral trading association, it is quite understandable that this unique relationship should serve as a laboratory for defining and implementing an alternative to the inclusive world economic system still leading in theory but ever creakier in practice. I propose to show how this model of integration pioneered by Canada and the United States in the mid-1980s, having swallowed Mexico in the 1990s, will now go on to embrace Latin America and other partners throughout the world. In this sense, the plan to globalize the world is unquestionably an American plan, as *New York Times* political columnist Thomas Friedman reminded us with his trademark cynicism when he wrote

“Globalization is us,” a phrase soon picked up by its champions as well as its detractors and recast as “Globalization is US,” implying that “Globalization is the United States.”<sup>2</sup>

### **Angle of Analysis**

Understanding an institution or cluster of institutions requires us to look beyond origins and functions and concentrate on common founding principles and underlying logic. To this end, I propose to delve into the rationale of the architects of the political and economic order in the wake of the Second World War, framing the issue as it was seen at the time. This will help us understand the complementarity among institutions at the international level and between these institutions and the ones emerging within the nation-state.

Many readings of that period relay little more than a set of unrelated, ad hoc postwar responses to a spurious set of economic, political, social, and legal challenges. They find no common thread because they see no connection between, for example, the Bretton Woods conference<sup>3</sup> of July 1944 and the 1948 Universal Declaration of Human Rights on one hand and state intervention based on a mixed economy and welfare on the other. I will show how these events are interconnected and why, as the failure to recognize this fact is hugely problematic. In the following pages, whether I am trying to explain the postwar or global order, I will go after founding principles and related broad objectives to pinpoint the main impediments to their implementation. This approach goes a long way towards explaining how the shift from one order to the other does not stem from a choice between options but is driven by inconsistencies

within a conceptual framework. As we shall see, the shift to a regional or continental model of development in the Canada-US Free Trade Agreement involved a renunciation of multilateralism by the Canadian government while increasing US manoeuvrability at both the multilateral and bilateral levels.

Before proceeding, I owe a final methodological clarification that has an important bearing on my argument. My angle of approach incorporates Jean-Paul Sartre's notion of "constituent thought."<sup>4</sup> Constituent thought, or constituent thinking, is a theoretical argument or set of arguments which plays a foundational role, in that other thinkers or practitioners create their own rationales within the parameters it defines. Marx, for example, was not just the author of a theory but a creator of constituent thinking that was put to use by all who proclaimed themselves Marxists and either taken up or taken apart by most thinkers and researchers in the hundred or so years after his death. In other cases, the identification of constituent thinking can be much more demanding, as would be the search for the thinking at the origin of liberalism. The notion of constituent thinking therefore overlaps with that of theoretical framework and, though seemingly close in meaning to "paradigm" as defined by Thomas Kuhn,<sup>5</sup> has one central difference in being foundational, not only in a theoretical and empirical sense, but in a practical sense as well.

Originally, the idea of constituent thinking came down from constitutional law. Legal theoreticians and practitioners rightly insist on the importance of constituent thinking in interpreting the provisions or clauses of legal texts beset

by terminological ambiguity. This involves winnowing through the writings and other documents that were published, distributed, and discussed before or even some time after the framers of a constitution got down to work, and identifying the ones with significant impact on its final draft. A classic case that springs to mind is the *Federalist Papers*, a series of articles by Alexander Hamilton, John Jay, and James Madison designed to rekindle debate around the promulgation of a new US constitution and published in the New York *Independent Journal* between November 1787 and April 1788. A more extensive use of constituent thinking might forage for actions more distant in time and space that throw new light on the emergence of a particular economic and political system. This is how I intend to focus on the rationale behind the postwar order and the Canada-US regionalism that led to globalization.

My aim here is to draw attention to a specific issue of importance that we tend to underestimate: defining the parameters of an alternate globalization. Piecemeal thinking, like piecemeal answers, has its uses, but prevents us from stepping back as we must when designing an alternate world framework. In any case, I am not setting out to define strategies or endorse any course of action. Rather, in revisiting the postwar framework and institutions, I shall bring out everything that separates us from that era in terms of ideas, and everything we owe it in terms of achievements. In this regard, there are, it seems to me, three important reasons to renew acquaintance with the objectives of the founders and architects of the post-Second World War order: first, this world order was steeped in lofty views and

broad concerns that had no equivalents at that time and have found none since; second, its early collapse was basically due, as we shall see, to internal contradictions inherent in a social-liberal world view that, incapable of achieving genuine social and equitable economic internationalization, went on to commit all its strength and credibility to the pursuit of globalization; and, third, the constituent thinking behind that postwar order is still as valid today as it was sixty years ago, not only in abstract terms, but in practical terms for defining alternatives to market globalization.

This brings me to my last objective. The idea behind this book is not merely to compare foundations, frameworks, and institutions, but to sort out the roles of governments and other economic and social stakeholders in the post-Second World War environment and today's global conjuncture. The juxtaposition is interesting and revealing because it allows me to show how certain economic and social forces were enlisted in the process while others were left behind. It also enables us to follow this process as it affects groups that are either reintegrated or expelled from its successor, the present global order. These are, as we shall see, issues that go a long way towards explaining the nature of the current opposition to market liberalization and globalization.

# 1

## Building the Postwar Order

THE FUTURE OF LIBERALISM CAME UNDER GROWING threat as the 1930s wore on and economic depression crept across the world. One by one, governments in Europe, Latin America, and Asia, three continents encompassing the vast majority of that era's sovereign states, moved towards various authoritarian forms of statism. The Scandinavian countries, Britain, Mexico, Canada, and the United States were almost alone in resisting this turmoil, although Canada and the US did see a number of their constituent states and provinces drawn to forms of "illiberalism," as seen in the emergence of new parties such as Social Credit in Western Canada and the Union Nationale in Quebec and the rise of grassroots leaders like Huey Long in Louisiana.

In this highly charged atmosphere, with liberalism under fire from all sides, *New York Herald Tribune* columnist Walter Lippmann brought out, in 1936, a book promised to

a brilliant future: *The Good Society*. The French edition was published as *La cité libre*<sup>1</sup> with an introduction by André Maurois, who summed up the writer's argument as follows:

Liberal capitalism has organized the planet, giving the average man a more satisfying way of life than the lord of yore and fostering the emergence of free states where unequal individuals are all nonetheless subject to the same laws. Yet one cannot say that it succeeded completely, and the intellectual inroads of collectivist ideologies are proof of the relative failure of a system they have brought into discredit.

But why such failure? According to Lippmann, because capitalism ceased to be liberal. Economic liberalism was founded on statistical compensations among millions of desires, ambitions, and plans. But large corporations have made this mechanism unworkable. Legislators ought to have left the economic system alone and secured its free operation through laws aimed at trusts, monetary reserves, and savings-holder protection. But they failed to do so. Monopolies amassed outrageous fortunes which little by little transformed aristocratic governments into self-styled democracies that were actually plutocratic. The doctrine of laissez-faire was, for a long time, an impediment to any legislation protecting work and leisure ...

But why blame liberalism for the lawmaker's mistakes? A constructive liberalism can be imagined that would give governments a controlling but not a commanding role.<sup>2</sup>

Clearly, the renewal of liberalism – or its rehabilitation, as the case may be – called for a radical change of direction: untrammelled capitalism should be abandoned and some

form of controls imposed. Walter Lippmann's argument was clearly inspired by his friend John Maynard Keynes, whose *General Theory of Employment, Interest and Money* was published in the same year. In his "Concluding Notes on the Social Philosophy towards which the General Theory Might Lead," Keynes had this to say about capitalism:

In some other respects, the foregoing theory is moderately conservative in its implications. For whilst it indicates the vital importance of establishing certain central controls in matters which are now left in the main to individual initiative, there are wide fields of activity which are unaffected. The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways ... I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment ... But beyond this, no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic reward to those who own them, it will have accomplished all that is necessary.<sup>3</sup>

These excerpts are revealing because they call for a sweeping reform of liberal capitalism that does not question laissez-faire as such but rather the state's failure to shelter economic life from monopolistic influences.

### The Lippmann Symposium

Keynes' book was probably too heretical to have an immediate and profound impact at the time: by contrast, no sooner had Lippmann's essay appeared in Paris than a symposium was convened in the summer of 1938 to test the new ideas. This gathering was not intended merely to stir up discussion around the publication of a book: it was called primarily to gauge the current state of liberalism and redefine the liberal agenda. The Paris organizers brought together contemporary stars of liberal thought, including Raymond Aron, Friedrich von Hayek, Étienne Mantoux, Robert Marjolin, Ludwig von Mises, Michael Polanyi, Wilhelm Röpke, Louis Rougier, and Jacques Rueff.<sup>4</sup> The symposium was a turning point and at the same time a highly symbolic event, creating a deep rift between the proponents and adversaries of state intervention that marked liberal thinking for decades to come.<sup>5</sup>

The event could hardly have been better timed: in August of 1938, opinions were hardening on whether France should continue to oppose the expansionist aims of Nazi Germany.<sup>6</sup> Liberalism had been battered in the world press since the end of the Great War, and the feeling among liberal intellectuals gathering in Paris barely a year before the outbreak of a second general conflict was that matters could hardly look worse. The merest glance at a map would confirm that liberalism was regressing everywhere, even in the English-speaking world, while in public debates and the press, liberal politicians, philosophers, and strategists were everywhere under siege.

Contributors to the symposium, trying to explain this situation, offered some rare insights. Röpke and Rougier,

for instance, ascribed the restrictions choking the market economy and the drift towards authoritarian government to one fundamental cause: the irruption on the political stage of factions and splinter groups bereft of open allegiances and lofty principles. If the relevance and legitimacy of liberalism, its principles and norms, were basically tied to the unfettered operation of the economy where its practical benefits were first felt, the political arena still obeyed the laws of nature. In other words, unlike the economy, politics went on without the rule of law and without competition, simply the law of the jungle.

Therefore, in order to save the liberal economy, liberal thinkers, economists, and philosophers would have to adapt the rule of law and principle of competition to the political sphere. If Adam Smith's vision and outlook had dominated economics for more than a century and a half, the time had come for Immanuel Kant's thinking to play a similar role in politics. Smith had preached free competition, free trade, and open markets: his liberal theories saw the primary role of government as removing impediments to the free flow of capital and labour – the factors of production. Following Kant's thinking, relations between governments and citizens should be framed in legal terms, with citizens fully protected against government intrusion into their private lives and affairs. In other words, the fundamental public mandate of government should be to shelter and protect under law both private and public relations among its citizens.

Law was central to such a project because, according to Kant, it is law's function to "limit individual freedom in accord with the freedom of all; and ... *public law* is the *sum of the laws* that make such general agreement possible."<sup>7</sup>

Yet if the emphasis is put on law, how could a subject be legally bound to the state and at the same time retain his autonomy? The answer lay in sheltering citizens' legal compacts, contracts, and other agreements from government policy: it was essential to recognize the inherent rights of citizens, not as subjects or voters, but as human beings. These fundamental rights must be enshrined in a separate legal instrument that would have the weight of constitutional law. In fact, support for civil and political rights was essential to the very survival of the liberal economy but, over the years, these rights had been superseded by legal and other advantages lavished on corporations. Lippmann had seen this clearly when he wrote at the beginning of his book:

It gradually dawned on me that Adam Smith would not have regarded the corporate capitalism of the nineteenth century as the "obvious and simple system of natural liberty" which he had imagined, for he had been careful to say that it was the duty of the sovereign to protect as far as possible "every member of the society from the injustice or oppression of every other member of it," and it was plain from the whole tenor of his book that he meant something more substantial than the equal right of the rich and the poor to drive hard bargains. Yet the doctrine which has come down from him and from the great liberals of the eighteenth century has in our time become the intellectual defence of much injustice and oppression ... I seek to find out why the development of the liberal doctrine was arrested and why liberalism lost its influence on human affairs. In order to do this I have tried to ... indicate certain vital points where, because the liberals failed to develop the promise

of liberalism, they ceased to interpret experience and to command the interest of the people.<sup>8</sup>

The full recognition and sanction of civil and political rights thus served the dual purpose of strengthening the market economy and introducing freedom of choice to the political system. If vested interests, splinter groups, and factions could overrun and dominate political life and make off with the economy, it was essentially because the political order was in disarray to begin with. Thwarting this menace called for healthy competition between political options and parties committed to the defence and promotion of individual rights and freedoms, thereby excluding groups that rejected these principles. Economic liberalism, to survive, must now be based on a political pluralism that backed two requirements – the rule of law and the protection of civil and political rights. Given these, the rule of law could be used to build a new political order that could in turn strengthen the liberal economy.

Once established, the idea that economics, politics, and law were tightly interwoven still had to be institutionalized. Of course, government was the defining authority in this passage to a political liberalism that would control the economy according to Lippmann or command it according to Keynes. In either case a dual mission fell to government – the advancement of civil and political rights on one hand and overall management of the economy on the other. Around the political management of the economy and the nature of these involvements, irreconcilable disagreements emerged to create a profound and continuing rift between two liberal schools of thought: those who remained

faithful to the “classic” liberal ideals of von Hayek, for whom government must be satisfied with the negative role of removing obstacles to the free operation of the marketplace, and a new faction that preferred the name “neoliberal”<sup>9</sup> and chose to promote a more active state intervention in the economy. These latter liberals would rally around the ideal of an interventionist state based on Keynes’ thinking.

This split within liberalism set those who believed that the economic system was self-adjusting over the long term, though after a prolonged interregnum of high unemployment and dire poverty, against those who claimed that poverty and unemployment were scourges and not unfortunate prerequisites on the road to prosperity. Von Hayek and Röpke argued that unemployment and poverty should be attributed to political tinkering with economic laws, whereas Keynes, in the “Concluding Notes” to his *General Theory*, held that “the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes.”<sup>10</sup>

Keynes showed that government intervention could become necessary in certain short-term situations for reasons that stemmed, not from the economy as such, but from the political economy in its broadest meaning – that is, for reasons of public management of the national economy, especially in maintaining high levels of employment.<sup>11</sup> If he found some saving grace in the protectionist case, it was less philosophical than pragmatic. The growing core issue was defined by Jacques Rueff in these words: “The essential problem, the one holding all the others back, is that of

determining which interventions are acceptable, and which are not incompatible with the price mechanism.”<sup>12</sup>

Two quick conclusions can be drawn from this overview of the ongoing debate among liberals at that time. The first is the importance of this new focus on the rule of law that was to bring governments to acknowledge and enforce civil and political rights – a requirement that hinged on the acceptance of political pluralism. In turn, this rights recognition process would help to implement the laws of supply and demand in the political sphere, extending the market rationale already at work in the economy. However, the political endorsement of the principle of competitiveness must certainly not be seen as recognizing that “might is right.”

The second conclusion is that, once the idea was established of setting up a pluralistic political system, the spectrum of opposing forces in this future political order would have to be defined. This defining process would disqualify radical political positions as well as those challenging the legitimacy of pluralism itself – a consequence of special importance for classical liberals who disagreed with the legitimacy and validity of political meddling in economic and private affairs. Meanwhile, Ludwig von Mises, Friedrich von Hayek, and other anti-interventionists would turn to channels outside the political arena to promote their theories and ideas, particularly among the business élite and students. It was they who founded the Mont Pelerin Society in 1947 and moved on to teach economics in the United States and launch influential periodicals over the years.

In the period leading up to the Second World War, observers and analysts were concerned that so many governments had somehow been moved to invade and absorb other countries, exercising unbridled powers that imperilled world security and imposing measures that directly impinged on the personal security and welfare of their own citizens. The framers of the postwar world order sought to overcome these forces by implementing a legal system based on the age-old distinction between public and private spheres of activity on one hand and between national and international levels of intervention on the other.

In practical terms, the threats that liberals felt had to be faced were continuing class conflicts at the national level and the coalescence of economic and political blocs internationally. Class struggles posed the specific problem of dealing with collective issues in an individualistic ideology and were solved by diluting class conflicts in a national ethos where the state stood as guarantor of social rights. The menace of international blocs would be warded off by founding a world economy on a universal association of independent, legally equal states, each committed to the expansion of its national economy with the aim of improving the general and national welfare.

Thus emerged parallel universalities, first of citizens as equal holders of both individual and social rights within the nation-state and, second, of equally sovereign states on the world stage. Yet, if this liberal world view was in many cases legally enacted, it was never effectively implemented, since governments had to contend with unquenchable group interests nationally while condoning the survival of colonial empires at the international level. The net result

of this schism between law and fact was that universal access to economic and social rights in particular saw many setbacks in each and every state, just as the failure to acknowledge the de facto equality of states never produced a truly universal community of united nations. The postwar period witnessed much state encroachment on collective rights in the name of individual rights just as, symmetrically, self-serving state interests in the countries of the North were evoked to undo agreements between weaker partners in the South, agreements that would have afforded them more access to northern markets.

My comments up to this point have aimed to reinforce my premise that there was indeed a form of constituent thinking or overall logic behind the founding of the major international organizations in the years 1944-48 and, by the same token, this thinking or logic played a major role in defining the legal concepts on which this new order was built. In this process, the main conceptual tools used – especially the four core ideas of public, private, national, and international – assumed new, expanded, and original meanings that explain the postwar separation of public and private realms internally and national and international spheres externally. In this sense, then, the postwar order established a new division and complementarity between governments' domestic and international activities.<sup>13</sup>

### **Welfare in the International Agenda**

It would be a daunting task indeed to explain the wealth of ideas and plans that emerged from the debates raging around these questions shortly before and during the Second World War – particularly the issue of finally, after two

world conflicts in rapid succession, establishing a durable peace. Among these outpourings were the essays, studies, and analyses published by French and other exiles taking refuge in Britain, the United States, Canada, and Latin America<sup>14</sup> and books brought out by the likes of Clarence K. Streit, Wendell Willkie, Herbert Hoover, Henry A. Wallace, and Sumner Welles, all idealizing the construction of a just and peaceful postwar world.<sup>15</sup> We can gain a sense of the long-term importance of this intellectual output by recalling that four twentieth-century classics appeared in just one year, 1944: Karl Popper's *Open Society and Its Enemies*, Friedrich von Hayek's *The Road to Serfdom*, Karl Polanyi's *Great Transformation*, and Georges Gurvitch's *Déclaration des droits sociaux*. To these four we should add the more practical output of Denis de Rougemont, Edward Carr, Léon Blum, and Alvin Hansen, among others.<sup>16</sup> But of greatest import, to the English-speaking world at least, were William Beveridge's two reports, *Social Insurance and Allied Services* (1942) and *Full Employment in a Free Society* (1944), both of which were to have a momentous impact on the social state in the following years.<sup>17</sup>

Although the above works are indispensable for clarifying the issues, meaning, and scope of the new world order, they lack the relevance to our concerns of James T. Shotwell's *Great Decision*, also published in New York in 1944. Written from first-hand knowledge, Shotwell's study casts a most interesting light on how and why the mandates and missions of the major international organizations set up in the wake of the Second World War were divided and distributed.<sup>18</sup> The Canadian-born historian and sometime Columbia University teacher had this to say in his *Great Decision*:

It is therefore time to think about the edifice of world peace as a whole and not merely the separate parts of it which are being created to deal with the most pressing problems such as relief and rehabilitation. All of these activities overlap and call for political judgments. The field of welfare cannot be organized without regard to that of security. Machinery to guarantee freedom from hunger or to stimulate sound economic practices will be worthless if we emerge from the second World War only to go into a state of preparedness for the third World War. The international organization will be an incomplete and unbalanced scheme unless we keep in mind the interplay of one subject with another, and above all, the necessity of working out a political co-operation to preserve the peace.<sup>19</sup>

To accomplish all this, the “international organization” in question had to be equipped to achieve the three major objectives of security, justice, and welfare, all subsequently enshrined in the Charter and mandate of the United Nations Organization.<sup>20</sup> The first two were thus far the only ones recognized in international covenants, treaties, or agreements, for the obvious reason that welfare was preeminently a national prerogative with nothing to commend it to any kind of international authority then existing. From Shotwell’s standpoint, then, the presence of welfare as the third objective accounted for the originality of the UN Charter endorsed at San Francisco in March 1945. This Charter created four entities instead of the usual three: a General Assembly (ch. iv), a Security Council (ch. v), an International Court of Justice (ch. xiv), and an Economic and Social Council (ch. x) to oversee the United Nation’s “specialized agencies” (art. 57) and be the

“co-ordinating centre for all agencies involved in the various aspects of human welfare.”<sup>21</sup> The Charter unquestionably contributed to the founding of a “new world order ... by urging peoples, behind their governments, to act directly on international affairs” and matters pertaining to their own social welfare. As Shotwell wrote in August 1945 to introduce the French translation of his book, “[the UN Charter] requires different approaches for each issue: a crisis plan for security involving the police and the use of force, a co-operative system for the well-being of citizens; law and an international legal procedure for justice.”<sup>22</sup>

Security, however, would tower over the welfare issue to dominate the international agenda from the start. The Charter gave the Security Council decision-making power (art. 25) while the Economic and Social Council could at best make recommendations (art. 62, para. 2), essentially because welfare or prosperity issues were still seen as primarily domestic.<sup>23</sup> Nonetheless, to promote welfare and counteract a traditional state propensity for economic isolation and protectionism, the new order should facilitate commodity market expansion as the sole guarantee of a prosperous world economy. Shotwell pleaded in favour of “a major reform if not a revolution in world economics” that would dismantle barriers to trade and foster economic liberalization: “We are not talking of total free trade any more than of total disarmament, but only of the reduction and limitation of trade barriers so as to strengthen instead of check the healthy flow of commodities and services where they are most needed in a world which will need them badly.”<sup>24</sup>

The failure of the League of Nations security and justice model to prevent the Second World War was used to shoe-

horn in a welfare mission promising universal peace and prosperity. This mission promoting full employment at the world level was enshrined in the 1944 Philadelphia Declaration reinstating the International Labour Organization (ILO), but dropped when the US Congress refused to accept the new International Trade Organization (ITO) endorsed at Havana in 1948. Thus, full employment was denied propositional status within the UN system and fell into abeyance, even though the United Nations' international organizations continued to work closely with national governments in numerous other areas.<sup>25</sup> Full employment was left as the purview of the welfare state while international economic institutions concentrated on expanding world markets.

There was a coherence running through all these compacts and treaties – the Bretton Woods agreements, the United Nations Charter itself, the General Agreement on Tariffs and Trade (GATT) that came out of the 1947 International Conference on Trade in Geneva, and, finally, the 1948 Universal Declaration of Human Rights. This coherence and the implicit complementarity between the organizations involved should be interpreted on two levels: first, they reflected functional connections among organizational missions and, second, they sprang directly from a social-liberal world view that attempted to link political pluralism and the promotion of welfare. This postwar order was, in fact, far more liberal than social. Not only were the basic ideas used to design and construct this order permeated by liberalism, but the conceptual mapping behind the process was liberal as well. According to most thinkers and political players of the day, this liberalism seemed all the

more irrefutable and likely to command worldwide consensus since no alternative was present to challenge it at the time, not even from the USSR. And this is probably why a number of architects of the postwar order, including President Franklin D. Roosevelt himself, made the mistaken assumption that the Soviet rulers would not be all that reluctant to recognize this design and master plan – joining would require them only to curb their totalitarian statist zeal.

The coexistence in this world system of universalism and liberalism was problematic inasmuch as it pushed the limits of liberal thinking that saw boundaries between individuals – and boundaries between countries – as taking precedence over solidarity or unity. But there is a contradiction here, since welfare must rely on some form of solidarity and redistribution at the domestic level, just as international prosperity must rely on the sharing of wealth between unequal partners. This contradiction would be played out most tragically in the Latin American nations and the newly independent Third World nations of Africa as their governments strove to break their economic and political ties to dominant partners or former mother countries.

Furthermore, far from developing a clear consensus on charters and declarations that could win support from the broadest range of political systems, this liberal view would end up littering the planet with a jumble of treaties, agreements, and protocols heralded by fine statements – though we may wonder whether they ever really did promote democracy and help achieve a better planetary distribution of wealth. Moreover, some accords would prove vulnerable, as the fate of the 1948 Universal Declaration of Human

Rights shows only too well. For three decades following its signature, dissent swirled around the extent and content of the obligations that were supported by governments, so that not one but two legal instruments would be needed to give the declaration effect: an International Covenant on Civil and Political Rights (ICCPR) and an International Covenant on Economic, Social and Cultural Rights (ICESCR).<sup>26</sup>

To achieve their ambitious objectives, the framers of the postwar order decided to retain a “functional method of international co-operation, thinking first of the job to be done and then finding the best way to do it, [which] means to create international organizations as the need arises.”<sup>27</sup> This procedure was in marked contrast with the idealistic approach that would have foreseen all possible eventualities or the realistic approach that would have attached more importance to regional agreements and the creation of regional organizations. At all events, the universal functional approach did attempt to deal with regional realities, as demonstrated in Chapter VIII of the San Francisco Charter on “regional arrangements” and Article XXIV on regional accords in the 1947 GATT.<sup>28</sup>

In this connection, it is interesting to recall that there was actually a dual institutionalization process under way in the 1940s, first at the planetary level and, second, at the regional or continental level. Both involved dense series of meetings, an example being the Mexico Conference of 21 February to 8 March 1945 that produced the Act of Chapultepec, followed three and a half months later by the San Francisco Conference that signed the United Nations Charter on 26 June. Moreover, the wording of declarations and other texts was surprisingly similar on both levels. This

poses a problem, since the theoretical status and policies of regionalism were never clearly defined and the case-by-case process was strategically weighted to extend much more credit to regional arrangements involving Western nations than to arrangements among developing countries.

These contradictions were given another focus in the 1944 meeting at Bretton Woods, New Hampshire. For reasons that are not easy to explain and even harder to justify, the only official memory economic history has preserved of the Bretton Woods Conference is the face-off between the theories of Englishman John Maynard Keynes and American Harry Dexter White. Their rivalry is well known and documented. Keynes wanted to create a single international financial body and world currency, while White favoured two organizations – a fund, the International Monetary Fund (IMF), and a bank, the International Bank for Reconstruction and Development (IBRD). As far as international monetary policy was concerned, White opted for the status quo, which meant maintaining the US dollar as the universal currency with a fixed exchange rate based on the gold standard. Interesting and important as it may have been, this rivalry embodied two views from the developed countries and had little to offer the delegations of most of the forty-four countries present at Bretton Woods.

In fact, there was a third issue at stake at the Bretton Woods Conference, an issue that from the outset undermined the so-called economic universalism promoted by the liberal postwar program, even before the Cold War.<sup>29</sup> To understand this, we must look more closely at the conference and the positions argued by representatives of less developed countries, some of which had contributed

substantially to the Allied victory. Eduardo Suarez, Mexico's Minister of Finance and Public Credit, suggested that the future world economic organization be empowered to speed the rebuilding of war-torn economies and foster development in less economically advanced states.<sup>30</sup> However, since centre stage was transfixed by the battle between US and British plans, the conference never got back to this proposal. Despite the fact that the dual mission of reconstruction and development was eventually enshrined in the name of this new international body, the IBRD, later the World Bank, did not proceed along these lines. The less advanced countries would receive far fewer loans than the countries of Western Europe.

The rebuff at Bretton Woods did not stop the Latin American countries from joining the IMF and the World Bank in 1945-46.<sup>31</sup> Barely two years later, however, in 1948, these countries turned to alternate growth strategies, relying on an updated form of economic nationalism to protect themselves from integration schemes concocted by their wealthier partners. Consequently, the melting away of potential partners for the construction of a truly international economic order was due not only to the protectionist stand of the US Congress and the Cold War, but also to the First World's inability to do justice to the legitimate claims of the so-called "backward" countries, as they were then called.<sup>32</sup> Meanwhile, the twenty-three countries actively involved in building this new economic order rallied around the GATT and liberalized trade by applying two basic principles – the most-favoured-nation clause (MFNC) and the national treatment clause (NTC) – among themselves. These two rules actually sanctioned a single

requirement, seen from two different standpoints: the MFNC was based on non-discrimination among trading partners and the NTC took non-discrimination into the domestic arena.<sup>33</sup>

### **Universality and Differentiation**

In conclusion, I shall return briefly to the principle of universality. Universality, as we have seen, is based on equality – equality of subjects within a state and equality of states in a well-regulated world order. But as philosophers have taught us since Plato and Aristotle, the indiscriminate enforcement of universality, the treatment of every individual or every state as equal to any other, would create dire injustice for the weak and underprivileged. This is why, to release its full power to promote equality instead of concealing injustice and asymmetry, universality must be coupled with a second principle, differentiation. Differentiation assumes that specific cases and circumstances require specific treatments and even exceptions. The poor man cannot be expected to pay the same tax as the wealthy, just as small countries cannot be expected to contribute like rich ones to the cost of world security. It is for this reason that the new world economic order framed a host of exceptions, as in Article xxiv of the GATT, that were intended to cushion the entry of the weakest economies into the world system by taking their special circumstances into account.

Unfortunately, when it came to establishing the postwar order, differentiation was used more to promote inequality than equality. For example, the United Nations system was singled out as an “organization,” not a “state” or “government.” This was done not only because the division of

labour between the legislative (General Assembly) and executive (Security Council) branches had little to do with the spirit or the letter of what had been understood since Montesquieu by the expression “balance of powers,” or to acknowledge the “soft” status of international law, but also because the mere idea of a world government – a role it did *de jure* assume, as in officering the Korean War – would have seemed heretical at the outset.

In this regard, contrary to what had been imagined by Shotwell and others, the principle of universality received little emphasis in the postwar order, with the security issue dwarfing justice and welfare. Moreover, as far as the legitimacy of the world organization itself was concerned, it is revealing that delegates to the General Assembly, appointed directly by governments, were thus neither elected parliamentarians nor representatives of political parties, but diplomats. In this sense, far from encouraging political pluralism as some liberal philosophers and architects of the UN system would have wished, these appointments had the opposite effect of entrenching a dominant version of statism. The UN system institutionalized a statism that reinforced the executive authority of the state at the expense of democratic pluralism or the welfare of peoples and nations. This was and is in total contradiction with the ideals, principles, objectives, aims, and missions enshrined in so many covenants, declarations, and agreements negotiated at the time.

Here again, we see the extent to which the postwar liberal world view strengthened state power on both national and international levels as never before. In fact, “United Nations Organization” was the wrong name for that world

entity: it might better have been called the “United States Organization” to dispel confusion. But this would have led to even more confusion, as it could be understood to mean an organization of and for states or an organization of the United States of America.

Be that as it may, a more important issue is the double institutionalization in the nation-state and the UN system of interlocking and mutually reinforcing executive powers that affirmed the authority of dominant states in the world community.<sup>34</sup> In some cases, for example, decisions in the Bretton Woods institutions of the IMF and World Bank do not reflect the principle of universality or majority rule at all but quotas assigned to the wealthiest members. Since marked asymmetries in the world system gave dominant countries a completely unwarranted advantage, they could create and support institutions to impose their own rules and standards on less powerful states. This strategy helped widen the gap between rich and poor countries and plunged the postwar order into turmoil.

To complicate matters, the principles of universality and differentiation do not work the same everywhere. In economic matters generally, but particularly in trade agreements, the principles are basically the same at the domestic and international levels, whereas in human and social affairs, they are basically quite different, if not incompatible, at these levels. Thus, while legal monism prevailed in trade, legal dualism prevailed in social and human affairs. This incompatibility had a major consequence: governments had to adjust human and social rights to their economic commitments, not the reverse. Welfare, once the overarching

objective, had slipped from the status of an independent to that of a dependent variable. Henceforth, welfare would depend on markets, and its cost would create much more tension where the dualism between the market economy and the social system was strongest. The welfare state was therefore an affordable option for some – the developed – countries but unattainable for the majority that lacked the resources to absorb the social impacts of their economic integration within an international market.

This barrier between the economic and social realms remained in place mainly for three reasons. The first stems from the dominant world view that sees human and social issues as subordinate or residual, not covered by the law of the marketplace and thus matters for national governments. Second, and more specifically, the postwar order was intended to foster prosperity by establishing commodity and capital markets, while governments were responsible for the social costs of externalizing their economies. Third, the postwar period saw two separate but overlapping markets – a world market for commodities and capital and a national market for labour.

These explanations are not mutually exclusive. In fact, they combine to help us understand the extent to which liberalized worldwide commodity and capital markets and flows have commanded a strong state presence at both the national and international levels while at the same time carving a deep breach in the world system between dominant and lesser states. This is a far cry indeed from the ideals and objectives forged in the debates that created the postwar world.

In the next chapter, I turn to the national scene for a closer look at the central compromise coming out of that order, the compromise between the externalization of the national economy on a world scale and the internalization of society in the welfare state.