

Trade Agreements Enflame the Financial Crisis

by Ruth Caplan

Global rules for “free” trade are based on the assumption that, if money is allowed to flow without restriction, then it will go to the most economically efficient use. Here efficiency really means the biggest return to the investor, which has nothing to do with investments that will help communities thrive and meet local needs. Today this model has imploded, but we are left with global rules that make it very difficult to fix the problem. How did this happen?

Not by chance. Over the last three decades, some of the world’s largest financial corporations have made promotion of trade agreements a strategic priority. David Hartridge, former WTO Director of Services, once commented: “Without the enormous pressure generated by the American financial services sector, particularly companies like American Express and Citicorp, there would have been no services agreement and therefore perhaps no Uruguay Round and no WTO’.”

Ellen Gould reports: “In the 1980s, American Express provided an unlimited budget and a large staff to create a lobby for the GATS (The General Agreement on Trade and Services). The CEOs of Citicorp and American International Group—the largest US bank and its largest insurance corporation—joined with American Express’ CEO to take personal leadership of this project. They founded the US Coalition of Service Industries (CSI), which established close relations with influential media and US government trade negotiators, who they met with as often as once a week. The Coalition has described its relationship with US trade negotiators as an ‘extraordinary example of government/industry cooperation’.”

Indeed. They succeeded in getting an Understanding on Commitments in Financial Services through which many countries, including the US, agreed to limit their ability to regulate financial services.

When the Doha Round of WTO negotiations began in 2001, one of the goals was to complete the GATS negotiations, which had run up against opposition from other countries during the earlier

Uruguay Round, which launched the WTO in 1995. As negotiations dragged on, Ellen Gould reports that the US Coalition of Service Industries published a research paper in 2006, which held up the “innovations of Western banks” as “examples of what could be gained by opening markets to foreign corporations.”

Now, deregulation of Western banks is creating a backlash around the world. At the same time, developing countries are being pressured to deregulate financial services like hedge funds and derivatives as part of the GATS negotiations.

The US, for its part, is making a specific promise to lock in repeal of the Glass Steagall Act of 1933, which prohibited a bank holding company from owning other financial companies. The Act was repealed in 1999 under President Clinton on the advice of some of the same economists now advising President Obama. The repeal gave commercial lenders like Citicorp the ability to trade mortgage-backed securities and collateralized debt obligations, which are now at the center of the current financial crisis.

As if this isn’t bad enough, some of the WTO negotiators are pressing hard to get a GATS amendment creating onerous new restrictions on regulations. These restrictions would force governments to make the process of getting a license (such as to operate a bank) “as simple as possible” and get rid of any regulations that could be considered not “relevant” or “objective.” The secretive group working on this amendment met in Geneva to consider a final draft in March, at the same time President Obama and other leaders at the G20 meeting were calling for stricter financial regulations. The contrast between what governments are saying publicly and doing behind the scenes is alarming.

Regulating derivatives and hedge funds, reinstating Glass Steagall, and retaining current regulatory authority are all critical to restoring financial stability. Of course, the latest WTO threats to the public interest haven’t made headlines, so it is up to the public to cry foul. We must demand that the US withdraw from all GATS negotiations on financial deregulation. Then the US must withdraw from any existing GATS agreements that hinder our government from regulating financial services.



photo: foe.uk

We must demand that the US withdraw from all GATS negotiations on financial deregulation.



Jeff Shafer, Vice Chairman for Global Banking, Citicorp, testifies on behalf of CSI at a Senate Finance Committee Trade Subcommittee hearing on the Doha Round.

photo: Stuart J. Harris