

# WTO Chief: Trade Barriers Will Prolong Crisis

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Pascal Lamy, the director-general of the World Trade Organization, keeps a picture in his office of two “reasonably aged” gentlemen. When visitors come by, he says, they often ask whether the smiling men are his grand uncles or even grandparents.

No, he explains, they are Sen. Reed Smoot and Rep. Willis Hawley, the two U.S. lawmakers who authored the Smoot-Hawley Tariff Act. (The 1930 law raised tariffs on thousands of products, led to retaliation from other countries and caused U.S. imports and exports to plunge, a major contributor to the Great Depression.)

“The reason why these two guys are there is because they are the two founders of the World Trade Organization,” he joked.

The WTO is fighting its one of its toughest battles since the group’s predecessor was formed after World War II to reduce trade tariffs. Global trade is expected to decline 10% this year, the worst in the post-war era, and more governments are signaling their worries about open trade.

“This virtual freefall in trade and the belief that the more open economies are bearing the brunt of this decline have led some to argue that trade openness has made economies more vulnerable to the crisis,” Mr. Lamy said Friday night at the Peterson Institute for International Economics in Washington. “At worst, trade has been a mechanism of transmission but surely not the cause of the collapse in demand. The main explanation for this contraction is the simultaneous reduction in aggregate demand across all major world economies.”

The WTO is implementing the G-20’s “name and shame” initiative to highlight countries instituting protectionist measures. “Since the beginning of this crisis I’ve been concerned about the surge in protectionism,” Mr. Lamy said. Government responses “can quickly spiral out of control as we saw in the 1930s.”

“Setting up new barriers to trade will be seen as protectionism and will risk retaliation from trade partners,” he said. “One country’s exports are another country’s imports. Rather than reviving economies, the effect of this will be to worsen the global crisis.”

Traveling around the U.S., Mr. Lamy said he’s been “struck by the malaise” in the American people who blame trade for loss of jobs and health coverage. “We know that countries gain from trade as a result of the increased economic efficiency brought about by specializing in goods in which they have a comparative advantage.”

“More open trade is essential but it is not enough,” he said. “We need better worker training, greater mobility in labor markets, more expansive social safety nets” and investments in health care, education, clean energy and a better regulated financial system.

At the end of the global crisis, “economies that are more open will be better placed to stage a faster and stronger recovery,” Mr. Lamy said. “A reversal of openness will impose significant costs” on their economies

Mr. Lamy said a successful completion of the Doha round of trade talks would restore confidence in trade. He called its completion the “lowest-hanging global stimulus package” to fuel foreign demand and help businesses and consumers.

He said the U.S. must play a leadership role. The Obama administration has been “a bit slow,” he said, but its direction “is appearing little by little.”

“I cannot restart a political process without the U.S. being ready,” Mr. Lamy said.