

Europe, Representational Power, and the Geneva Consensus

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Abstract: The diversity of market economies that constitute the European Union presents both liabilities and opportunities for Europe when it comes to shaping global economic institutions. It is a liability for it often prevents the establishment of lasting and strong common positions in global negotiations and thus undermines the ability of Europe to exercise its collective hard power resources. Paradoxically, however, capitalist diversity within the EU has become the source of different type of power that Europe is leveraging to shape the social purpose of global economic governance. Through its *representational power*, the EU exercises influence on global economic governance by exemplifying a model of how diverse market economies can coexist in a liberal economic order while respecting and promoting the principles of social progress, sustainability, transparency and subsidiarity. These are also the core principles of the Geneva Consensus that is emerging as a foundation of a new global economic order and that has the support of a growing number of states and other stakeholders in the global system. The paper argues that Europe is playing an important role in having the Geneva Consensus take the position of the Atlantic Consensus that shaped global economic governance in the three decades after the second world war, as well as in replacing the Washington Consensus that defined the goals and processes of global economic governance in the 1990s and early 2000s.

Keywords: varieties of capitalism; European Union; Geneva consensus; global governance; globalization; representational power

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The 21st century provides a world of opportunity, that means being projectionist, not protectionist, that means projecting our interests and our values, and not to be defensive.

Jose Manuel Barroso 2008

Amidst charges that Europe's economies are failing to meet their economic and social goals, calls are heard for a collective European response to unfettered globalization. The European Union has responded to such calls with a mixture of initiatives, including offensive programs that aim to boost the competitiveness of European industry as well as defensive programs designed to help its citizens adjust to global markets (Jacoby and Meunier 2008). Increasingly, however, calls for a collective response have moved beyond demands for programs at the European level to demands for global designs with European imprints.

Is Europe in a position to define the rules of globalization in the 21st century? Can Europe shape institutions of global governance in ways that serve its interests? Nuanced answers to these questions requires that a distinction be made between defining specific rules and defining the broader system of governance. A growing literature shows that Europe has been able to shape specific global rules in several domains, including trade, finance, and the environment (Abdelal 2007; Meunier 2007; Kelemen 2007).

While important illustrations of how Europe is able to use its hard power resources like market power to shape global institutions, the instances where Europe enjoys this influence are relatively few and provide only a partial foundation on which it can be said to be shaping global economic governance.¹ This paper argues that Europe's ability to shape global economic governance lies less in its ability to define the structure of specific rules than in providing the broader normative content that guides economic management at the global and national levels.

The global economic order is defined by the structure of the rules that govern international markets and the norms embedded in common institutions. Together, these rules and norms determine what constitutes the responsibilities and permissible behavior of international economic organizations *and* national governments. While changes in rules may alter the nature of the global order and force individual states to adapt to new circumstances, transformations in the normative content of institutions frequently have more important implications for how states adapt to the global environment. In the early post-war period, the rules governing global economic exchange were underpinned by a normative order championed by the United States and Western Europe that gave governments the responsibility of supporting open trade policies *and* internalizing the costs of economic adjustment in ways that built political support for economic openness. Described in terms of a "compromise of embedded liberalism" (Ruggie 1982), the underlying normative order, or social purpose, of this compromise was that governments would enjoy autonomy in striking domestic bargains that made economic openness politically feasible and thus make a liberal international order possible. The other side of the Atlantic consensus that underpinned the post-war arrangement was that international

organizations would promote open markets, but not significantly constrain governments in implementing non-discriminatory economic strategies that compensated the losers from structural reform.

While important adjustments occurred to post-war global rules, it was the social purpose of global economic institutions that experienced the more radical change as the Atlantic Consensus gradually broke down in the 1970s and 1980s. In its place emerged a new and more narrow consensus in the 1990s on what role international and national public authorities should play in helping citizens adapt to global markets. Known as the Washington Consensus, the social purpose that was to inform the major economic multilateral organizations promoted a blueprint in which the costs of adjusting to global markets moved from public national authorities to individual citizens. This transition reflected a move that in a different context has been described as a shift from a market economy model to a market society model (Laïdi 2000). As the term implies, with the ascendancy of the United States after the end of the Cold War and economic stagnation in Europe, the members of the European Union played only a secondary role in shaping and underwriting the Washington Consensus.

However, with the breakdown of core features of the Washington Consensus in the early 2000s, what should constitute the social purpose of the global economic order became an open question.² It is in this context that Europe is well positioned to shape how globalization is managed in the future. Pascal Lamy, the former Trade Commissioner of the European Commission, outlined a doctrine of “managed globalization” in the late 1990s in the form of a set of principles that should guide Europe’s approach to global market integration (Lamy 1999; see also Abdelal and

Meunier 2007). With particular attention to the substantive principles of social progress and environmental sustainability and to the organizational principles of transparency and subsidiarity, Lamy extended this doctrine to the global level and spoke of creating a “Geneva Consensus” while seeking the position as the Director General of the WTO (Lamy 2005). Rather than being a normative order underwritten by the IMF, World Bank and Inter-American Development Bank along with the US Treasury as was the case with the Washington Consensus, Lamy proposed that the Geneva-based WTO and ILO would assume a more central role in defining the principles of what should guide economic management. He also proposed to coordinate more directly with Washington-based organizations. The EU case has become critical as a reference point in this context for it represents a politically feasible solution to how economic openness can be reconciled with social progress and environmental sustainability, as well as how intergovernmental cooperation can be reconciled with social participation and national discretion in economic and social policy.

Today, the European Union represents the largest share of world GDP (30%), world trade (18%), world immigration (21%) and official development assistance (52%).³ The first part of this article explains why, despite being in this position, there are significant limits to Europe’s ability to shape specific global economic rules. It argues that the primary reason Europe is unable to give its own imprint on a large number of specific global rules is due to its internal diversity. The major economies of the European Union represent a variety of market economies, which often lead countries to prefer different types of multilateral rules (Fioretos 2001; Fioretos 2008). Because these differences are historically contingent and are often reinforced by globalization (Hall and

Soskice 2001), it is unlikely that a sufficiently high level of preference homogeneity will emerge to allow Europe to present a unified front in a large number of global negotiations. Absent greater homogeneity in its market economies, Europe therefore lacks the type of hard power necessary to get other major economic players like the United States, Japan, China, Russia, and India to agree to Europe's preferred global designs across the major domains of global regulation.

Even if Europe is able to give some global rules its preferred imprint, hard power is not a sufficient condition for shaping the content of the global economic order. The latter part of the paper argues that giving global rules an imprint that is palatable with its own goals requires that global economic organizations have a social purpose that is compatible with that of Europe. The paper argues that the very reason that Europe has had difficulties shaping a large number of global rules (i.e. its capitalist diversity) is paradoxically the foundation on which it can shape the normative order of global economic governance. It suggests that Europe enjoys *representational power*, which refers to Europe's ability to shape common global institutions by exemplifying a set of successful and lasting solutions to how diverse national economies can sustain economic openness and deep levels of intergovernmental cooperation while observing the principles of sustainability, social progress, transparency and subsidiarity.

Managed Globalization and the Liabilities of Diversity

Globalization has been described as a process that is ungovernable and that resembles a runaway train that cannot be stopped (Strange 1996; Sassen 1996; Giddens

2002). The implication is that globalization has systemic qualities and that individual states cannot control the structure or effect of global processes. The conclusion from such accounts is that to prosper in a globalized world, states must adapt national institutions to global ones. The challenges are said to be particularly large for countries who wish to pursue progressive governance programs, including closing inequality gaps, sustaining strong welfare states, and implementing sustainable environmental policies.

Those that question this representation of globalization often face scorn that is reminiscent of the type of criticisms that have been levied against progressive policy programs for centuries. As Albert Hirschman (1991) details, since the 17th century through the early stages of the neoliberal era, progressive ideas embracing liberty, representation, and fairness have been subject to three types of reactionary rhetorics. Today, supporters of the notion of “managed globalization,” which has been represented as a progressive agenda, face the same type of rhetorical attacks.⁴

Policymakers who suggest that globalization can be managed are often said to overlook the unintended consequences that follow from their efforts to fetter markets. Such arguments are based in rhetorical claims about the *perverse effects* that attempts to manage the economic order will have on a polity. One among many examples where this type of criticisms is levied is in the context of European efforts to promote global environmental and labor standards. Opponents of such standards reason that having global standards reflect European preferences will generate two sets of unintended consequences—they will delay “necessary” national reforms as well as reduce the prospects for economic growth in poorer countries that cannot compete effectively if higher global standards are imposed.⁵ Other policymakers are said to be placing the good

aspects of globalization in *jeopardy* when they attempt to preserve Europe's social models. Such actions, it is frequently charged, will also delay national reforms and may in the process place the whole society in danger of permanent relative decline (e.g. Alesina and Giavazzi 2006, 3). Finally, beyond charges that attempting to manage globalization generates perverse and dangerous consequences, policy-makers are warned that attempts to organize global rules are nothing but acts of *futility* since it is ipso facto “impossible” to manage globalization. Thus, for example, it is said that the \$1.4 trillion global hedge fund industry cannot be regulated, though many states do so in ways that aim to limit the systemic risks that such funds pose for their economies.⁶

The conclusion one draws from criticisms invoking the rhetoric of perversity, jeopardy, or futility is that if Europe wants to be successful, it has no choice but to adapt national designs to global institutions. But while these types of rhetoric are found widely in debates over the future of globalization, there is growing evidence that global rules can be managed and that they often have European imprints. For example, recent studies show the key role played by Europe in shaping global trade rules (Meunier 2005) and global capital markets (Abdelal 2007). Europe’s imprint is also seen in areas that have become the subject for regulation more recently, including the international environmental (Kelemen 2007) and data privacy protection domains (Newman 2008). Others add that Europe’s cooperation with the United States has been instrumental in shaping global regulatory designs (Drezner 2007).

Yet, there are also many examples where Europe has been unable to shape meaningful global rules. In most instances, its inability to shape common rules is due to heterogeneity in the preferences of Europe’s large economies. In particular, without

agreement among the British, German and French governments, Europe's ability to shape global rules is significantly circumscribed. This is apparent in several areas of global governance where divisions within Europe have undermined a strong common position in global negotiations. For example, disagreements among EU member-states over the nature of global labor standards have made efforts to attach such standards to trade agreements much less likely. Attempts by the French governments to introduce a small tax (a so-called Tobin tax) on global financial transactions to reduce the level of systemic risk that inherently exists in the global financial system have met with significant resistance within Europe and prevented an EU position on the issue. The same fate met French initiatives to introduce a small tax on international airline travel to fund global health programs. Finally, recent efforts by Germany to introduce global regulations for the hedge fund industry met with opposition from other EU member-states.

In all the cases cited here, disagreements among European countries reflected a division between liberal and organized market economies.⁷ Governments representing the former type of market economy were strongly opposed to an extension of more stringent global rules in the trade, finance, and labor domains, while governments in organized market economies were more willing to accept such arrangements. More specifically, divisions over global regulations in the trade, finance and labor domains pitted Britain on the one side against Germany and France on the other side. When these countries are unable to agree on a common position, it has the effect of undermining Europe's ability to influence the structure of global rules in a comprehensive way. Divisions serve both to reduce the hard power of Europe, as well as undermine its ability to employ effectively collective institutional power within international organizations.

For example, when Britain sides with the United States on the nature of global financial rules, it undercuts Europe's market power in this domain. Britain's share of European financial markets exceeds the combined value of Germany and France, and without agreement among the three, Europe lacks the strength to negotiate with other powerful states in the world. Similarly, divisions among European countries have reduced the ability of Europe to put forward a single voice within organizations like the G8, IMF, and World Bank and thus make it less likely that these organizations adopt rules that bear European imprints.

Social Purpose and Global Economic Governance

Though the diversity in Europe's economic systems presents a liability when it comes to defining specific global rules, it is paradoxically a foundation on which Europe is able to exercise a different kind and arguably more consequential form of influence, namely normative power. Normative power refers to the ability of a state (or group of states) to influence the actions and understandings of others through direct or indirect means of persuasion. Specifically, in the context of economic governance, normative power may be understood as the ability of a state to define the principles of what constitutes the appropriate balance between markets and government intervention when it comes to matters of economic growth, social progress, and environmental sustainability, and what is the division of responsibility between national and international authorities. In short, normative power refers to the ability of a state to define the social purpose of economic governance at the national and international levels (see Ruggie 1982).⁸

Whether Europe possessed normative power was critical to shaping the nature of the content of the two global economic orders that characterized the modern era of capitalism after World War II. While in the early post-war period Europe was able (with the United States) to exercise considerable normative power over what became the social purpose of the international economic order, it lacked such power during the 1990s and early 2000s and was therefore unable to significantly shape the overall content of global economic governance in the period after the demise of the Cold War.

The Atlantic Consensus

In cooperation with the United States, Europe played a major role in shaping an Atlantic Consensus that informed the social purpose underpinning the international economic order and the principles governing national economies after World War II. The defining feature of what has become known as the compromise of embedded liberalism was that multilateralism was “predicated on domestic interventionism” (Ruggie 1982, 393). In other words, the stability of global institutions was dependent upon governments’ ability to intervene in the domestic economy in ways that ensured political support for multilateralism. Two aspects of this arrangement were particularly significant. While international financial institutions like the IMF facilitated an international monetary system, governments were given extensive authority in regulating national financial markets. International organization like the GATT promoted open trade, and governments strengthened domestic institutions of social risk management (broadly speaking the welfare state) as means to facilitating a broad societal coalition in

favor of open trade policies. The complementary relationship between the international and domestic sides of this arrangement created a self-reinforcing system that enabled the reconstruction and gradual structural transformation of Europe's postwar economies without generating political instability.

The compromise of embedded liberalism gradually fell apart as the fixed exchange rate regime at its center dissolved in the early 1970s and a new normative order emerged in the 1980s. Keynesianism, which had been a core pillar of the normative order in the early post-war period, was gradually replaced by monetarism. As European economies experienced lower levels of economic growth in the 1990s and rising unemployment, criticisms were also directed at institutions of social risk management that had been so central to the Atlantic Consensus. The outcome was a significant decline in Europe's normative power within the major international economic organizations at the very moment that the process of economic globalization was accelerating. In contrast, during the same period, the United States enjoyed a period of extraordinary prosperity which placed it in the position of shifting the locus and nature of the social purpose that was to define the global economic order in the aftermath of the Cold War.

The Washington Consensus

In the 1990s, the dominant view on what should be the role of economic multilateralism and what constituted permissible forms of domestic government intervention became known as the Washington Consensus.⁹ Most directly associated

with the policy priorities of the international financial institutions based in the American capital (IMF, WB, IADB) and the US Treasury, the Washington Consensus represented a significant departure from the Atlantic Consensus. The primary role of international economic organizations was to facilitate open capital markets and an open trade system in goods and services. Meanwhile, governments were encouraged to liberalize capital markets and to deregulate product and labor markets. At the same time, a strong emphasis was put on reducing the size of state budgets, which translated into significantly lower investments in institutions that managed social risk and in subsidies to the industrial sector. The costs of adjusting to changes in markets fell less on public authorities than on individual citizens, who experienced significant adjustment costs due to the decline in government assistance and greater exposure to international competition.

In contrast to the era of the Atlantic Consensus, Europe did not play a significant part in shaping the social purpose of global economic governance in the 1990s and early 2000s. Its normative power was compromised by two factors. The majority of Europe's economies were experiencing a period of economic stagnation characterized by high and rising levels of unemployment and low levels of growth. At the same time, the European integration project was in a moment of transition. The consolidation of the ambitious Maastricht Treaty including the transition to economic and monetary union was slow and made it difficult for Europe to assume a strong role in shaping the normative content of a global economic system that was increasingly characterized by the globalization of capital, goods and service markets. Instead, it was the United States that enjoyed nearly unrivalled influence over the normative content of the global economic order that emerged in the 1990s and early 2000s.

However, the normative power of the United States in shaping the Washington Consensus would prove relatively short lived. If the embedded liberalism compromise had had self-reinforcing properties by enlarging popular support for domestic programs over time, the Washington Consensus came gradually to have a self-undermining quality as fewer and fewer of its main features enjoyed political support.¹⁰ The failures of the Washington Consensus, and the reality that countries violating many of its core principles fared better than those accepting the prescriptions of Washington institutions (Rodrik 2007) fueled a debate on what ought to define the social purpose of global institutions (e.g. Stiglitz 2002; Bhagwati 2004). Indeed, when someone calling himself the “world’s foremost free trader” acknowledged that the lesson of the 1990s was that “optimal, rather than maximal, speed” should be the goal (Bhagwati 2004: 8, 34-5), a window opened for a new debate on what ought to be the social purpose of global institutions.

The Geneva Consensus and Diversity as Opportunity

The fall of the Washington Consensus provided Europe with an opportunity to manage economic globalization in an indirect fashion by embedding a new social purpose in global economic organizations. The emerging Geneva Consensus constitutes a new normative order that closely mirrors the core substantive and procedural principles that the EU represents, including sustainability, social progress, transparency and subsidiarity. By serving as a positive demonstration example of how these principles of the Geneva Consensus function in practice, the EU enjoys a type of normative influence that may be characterized as representational power.

Representational Power

Normative power refers to the ability of a state (or group of states) to convince others through persuasive action or demonstration that specific policy commitments and organizational principles constitute legitimate and superior praxis. Typically, the substantial literature on normative power focuses either on the role of ideas in persuading others to alter their position or efforts by states to actively persuade others through common deliberation and debate (Manners 2002; Risse 2000). Normative power through demonstration, or what may be termed representational power, is addressed more rarely. Yet, this latter type of power is often as important if not more so in persuading others of the value of observing specific policies and principles of conduct. A key distinguishing feature between the two types of normative power is that deliberation and debate are direct means of influence, while representational power functions in indirect ways without there necessarily being actual debate over what should be the structure of common rules and principles. Indeed, states may enjoy representational power without intentionally seeking to influence others.¹¹

A state (or a group of states) enjoys representational power when it represents a feasible and attractive solution to how substantive policy commitments can be realized and a second party supports common international rules that approximate those represented by the former. For example, if two entities – say the EU and US – propose different solutions to how international organizations should resolve a specific problem, the entity that represents a solution that enables a third party – say a developing country –

to minimize its adjustment costs will be more favorable than an arrangement that carries higher adjustment costs. Thus, in the context of global debates on how to compensate losers from structural reform, many developing economies favor solutions commonly used in Europe over those found in the US. In this instance, Europe is neither using hard power resources to convince developing countries to support an international economic order supportive of such solutions, nor is it engaging in debates with such countries about the merits of its own domestic designs. Rather, Europe exercises an indirect form of influence by representing a solution that is more palatable to the governments of developing countries than to that preferred by others such as the US. Consequently, Europe need not present an ideal model in order to exercise normative power: it simply needs to represent a feasible and attractive alternative to that promoted by other powerful international actors.

The European Union represents a system of governance that is built around the same substantive and organizational principles that inform the Geneva Consensus, including social progress, sustainability, transparency, and subsidiarity (Lamy 2004).¹² As such, it is a consensus that embraces a very different approach to what should be the responsibility of international organizations than that which informed the Washington Consensus. Rather than promoting a one-size-fits-all economic reform program for economic development as was the case with the Washington Consensus (Rodrik 2007), the Geneva Consensus is premised on the idea that governments must be given significant discretion in adopting programs that help build support for economic openness. In this respect, the Geneva Consensus bears some resemblance to the Atlantic

Consensus after the Second World War, though it is adapted to a markedly different international environment.

The Geneva Consensus

As Trade Commissioner of the European Union, Pascal Lamy called for a global system of “managed globalization” characterized by a set of coherent and legitimate rules (Lamy 2004). After becoming Director-General of the WTO in 2005, Lamy expanded on this theme to promote the Geneva Consensus (Lamy 2005; Lamy 2006a). In contrast to the Washington Consensus, which emphasized structural adjustment *without* government programs to offset the social costs of adjustment, the Geneva Consensus actively promotes an economic order in which governments are given extensive authority in managing the domestic process of reform. According to Lamy, the Geneva Consensus is a “new basis for the opening up of trade that takes into account the resultant *cost of adjustment*” (2006c). In short, unlike the years of the Washington Consensus, governments would be allowed, if not encouraged, to put in place domestic programs that enhance popular support for economic openness. Moreover, under the Geneva Consensus, international organizations have a responsibility to assisting weaker countries in making the transition to sustainable open economies.

In advocating a new global consensus on what should be the rules and the social purpose of multilateralism, Lamy points to a set of lessons from recent failures. In particular, he argues that the failure of trade negotiations in Cancun in 2003 were due to the absence of efficient and legitimate rules that enabled countries to support

international liberalization while managing the domestic costs of dislocation through activist government policies at home. To Lamy, the resolution to the Cancun impasse, which have since been accentuated in the Doha negotiations, lies in “harnessing globalization” through rules that promote sustainability and that address imbalances and divisions between *and* within richer and poorer countries through a global system that is built on transparency and subsidiarity. These two principles of governance – which commit countries to inclusive membership and reaffirms national autonomy – are the means by which the substantive goals of social progress and sustainability are to be achieved.

Transparency

Transparency in global governance is key to ensuring that the major economic multilaterals achieve and maintain legitimacy. Unlike in the era of the Atlantic Consensus, the major international economic organizations have all come under a great deal of criticism in recent years. The Geneva Consensus aims to overcome the perceived legitimacy deficit of these organizations by promoting a more inclusive agenda that gives greater voice to developing nations and non-governmental groups. Lamy talks of “nothing less than a new politics” (Lamy 2004, 13), which he describes in terms of a global system of *cosmopolitics* (see also Lamy 2006b; Charnovitz 2002). In developing his notion of cosmopolitics, Lamy draws heavily on the example of the European Union to argue that a global system can function in effective and legitimate ways if it embraces organizational principles that proved valuable in the European context. In particular, Lamy notes, global organizations must compensate for the relative power disparities

between small and large states (as has been the case within the EU), and give the former a more significant role in the institutional architecture of global institutions than has historically been the case.¹³ This would serve to overcome one of the key deficiencies of the Washington Consensus where smaller countries had little choice but to accept the prescriptions of the major international economic organizations and thus raised the issue of the latter's legitimacy to the top of the global agenda. It would also rectify the imbalance that existed during the Atlantic Consensus when the embedded liberalism compromise was not "fully extended to the developing countries" (Ruggie 1982, 413).

Lamy also stressed the importance of making non-state actors a more active part of the processes that constitute global economic governance. While the EU's official organs have long actively incorporated non-governmental organizations in consultative and deliberate forums, this has been a feature that has largely been absent in any formal fashion in most international organizations. With the exception of the ILO that has long included representative of business and labor, the WTO, World Bank and the IMF have only recently sought to bring non-state actors into the policy-making process. By representing an example of how perceptions of democratic illegitimacy may be (partially) overcome by actively engaging non-governmental groups, the EU serves as a model (however imperfect) for how international organizations can become more transparent and responsive to the voices of citizens that are directly affected by decisions taken by governments within such organizations. Indeed, the EU features prominently as a model in all major debates among policy-makers, international lawyers, and scholars on how global organizations can be reformed to become more transparent (e.g. Dunoff and Trachtman 2007).

Subsidiarity

If greater transparency in global organizations aims to ensure their legitimacy, subsidiarity is the principle that guarantees countries significant discretion in designing national programs to cope with the challenges of globalization. Subsidiarity was enshrined as a key principle of governance in the European Union with the Maastricht Treaty and has guided the EU's deliberations over whether or not competencies should be vested with international authorities or remain at the national level. It gives governments significant flexibility in designing domestic programs that fit with national circumstances and prevents the delegation of regulatory authorities to the international level without explicit consideration of its consequences. In a global context, the principle of subsidiarity is an attractive one for large and small developing countries for it prevents the type of imbalance that was evident during the 1990s and early 2000s when major international organizations were perceived to be usurping the regulatory capacity and political authority of national governments. Subsidiarity is also a principle that gives individual states greater authority in designing national programs that internalize the costs of economic adjustment. As such, subsidiarity enhances the prospects that governments can reduce the erosion of popular support from economic openness that was apparent during the years of the Washington Consensus.

The principle of subsidiarity is particularly important when it comes to how institutional diversity among market economies are reconciled within an international organization. What the EU Treaty does not say in explicit terms, but embodies in practice are the numerous ways in which it accommodates institutional diversity. The EU

does not promote a particular kind of market economy but seeks to reconcile the promotion of a common international economic space without barriers to exchange with a diverse set of market economies that employ different types of regulatory regimes. It does so with the help of the principle of mutual recognition and by relying extensively on directives, which give member-states freedom in choosing the national means by which they implement common provisions. For example, within certain boundaries, member states can determine what type of social protection citizens can enjoy and the level of environmental protection. Of particular interest in this context is the use of mutual recognition and common minimum standards within the EU. The former made discriminatory practices subject to legal recourse, while the latter prevents races to the bottom that occur in mutual recognition contexts. Moreover, common minimum standards resolve conflicts between supporters of low and high regulatory standards by allowing the former constituency to maintain standards close to their ideal point, and allowing the latter constituency to have as high standards as they wish. While the use of common minimum standards within the WTO are disputed, the rule-based nature of that organization bears resemblances to the EU in the form of a formal dispute resolution system and other mechanisms that protect weaker states from economic discrimination.

The EU also employs other solutions that accommodate diversity among member-states without undermining their collective goals. Variable geometry is the broad term used for the practice of (a) allowing select countries to opt-out of some arrangements because they are unpalatable domestically; (b) delaying implementation in ways that allow governments to gradually build sufficient domestic support for multilateral commitments; or (c) for those who wish to deepen cooperation, doing so in non-

discriminatory fashion to other members. While Lamy is not explicit in his endorsement of variable geometry within global institutions, many others advocate such solutions in ways that are consistent with the central pillars of the Geneva Consensus (Trachtman 2006; VanGrasstek and Sauv  2006).

If the world will continue to be one of diverse market economies that are traveling at different speeds of change, the critical aspect of a new global compromise is to adopt rules that accommodate institutional diversity and differential speed of reform. This is the premise of the Geneva Consensus, and the EU is the only international organization that has done so effectively and consistently over a long period of time while achieving the collective objectives of member-states while also observing the principle of subsidiarity. As such, the EU represents a feasible and battle tested pragmatic solution to achieving substantive policy commitments and resolving governance problems.

Conclusion

Any discussion about the prospects of Europe managing globalization must address the means that are at Europe's disposal. In a highly interdependent world with no single state or group with preponderant power (Zakaria 2008; Haass 2008), defining the rules of the international economic system depends not primarily on Europe sharing its preferences with other states such as the US, or on its ability to offer tangible positive or negative inducements to states who accept Europe's preferred way of structuring global rules. An increasingly important factor that will determine whether the European Union can shape the structure of global economic governance in ways that are palatable with the

goals of its many governments is whether it can define a legitimate social purpose for global organizations that is broadly accepted by states across the world. This paper suggests that one of the most significant resources that Europe has in this context is its representational power.

Today, the European Union constitutes the largest internal market in the world and represents a collective of democracies devoted to social progress and sustainability that has successfully promoted increasing levels of economic openness among themselves without undermining national designs held dear by individual member-states. Squaring this circle was the product of a long and often contentious process in which member-states arrived at a set of principles of governance that respected national autonomy and discretion in economic, social and cultural affairs while also involving a large number of non-governmental stakeholders in deliberations.

The world's major multilateral organizations are moving in the same direction. Though with some variations among themselves, the IMF, World Bank, WTO and ILO are now more committed than ever to ensuring that strategies of economic openness are politically sustainable for large and small, developed and developing economies alike. These organizations have also significantly expanded the participation of non-state actors in processes of deliberation as a means of enhancing their transparency and legitimacy. Finally, these organizations are increasingly realizing that the division of labor that they have held for the last several decades has exacerbated problems that can be overcome if the type of inter-organizational coordination that is common within the European Union were to occur.¹⁴

While making use of its representational power is not an official strategy of the EU, the notion that it enjoys such power is becoming more widespread. The epigraph by Jose Manuel Barroso with which this paper began speaks to how the President of the European Commission among others has come to appreciate Europe's representational power. Described in terms of Europe's ability to be "projectionist," Barroso encourages the EU to boldly move forward to shape a global system of economic governance that embodies similar substantive commitments to those enshrined in the Treaty on European Union. Europe can achieve this outcome neither with brute force, nor by engaging in long debates and deliberations with other states. Nor does it with its many imperfections constitute an ideal that will persuade others to adopt European designs. Rather, it is by representing an example to others of how difficult political and social problems and controversies can be resolved among sovereign states under the constraints of globalization that Europe will be able to convince other states to reshape the social purpose of the global economic order in ways that approximate the solutions of the European Union.

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Notes

¹ Hard and soft power constitute two broad sets of resources that states draw on to shape the actions of other states. Hard power such as market power and military might are typically used in ways that compel others to alter their behavior. It represents a form of compulsory power that is most commonly exercised in direct relational terms. In contrast, soft power is a broad category that refers to the ability of a state to employ its values, culture and institutions to persuade others to alter their behavior. Typically, soft power is exercised in more diffuse and indirect ways. On these and other distinctions in the concept of power, see Nye 2004; Barnett and Duvall 2005.

² The breakdown of the legitimacy of the core organizations promoting the Washington Consensus is the premise on which some scholars think Europe is well-positioned to shape global governance. See, e.g., Ahearne, Pisani-Ferry, Sapir and Veron 2006, 7.

³ These are rounded figures from Sapir 2007.

⁴ The compromise of embedded liberalism has been described as a social democratic project (Berman 2006, 179), and the same label has been used to describe the project of "managed globalization" which Abdelal and Meunier characterize as "an extension of social democracy at the global level" (2007, 9). See also Held (2004) for a longer account of the embedded liberalism compromise as social democracy and what a new global order organized around these concepts may entail. For a presentation of what constitutes a European model of progressive governance, see Pisani-Ferry 2008.

⁵ This type of argument is found extensively in public debates where globalization is as a rhetorical device to define what policy options are best suited to improve economic competitiveness. For illustrations, see Hay and Rosamond 2002.

⁶ Competing national and international proposal for how to regulate hedge funds are discussed in Fioretos 2008.

⁷ Differences in the two types of market economies are discussed in Hall and Soskice 2001.

⁸ On different types of norms that states may seek to shape, see Finnemore and Sikkink 1998.

⁹ The core of the Washington Consensus is discussed in Williamson 1989. For critical reappraisal of its original and “augmented form,” see Rodrik 2007, and Serra and Stiglitz 2008.

¹⁰ On the distinction between self-reinforcing and self-undermining institutions, see Greif 2006. Note that self-reinforcing arrangements need not be economically efficient at the collective level. Indeed, one of the major reasons that many institutions associated with the embedded liberalism compromise have been difficult to roll back is that although some of them have proven costly, positive feedback effects have enlarged the interests of particular constituencies to maintain designs.

¹¹ A substantial literature addresses the EU as an ideal that may be projected to shape global discourse. Much of this literature focuses on the EU as an ideal or as “EUtopia” that may inform the structure of the WTO (see discussion in Nicolaïdis and Howse 2002). In contrast, the notion of representational power discussed here

understands European normative power not in terms of an ideal, but as a feasible and pragmatic solution to distinct governance problems in multiple global organizations. Laïdi (2008), who address Europe's normative power extensively, also focuses less on the indirect ways in which Europe may shape global standards of conduct than on the active way in which Europe may promote its ideas and principles.

¹² Article 3.3 of the Lisbon Treaty encapsulates the core substantive commitments of the EU in this context: “[The union] shall work for the sustainable development of Europe based in balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment.”

¹³ Lamy also draws on the case of the EU – specifically the authority of Commission – to argue that the WTO Secretariat ought to be given the right of initiative (Lamy 2006b).

¹⁴ On the high levels of policy incoherence that is produced by the division of labor among the major multilateral organizations, see ILO 2004. Lamy (2006b) acknowledges the role of the WTO in pushing for greater coherence.

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