

## **The Representational Power of the European Union and Global Economic Governance**

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**Abstract:** The diversity of market economies that constitute the European Union presents both constraints and opportunities for Europe when it comes to shaping global economic institutions. Diversity is a constraint for it often prevents lasting and strong common positions in global negotiations and thus undermines the ability of Europe to exercise its collective hard power resources. Paradoxically, however, EU's diversity has become the source of a different type of power that provides Europe with opportunities to shape the social purpose of global economic governance. The article argues that by exemplifying a model of how diverse market economies can coexist in an open economic order while respecting and promoting the principles of social progress, sustainability, transparency and subsidiarity, the EU enjoys *representational power*. Distinct from traditional understandings of compulsory power and common definitions of normative power, the concept of representational power has significant implications for how we understand the processes by which the EU is able to shape the substantive content and rules guiding the management of globalization.

**Keywords:** European Union; global governance; globalization; normative power

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## **The Representational Power of the European Union and Global Economic Governance**

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 (EU) 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 21<sup>st</sup> 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 social purpose of governance. A growing literature shows that the EU has been able to shape specific global rules in several domains, including trade, finance, and the environment (Abdelal 2007; Meunier 2007; Kelemen 2008). 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 the EU can be said to be shaping global economic governance. This paper argues that Europe's ability to influence structures of global economic governance lies less in its ability to define

specific rules than in shaping the norms and principles that guide economic governance at the global and national levels.<sup>1</sup>

The global economic order is defined by the rules, norms, and principles that govern international exchange, define collective goals, and determine what constitutes the responsibilities and permissible behavior of international economic organizations *and* national governments. While new rules may generate changes *within* an existing global order and force individual states to adapt to new circumstances, transformations in the norms and principles of governance frequently have more important implications for how states adapt to the global environment since they may bring about a change *of* the economic order itself (cf. Krasner 1982, 187). In the early post-war period, the rules governing global economic exchange were underpinned by a normative consensus championed by the Atlantic powers, the United States and Western Europe. Described in terms of a “compromise of embedded liberalism” (Ruggie 1982), the Atlantic Consensus 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. The other side of this Atlantic Consensus 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 at home.

While important adjustments occurred to post-war global rules, it was the norms and principles defining the social purpose of global economic institutions that experienced the more radical change as the consensus between Atlantic powers 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. Known as the Washington Consensus, the social purpose that was to inform the actions of major economic multilateral organizations stressed a shift in the costs of adjusting to global markets 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, the members of the EU played only a secondary role in shaping the content of the Washington Consensus.<sup>2</sup>

What should constitute the social purpose of the global economic order again became an open question following the breakdown of core features of the Washington Consensus in the early 2000s. For the EU, this is a window of opportunity to shape key norms and principles governing economic management (Ahearne, Pisani-Ferry, Sapir and Veron 2006, 7). This paper examines the extent to which the EU is able to use that opportunity and redefine core institutions of global economic governance. It argues that the EU has successfully shaped principles and norms of economic governance that have become more important at the global level by representing a major reference point in the contemporary debate on how the constraints of economic openness can be reconciled with social progress and environmental sustainability, as well as how intergovernmental cooperation can be reconciled with broad participation and national discretion in economic management. In contrast to scholars who argue that the EU is a modern "empire" that employs means of compulsory power to gain acceptance for its preferred forms of economic governance (e.g. Zielonka 2006) and policy-makers who suggest that the EU should actively export its model to other parts of the world as a means of

managing globalization (e.g. Miliband 2007), this paper argues that EU's power lies in leading by demonstration and perfecting its own imperfect union. It is by representing a set of politically feasible and sustainable solutions to difficult social, economic and political governance problems that the EU will have its most lasting impact on structures of global economic governance.

The paper proceeds in three parts. The first part explains why despite representing the largest share of world GDP (30%), world trade (18%), world immigration (21%) and official development assistance (52%), there are significant limits to EU's ability to shape specific global economic rules.<sup>3</sup> 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). Because these differences are historically contingent and are often reinforced by globalization (Hall and Soskice 2001), high levels of preference homogeneity are often absent and prevents Europe from presenting a unified front in 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 major domains of global regulation.

Even if Europe is able to give some global rules its preferred imprint, hard power is not a sufficient resource for shaping the norms and principles defining economic management at the global level. The second section develops the concept of representational power in the context of attempts by European leaders to redefine the

global consensus on what ought to be the core norms and principles governing economic management. Specific attention is given to the norms of social progress and sustainability and to the principles of transparency and subsidiarity. The section argues that the members of the EU are successfully reshaping the social purpose that defined the Washington Consensus by exemplifying a set of successful and lasting solutions to how diverse national economies can sustain economic openness while promoting social equality and environmental sustainability, and how states can improve transparency while protecting national discretion under deep levels of intergovernmental cooperation.

Finally, a brief conclusion addresses the paper's implications for our understanding of EU's power and its ability to shape the future of global economic governance.

### **Managed Globalization in Perspective**

Though Europe's imprint on institutions of global governance are apparent in many areas such the environmental, financial, trade, and data privacy protection domains (Kelemen 2008; Abdelal 2007; Meunier 2007; Newman 2008), there are many examples where the EU 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.<sup>4</sup> 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 the cases cited here, disagreements among European countries reflected a division between liberal and organized market economies.<sup>5</sup> Governments representing the former type of market economy were strongly opposed to the 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 within Europe over global regulation tend to pit Britain and France on opposite sides with Germany typically siding with the latter. When the three 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 the EU's collective 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 the EU 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 or goals that bear European imprints (Author 2008).

### *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 often 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. In the context of economic governance, normative power may be understood as the ability of a state to define the norms and principles that determine the balance between two sets of relationships—that between markets and government intervention in matters concerning economic growth, social progress, and environmental sustainability, and that 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).<sup>6</sup>

The nature of Europe's normative power has been critical in shaping the social purpose of 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 hindered in significantly shaping 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 domestic public authority 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.<sup>7</sup> 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 now fell less on public authorities than on individual citizens.

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.

By historical standards, the normative power the United States exercised in shaping the Washington Consensus proved 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 to have a self-undermining quality as fewer and fewer of its main features enjoyed political support.<sup>8</sup> 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 in the early 2000s on what ought to define the social purpose of global institutions (e.g. Stiglitz 2002; Bhagwati 2004).

### **Europe and a New Consensus?**

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. Such processes do not occur quickly, but have nevertheless become apparent in recent years. In the late 1990s, Pascal Lamy, the former Trade Commissioner of the European Commission, outlined a doctrine of “managed globalization” 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). Referencing the example of the EU with particular attention to substantive norms 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.

### *Representational Power*

The normative template that is the Geneva Consensus closely mirrors the core substantive and procedural principles that the EU represents, including sustainability, social progress, transparency and subsidiarity (Lamy 2005, 2006a). By serving as a positive demonstration example of how these principles function in practice, the EU enjoys a type of normative influence that may be characterized as representational power.

Normative power refers to the ability of a state (or group of states) to persuade others 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 convincing others to alter their position or the 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 dialogue over what should be the structure of common rules and principles. In the former case, a group of states attempt to actively convince others to change their mind; in the

latter case, the group alters the view of others by minding its own business and by representing a set of solutions that are attractive to others. In other words, states may enjoy representational power without intentionally seeking to influence others.<sup>9</sup>

A state (or a group of states) enjoys representational power when it embodies a feasible and attractive solution to how substantive policy commitments can be realized and a second party consider that solution superior to rival alternatives or the status quo. 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 or enhance its domestic autonomy will be more favorable than an arrangement that carries higher adjustment costs or significantly reduces autonomy. 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 case, 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, the EU need not present an ideal model in order to exercise normative power: it simply needs to represent a feasible and more attractive alternative than the status quo or the arrangements promoted by other powerful international actors.

## *The Geneva Consensus*

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. The principles of transparency and subsidiarity— which commit countries to inclusive membership and reaffirms national autonomy – are

the means by which the substantive goals associated with social progress and sustainability are 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 came under a great deal of criticism during the era of the Washington Consensus. 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. During his leadership, the WTO has widened the participation of NGOs in deliberate processes. This is an important departure for the WTO in which -- unlike EU’s official organs that have long incorporated non-governmental organizations in consultative and deliberate forums – such participation has largely been absent in any formal fashion. With the exception of the ILO that has incorporated representatives 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).

A second feature stressed in the Geneva Consensus is that global organizations must compensate for the relative power disparities between small and large states and give the former a more significant role in the institutional architecture of global institutions than has historically been the case. This is also a well-established feature of the EU and by extending it to more global organizations one of the key deficiencies of the Washington Consensus would be ameliorated. Under that consensus, smaller countries had little influence in multilateral organizations and accepted the prescriptions of the major international economic organizations, which served to raise the issue of the latter's legitimacy to the top of the global agenda. Enhancing representation by non-Atlantic powers in the economic multilaterals would also help 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).

### *Subsidiarity*

If greater transparency in global organizations aims to ensure their legitimacy, subsidiarity is the principle that assures national governments that they will have significant discretion in designing domestic 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, it enhances the prospects that governments can reduce the erosion of popular support from economic openness that was apparent during the Washington Consensus era.

The principle of subsidiarity is particularly important when it comes to how institutional diversity among market economies are reconciled within an international organization. What EU treaties do not say in explicit terms but embody in practice are the numerous ways in which institutional diversity is accommodated. The EU does not promote a specific 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 that 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 enjoy and how to promote social justice, as well as what level of environmental protection exists and how to ensure environmental sustainability. 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, while letting the latter constituency 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 observers advocate such solutions at the global level in ways that are consistent with the central pillars of the EU (Trachtman 2006; VanGrasstek and Sauv e 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 tested pragmatic solution to achieving substantive policy commitments and resolving governance problems. In this capacity, the EU is a reference point in international governance that represents a significant departure from that associated with Washington Consensus and that may gradually persuade a larger number of countries around the world to accept the principles of the Geneva Consensus as a template for global economic governance. 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. As such, 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.

### **Conclusion**

Any discussion about the prospects of the EU managing globalization must address the means that are at its disposal. In a highly interdependent world with no single

state or group with preponderant power (Zakaria 2008; Haass 2008), shaping institutions of global economic governance depends not simply on Europe sharing its preferences with other states such as the US (Drezner 2007), or on its ability to offer tangible positive or negative inducements to states who accept Europe's preferred way of governing the global economy (Zielonka 2006). An factor of growing importance that will determine whether the EU 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.

The rules and norms at the center of the European project such as subsidiarity and transparency, social progress and sustainability, are gradually informing how globalization is managed by altering the designs that characterized economic governance during the 1990s. The EU is achieving such results not through means of compulsory power, nor by engaging in long debates and deliberations with others states. Nor does the EU with its many imperfections constitute an ideal that will persuade others to emulate European designs at home. 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 is gradually reshaping the social purpose of the global economic order in ways that bear significant imprints of the European Union. The principles of subsidiarity and transparency are attractive principles to a large number of states around the world that wish to enhance the effectiveness of global governance while also protecting national discretion. At the same time, the goals

of social progress and environmental sustainability now inform a growing global consensus on what ought to be the core goals of economic governance at the international and national levels.

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 growing 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 significant 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 only a half decade ago 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 recognizing 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 was expanded.

The notion that the EU enjoys and should exercise normative power is becoming more widespread. For example, Jose Manuel Barroso, President of the European

Commission, and Britain's Foreign Minister David Miliband have recently spoken of the EU as a "model power." However, their conception of EU's power differs significantly from what this article terms representational power. While they note that the EU stands for many of the same values highlighted in this article, they stress a different process by which the EU may be able to shape global economic governance. In Jacoby and Meunier's (2008) terminology, the two European officials stress an offensive logic by which the EU may exercise influence over international institutions: Barroso (2008) advises the EU to "projec[t] our interests and our values, and not to be defensive," and Miliband (2007) urges the EU to be actively "exporting" its values.

This article underscores the opportunities at Europe's disposal from adopting a less offensive and a more defensive strategy of managing globalization. It points to Europe's ability to shape institutions of global economic governance through indirect means by representing a set of pragmatic solutions. The EU has shaped significant dimensions of global economic governance by representing a template that others accept as the foundation on which to reconstruct global economic institutions in the wake of the Washington Consensus. Whether the label given to this new consensus invokes Geneva or acquires a different name in the future remains an open question. In the meantime, the EU is wise to focus on perfecting its own imperfect union and illustrate how difficult governance problems may be resolved among heterogeneous states; it is by tending its own house – not rearranging that of others – that the EU is able to gradually leave a larger imprint on how globalization is managed.

## Notes

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<sup>1</sup> The article uses the terms European Union and Europe as synonymous to represent the collective – albeit contested – interests of the members of the former organization.

<sup>2</sup> While Europe was not the key player in shaping the Washington Consensus, it often stressed – especially in the early stages – the importance of reforms associated with that consensus when negotiating over EU membership for former Communist economies (e.g. Epstein 2008).

<sup>3</sup> These are rounded figures from Sapir 2007.

<sup>4</sup> Agreement among Britain, France and Germany is important both because they are the largest economies in the EU, but also because they enjoy privileged positions within the major economic multilateral organizations such as the IMF, World Bank, OECD, ILO, as well as UN bodies.

<sup>5</sup> Differences in the two types of market economies are discussed in Hall and Soskice 2001.

<sup>6</sup> On different types of norms that states may seek to shape, see Finnemore and Sikkink 1998.

<sup>7</sup> 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.

<sup>8</sup> On the distinction between self-reinforcing and self-undermining institutions, see Greif 2006. Note that self-reinforcing arrangements need not be economically

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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.

<sup>9</sup> A substantial literature examines the EU as a system of governance 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 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.

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