Journal of European Public Policy
Publication details, including instructions for authors and subscription information:
http://www.informaworld.com/smpp/title~content=t713685697

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Online publication date: 22 March 2010

To cite this Article Abdelal, Rawi andMeunier, Sophie(2010) 'Managed globalization: doctrine, practice and promise', Journal of European Public Policy, 17: 3, 350 — 367

To link to this Article: DOI: 10.1080/13501761003662040

URL: http://dx.doi.org/10.1080/13501761003662040

Journal of European Public Policy 17:3 April 2010: 350–367

Routledge
Taylor & Francis Group

Managed globalization: doctrine, practice and promise

Rawi Abdelal and Sophie Meunier

ABSTRACT Two alternate visions for shaping and explaining the governance of economic globalization have been in competition for the past 20 years: an *ad hoc*, *laissez-faire* vision promoted by the United States versus a managed vision relying on multilateral rules and international organizations promoted by the European Union. Although the American vision prevailed in the past decade, the current worldwide crisis gives a new life and legitimacy to the European vision. This essay explores how this European vision, often referred to as 'managed globalization', has been conceived and implemented and how the rules that Europe fashioned in trade and finance actually shaped the world economy. In doing so, we highlight the paradox that managed globalization has been a force for liberalization.

KEY WORDS Capital; globalization; Lamy; OECD; trade; WTO.

INTRODUCTION

> Est maître des lieux celui qui les organise. [He who organizes is master of the arena].
>
> –Jean de la Fontaine

The sustainability of our era of globalization, circa 1983 to 2009, is in question, and not primarily because of a devastating financial crisis that dragged the real economy down with it. Rather, globalization – the free flow of goods, services and capital across country borders – is suffering a crisis of legitimacy, a crisis that began to emerge late in the twentieth century, the severity of which has been substantially worsened by the collapse of the American and European financial sectors.

Two central challenges have not been met. First, national models of capitalism have failed to legitimate openness to the global economy in the eyes of national societies. Skepticism has been on the rise. Second, the institutional foundations of global capitalism have not been made firm enough. It is this second challenge that we address. We argue that two alternate visions for shaping and explaining the governance of global capitalism have been in competition for the past 20 years.

One of those visions – what we call *ad hoc* globalization – largely ignores the need to legitimate the processes of cross-border market integration. The second of those visions – managed globalization – offers a compelling doctrine,

Journal of European Public Policy
ISSN 1350-1763 print; 1466-4429 online © 2010 Taylor & Francis
http://www.informaworld.com/journals
DOI: 10.1080/13501761003662040

significant influences on policy regimes, and, most importantly, the promise to enhance the legitimacy of the project of building global capitalism. Alas, the American approach, heretofore defined primarily by an *ad hoc* building of cross-border ties through unilateral choices and bilateral deals, has generally dominated the European emphasis on multilateral rules and organizations to 'manage', 'harness', and otherwise quite literally 'rule' global capitalism. The proliferation of hundreds of bilateral trade and investment treaties is emblematic of *ad hoc* globalization. The success of the European Union's 'open regionalism' represents best the triumph of managed globalization (Katzenstein 2005).

As influential as the European approach has been, those organization-building endeavors culminated primarily in the institutionalization of a large, possibly growing, European economic space. Outside the union of 27 European countries and the expanding but still modest influence of European-inspired initiatives in the international organizations that underpin global capitalism, *ad hoc* globalization continued to reign. Even as US current account deficits, financed largely by surpluses in developing Asia and the Middle East, threatened to promote an asset bubble within the United States and a dangerously imbalanced international financial system, *ad hoc* globalization muddled along. And it muddled until, finally, the absence of a coherent collection of institutions revealed fundamental weaknesses in unregulated, unsupervised financial transactions. The crisis of 2008 to 2009 was a failure of *ad hoc* globalization. That crisis also represented the limits of the European attempt to organize the world economy without the participation of the most important borrower and spender in the world – the United States – and perhaps the most influential exporter and saver – China.

Although the world economy is in tatters, 'Europe' – as metaphor or vision for globalization – is decidedly not. Even in Spain, which experienced its own current account deficits and debt-fueled housing boom, the financial sector enjoyed access to liberalized capital flows, but was still regulated in such a way that exotic mortgage-backed securities were undesirable and impractical for the country's banks. The impetus within Europe is towards even more regulatory capacity to accompany its liberalized markets. Whereas *ad hoc* globalization brought liberalization without organizing, or even supervising, markets, organized globalization in doctrine and practice made great progress towards combining market freedom with bureaucratic capability and responsibility.

Ad hoc globalization is indeed in trouble, but the international community's sudden embrace of managed globalization as insurance against future crises presents the best opportunity at the level of the international system to re-legitimate cross-border capitalism. National governments will still, of course, have to revisit their social bargains in order to reassure their societies that the gains from participating fully in the global economy outweigh the costs – and, more importantly, that those gains and costs will be shared according to each nation's principles.

In this essay, we build on this distinction between US-supported *ad hoc* globalization and EU-led managed globalization. The story of *ad hoc* globalization is the more familiar. According to conventional wisdom, globalization occurred because the United States and United Kingdom embraced *ad hoc* globalization during the early 1960s. Markets for goods and capital became international again, the first era of internationalization having ended during the interwar years. At various moments, American and British policy-makers adopted unilateral action, bilateral pressure, and even multilateral negotiations to foster this liberalization. Major corporations took advantage of this new-found liberalization by exporting and outsourcing, and in so doing reinforced the process of globalization. Thanks to economic and technological changes, globalization is seen as an ineluctable tidal wave crushing borders without which national policy initiatives became impotent.

The alternative vision, promoted over two decades by continental Europeans, is one where globalization is not formed only by striking down regulations, but also by making them; one where bureaucrats, rather than just managers and politicians, write the rules of the game. The markets for those freely flowing goods and capital are built upon institutional foundations, including the myriad formal rules that oblige governments around the world to embrace openness. This is a globalization made possible by codified rules and empowered institutions, not by deregulation and the elimination of institutional constraints. By the end of the 1990s, Pascal Lamy, the current head of the World Trade Organization (WTO) and for 20 years a prominent figure in French and European bureaucratic politics, had dubbed the emergent doctrine *mondialisation maîtrisée*, or 'managed globalization' (Gordon and Meunier 2001; Lamy 2004a). Variants have included the phrases 'harnessed globalization' and 'globalization by the rules'.

Former French foreign minister Hubert Védrine insists that the French government 'calls for more rules to frame globalization so that it doesn't only come down to a revival of "might makes right"' (Védrine 2001). *Ad hoc* globalization entails, in other words, Thrasymachean justice, merely the will of the stronger. Globalization managed by multilateral deliberations in international organizations may produce a conception of justice that is skewed. The justice of managed globalization would, however, at least be the product of dialogue, argument and deliberation.

For over two decades there has been a struggle between these two alternative visions. The story of liberalization is well known, but that of bureaucratization, an essential foundation of truly global markets, is largely unknown in the United States and deeply misunderstood within Europe. This essay explores how the European vision has been conceived and implemented, and how the rules that Europe fashioned in trade and finance actually contributed to shaping the world economy.

This alternative story of globalization is paradoxical, for managed globalization is no less liberal than *ad hoc* globalization; it is, in some important ways, more liberal. The rules codified a commitment to liberalism with just a few exceptions, and the bureaucracies empowered to enforce the liberal rules have become rather powerful, particularly within Europe. The Americans may have helped to create a more liberal world, but Europeans have formally proscribed and informally delegitimated many deviations from liberalism. That is, the European doctrine of managed globalization has left the world much more liberal than it otherwise would have become.

More importantly, by embracing procedural justice, the doctrine and practice of managed globalization have begun to legitimize the global project. True, the *ad hoc* globalization favored by the United States is under severe attack, and analysts worldwide lament the absence of regulation that led to the international financial meltdown. 'Managed globalization' may emerge to save the current era of globalization from its worst excesses. This essay explores the origins of the doctrine of managed globalization, how it was implemented in practice, and whether it has been successful in shaping a more liberal but also more legitimate and more equitable world.

THE GENESIS OF THE DOCTRINE OF MANAGED GLOBALIZATION: FRANCE AND EUROPE

'Managed globalization' entered the European discourse in September 1999, when Pascal Lamy introduced it in his hearings to the European Parliament as the ideological cornerstone of his future tenure as European Trade Commissioner (Lamy 1999).[1] Since then, the term has been used and abused by European politicians. The doctrine of managed globalization has existed without a name, however, for more than a decade prior to this official baptism. As policy doctrine, managed globalization demanded that rules for globalization be written and obeyed, jurisdictions of international organizations be extended, and the powers of the organizations themselves enhanced. For more than 20 years European policy-makers have, often successfully, sought to codify the rules of globalization and empower the European Union (EU), Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), and WTO.[2]

The doctrine's genesis remains somewhat obscure, but it is clear that it was heavily influenced by French policy-makers – not so much by the politicians and their inflamed discourse, but rather by the French bureaucrats, nourished in the cradle of etatism, who populate international organizations.[3] 'There is a paradox', observes Lamy, 'of the French role in globalization. There is an obvious difference between the traditional French view on the freedom of capital movements and the fact that French policy makers played crucial roles in promoting the liberalization of capital in the EC, OECD, and IMF' (Abdelal 2007: 13).

A great deal has been written about the famous *tournant*, the U-turn, of François Mitterrand in the spring of 1983 (Hall 1986, 1987; Levy 1999). One theme remains to be explored, however: a handful of French policy-makers who orchestrated the *tournant* and replaced socialization with austerity and *rigueur* derived lessons from the experience that would later comprise the doctrine of managed globalization.

The personalities who elaborated and implemented the doctrine of managed globalization are well known for their experiences in the Mitterrand administration. Jacques Delors was Mitterrand's finance minister, and he was later president of the European Commission for a decade. Pascal Lamy was Delors' advisor, his chief of staff in Brussels, the EU Trade Commissioner, and today the head of the WTO. Michel Camdessus was first director of the *Trésor* for Mitterrand, who then appointed him governor of the Banque de France; Camdessus was later the IMF's managing director. Hervé Hannoun was an advisor to Prime Minister Pierre Mauroy, and has since risen to prominence in the Banque de France. Henri Chavranski was in the *Trésor* in the early 1980s, and then chaired the OECD's influential Committee on Capital Movements and Invisible Transactions (CMIT). With the exception of Camdessus, who tends to identify himself as a Social Christian, the others are Socialists. Delors and Lamy played prominent roles in the Socialist Party's leadership (though Lamy never ran for elected office).

These policy-makers of the Left turned France towards the market, Europe and the world. In doing so, the French Left laid the groundwork for Europe's embrace of market integration, leading from the Single European Act of 1986 to the Treaty on European Union, signed in Maastricht in 1991. The central lesson learned by the French was that a global capitalism without rules required order to make it politically legitimate in the eyes of continental societies.

European policy-makers conceived and promoted the doctrine of managed globalization partly because of the necessity for pragmatism in an internationalizing world. As Lamy explains, he developed this doctrine as a pragmatic response to new events for which the old responses had no clue:

> We are currently in a historical phase of globalization, which is a phase of market capitalism, whether one likes it or not. There have been other such phases before .... Because it is a global phenomenon, we need global rules. This is a political statement, based on social-democratic ideology. But this happens within the framework of market capitalism, which, from a pragmatic point of view, is the only system that seems to work, even with its flaws.[4]

The doctrine was also developed by French politicians in response to societal demands that emerged in the 1990s. The U-turn in socialism, the collapse of communism, and the apparent unabashed victory of American-style liberalism had left many politically disoriented. The massive social protest movement that erupted in December 1995 against the proposed reforms of right-wing Prime Minister Alain Juppé showed that the French were not ready to embrace the liberal version of globalization. Over the next few years, anti-globalization discontent grew into a powerful force, which French politicians tried to channel in their rhetoric (Ancelovici 2002; Birchfield 2005; Gordon and Meunier 2001; Meunier 2003). Europeanization and globalization, often intertwined in the minds of the French public, had become politically toxic. Yet since there was only so much that France could really do against the tide of globalization, French politicians, on the Left as well as on the Right, started to qualify globalization with adjectives: left alone, globalization was bad, but 'managed', 'harnessed' or 'tamed' globalization was beneficial for France and Europe. By the 2002 French presidential election, the idea that globalization had to be managed or it would implode had become conventional wisdom.

The most important conclusion the French socialists faced with the onslaught of liberal globalization in the late 1980s was that the internationalization of finance and trade required an institutional architecture. After all, the disorganized nature of globalization was anathema to the French belief that a centralized, *dirigisté* bureaucracy could manage the economy. Observes Lamy, 'One resolution of this paradox is the French approach to the problem of liberalization: If you liberalize, you must organize' (Abdelal 2007: 14). So, as with the French liberalized trade and capital flows, those same French policy-makers sought to empower the bureaucracies of international organizations and expand their competences.

Europe was, naturally, the first step. The French government, and in particular several policy-makers from the Mitterrand administration, strengthened the capacities of the European Commission and extended the obligations of European membership. They harnessed the continental embrace of neoliberalism for the purposes of market-based integration. Europe was thus built to organize and manage globalization. The EU, according to Lamy, 'is the only instrument for harnessing the forces of globalization to make it compatible with our model of society' (Gordon 2001: 102). 'Even if it was articulated by French people at the origin, [*mondialisation maitrisée*] is fundamentally a European concept'.

Even though globalization was a public obsession more prolific in France than elsewhere in the late 1990s, other European countries embraced the French vision that globalization ought to be accompanied by new regulations and flanked by policies to soften its impact. To be sure, the European vision on globalization was not monolithic. In many European countries, for instance, in Great Britain and in the Central and Eastern European countries who later joined the EU, globalization was seen not as a threat but as an opportunity. Yet the anti-globalization movement was gaining traction in public opinion with its widely publicized successes at the WTO conference in Seattle in 1999 and later at the World Social Forum. Many European politicians calculated that there was little to lose from supporting managed globalization, which could be presented as having one's cake and eating it too: managed globalization was not about shunting liberalization but about making it happen, yet at the same time it would be counterbalanced by multilateral, bureaucratic governance on the European model.

Thus managed globalization was a doctrine made up from a synthesis that began with the original French thesis. It was a consensus of the UK's liberalism, Germany's ordo-liberalism, continental statism, and the realities of late twentieth-century markets. Whereas the Americans preferred to liberalize without empowering international organizations, the Europeans embraced supranational rules and jurisdictions which would ensure that bureaucracies would continue to have supervisory and regulatory responsibilities for the long-term sustainability of market practices.

BUILDING INSTITUTIONS FOR GLOBAL TRADE

Globalization is inextricably linked with trade, and therefore the management of globalization starts with the management of trade. As EU Trade Commissioner from 1999 to 2004, Lamy moved managed globalization into the guiding doctrine of EU trade policy. He rallied states with diverse trade interests around 'managed globalization' – a notion vague enough to appeal to everyone, from individual member states to various social actors. This conceptual apparatus, mostly shaped by Lamy himself and his chief of cabinet Pierre Defraigne but agreed to consensually by the European Directorate General for Trade, was the result of deep ideological beliefs about the moral duties of the EU (Meunier 2007).[5] It was also shaped by a public relations imperative: given widespread anti-globalization protests, especially surrounding the December 1999 WTO meeting in Seattle, globalization had to be tamed in order to be palatable to most European citizens. Concretely, it meant building strong institutions applying to the largest possible number of countries covering the widest possible number of issues.

European policy-makers and technocrats have tried to manage globalization by building more constraining institutions for regulating global trade. At the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994, the signatories agreed to the creation of the WTO. The EU strongly supported clear rules for settling trade-related disputes in the WTO. This meant codifying rules for reporting violations, adjudicating disputes, and implementing resolutions to facilitate trade liberalization. As Lamy (2004b: 3) observed:

> Most of all, government has to ensure that globalization is not a zero-sum game. The right way forward is removing obstacles to trade gradually, settling disputes peacefully, building up a body of rules which allow for fair play and transparency in world trade, and always ensuring that our policies and politics help those who are affected by the 'globally' more efficient division of labor.

This approach was initially controversial in Europe, both among people concerned about national sovereignty and those involved in anti-globalization groups. The first set of criticisms focused on the way globalization decisions were being made, in particular the power granted to unelected judges in Geneva to rule against decisions of sovereign parliaments: why were multilateral rules better than national ones? The second set of criticisms focused on the nature of the decisions: the WTO was an institution designed to promote trade liberalization, and therefore the rulings would always create more globalization. To add insult to injury, the first two disputes in which the EU was implicated, namely the bananas case and the beef hormones case, were ruled in favor of the plaintiff, the United States. As a far-right member of the

European Parliament summed up in 1999: 'The Delors Commission ... accepted the rules and arrangements for settling disputes within the WTO, which subsequently enabled the United States win the infamous disputes over bananas and hormone meat' (quoted in Lamy 1999).

Yet the EU stayed the course of its 'harnessed globalization' policy by accepting the verdicts and either implementing the rulings of the WTO or suffering economic consequences (authorized sanctions) in exchange. Such a policy eventually paid off. After all, remarked Lamy in front of the European Parliament, 'With panels, you win some, you lose some. At present we are more often the plaintiff than the defendant' (Lamy 1999). Subsequently, the EU won major cases against the United States, forcing the US to change its policies in the cases of steel and the Foreign Sales Corporation tax scheme, for instance.

A related component of managed globalization in trade was the extension of the scope of these rules. The wider the scope to which the rules applied, the more managed globalization would be. Expanding this scope had indeed become an objective of EU trade policy even before 'managing globalization' was erected as formal doctrine. Between 1995 and 2003, the trade policy agenda of the EU was dominated by trying to bring non-trade issues into the WTO, with a particular focus on trade and trading conditions, trade and environment, and trade and culture (Howse 2003). During the 1996 Singapore WTO ministerial conference, four working groups were set up to analyze non-trade issues that affect trade: competition policy, transparency in government procurement, trade facilitation, and investment protection. The EU initially incorporated these 'Singapore issues' into a broad agenda for the Doha round, but it failed to impose them upon the other WTO members, especially the developing countries, which had acquired more voice in multilateral negotiations and insisted on retaining control over these key sectors of their economy. At the 2003 Cancun WTO ministerial meeting, negotiations collapsed without an agreement. Negotiations resumed in 2004 but with the Singapore issues, except for trade facilitation, dropped from the agenda.

To some analysts, the Singapore issues, originally launched under Trade Commissioner Leon Brittan, were neoliberal in nature (Cafruny and Ryner 2007). For the anti-globalization community especially, the Singapore issues shared the same ideological lineage as the earlier failed Multilateral Agreement on Investment (MAI), because they further expanded the reach of trade into realms which, until then, had resisted internationalization. Yet evidence for a distinct ideological lineage may be found in the fact that the Singapore issues were proposed by the EU, when the MAI was a US initiative that ended up being defeated by EU members (Devereaux *et al.* 2006). Thus, one can also interpret the Singapore issues as yet another instrument towards the objective of managing globalization because, if passed successfully, they could have expanded the scope of the multilateral framework and therefore be one further stepping stone towards global governance (Evenett 2007; Woolcock 2003).

In addition to building constraining organizations and expanding the scope over which the multilateral rules applied, the management of global trade also expanded the number of WTO members. For European policy-makers, the more members, the more countries subjected to the rules and the less anarchy in the trading system. The number of countries making, and subject to, the rules of the multilateral trading system has greatly expanded over time. From 23 original founding members, the GATT had 128 members at the time of its demise in 1994. Today, 153 countries are members of the WTO, and many more are involved in negotiations to join. From the WTO's creation in 1995, the EU has championed enlargement to more countries as part of its strategy of managed globalization.

Since the WTO and its expanded membership was the cornerstone of the EU's policy of harnessing globalization, the EU gave priority to multilateralism over bilateral agreements in the governance of trade in the past decade, going as far as instituting a de facto moratorium on bilateral agreements in the early years of the Doha round (Meunier 2007; Orbie 2008). This was in contrast to the stated policy of 'competitive liberalization' in the US during the same period, which involved the conclusion of a multitude of bilateral trade agreements (Sbragia, this issue).

Supporting multilateralism in the name of managing globalization put head-to-head two competing interests of the EU: on the one hand, defending its narrowly defined economic interests, such as agricultural subsidies under constant attack by WTO members; on the other hand, casting the net of global rules over a wider number of countries in a wider number of policy areas, therefore harnessing globalization more tightly. The problem for the EU, and for France in particular, is that it has not clearly prioritized one set of interests over the other. The policy of exclusive multilateralism proved so costly that the EU eventually abandoned it in 2006 (Meunier 2007; Sbragia 2010). Pushing WTO multilateralism has also been costly for the EU because more countries are now involved in playing a crucial role in WTO negotiations, often to the detriment of the EU position. Decisions are no longer made solely by the so-called Quad (EU, US, Japan, Canada). Instead, the current round of multilateral negotiations in the WTO is notable above all for the new-found strength of some developing countries, such as India and Brazil, intent on not letting the US and the EU run the show as they did in the previous GATT rounds.

Regulating global trade thus provided an opportunity for Europe to recapture some control and influence over the process of globalization over the past 15 years, but with only limited success. Many European policy-makers believe that the EU is itself an experiment in managed globalization. A crucial, additional step in implementing the doctrine of managed globalization in trade is to export the EU model to other regions (Farrell 2007; Meunier and Nicolaidis 2006). As Lamy (2004b: 12) wrote when he left his office as EU trade commissioner,

> Encouraging regional integration enlarges markets, reinforces healthy competition between neighboring countries of comparable levels of development and competitiveness, favoring industrialization, development and regional

stability. It is less an alternative to multilateral liberalization, and should rather be seen as complementary. In many respects, the regional dimension can serve as an opportunity to test out innovations, which, if successful, can then be applied to multilateral frameworks.

The doctrine of managed globalization states that clear rules of the game must be established, and the players must be constrained in a heavily regulated organization. As the case of the creation of the WTO suggests, once the rules were in place, globalization became more controlled, subjected to 'fair play' and transparency. But these rules also enabled globalization to progress even further, as they tore down barriers to trade not respecting the new rules of the game and thereby created more liberalization.

BUILDING THE INSTITUTIONS FOR GLOBAL FINANCE

European policy-makers also conceived and codified the most important institutional underpinnings of global financial markets. As with trade, they began with their own European project as the basis for pooling sovereignty and cultivating a process of globalization by the rules.

These European organizers of globalization did not inherit a principle of openness from the project's founding fathers, however. The European economy envisioned by the authors and negotiators of the Treaty of Rome was not unconditionally liberal. Goods, services and people were supposed to flow freely. Capital, however, was not, except, according to the Treaty of Rome, 'to the extent necessary to ensure the proper functioning of the Common Market', and without jeopardizing the internal and external financial stability of members (Bakker 1996: 42–3). The conditionality of the obligation to liberalize capital reflected, in part, the consensus that capital flows ought to be controlled in order to avoid financial crises.

This consensus, which drew upon the lessons that European and American policy-makers believed were evident from the financial chaos of the interwar years, was, along with fixed exchange rates, the basis of the postwar international monetary system. The conditionality of capital liberalization in the Treaty also reflected bargaining among Europe's founding members. Germany had been alone in pushing for capital liberalization, whereas France, Italy and the Netherlands had argued against codifying such an obligation.

The legal implication of the Treaty's wording was that members' obligations to liberalize capital could only be redefined by unanimity on what members agreed constituted 'the extent necessary' for the common market.[6] The Commission began to define and expand members' obligations to liberalize capital with two directives in 1960 and 1962, but little progress was made. Members were obliged to liberalize only those transactions deemed essential to the functioning of the common market, and that turned out to be a short list indeed.

Subsequently, for more than 20 years, not a single new directive for liberalizing capital was issued from Brussels. The Commission did submit a third directive to the European Council in 1967, but a decade of negotiations led nowhere. When the Germans' enthusiasm for liberalization was shared by the Dutch and British in the early 1980s, those three countries sought to bring capital liberalization again to the agenda in Brussels. The 'uncompromising, dogmatic attitude of France' blocked the initiative (Bakker 1996: 147–53).

Everything changed with the *tournant* of 1983 when French policy-makers began to reconsider their approach to the freedom of capital movements in Europe. Then, on 1 January 1985, the architect of *rigueur*, Delors, became Commission President, a post he would hold for a decade. Sensing that the time was ripe for an ambitious new integration initiative based on market principles, Delors moved quickly to produce the June 1985 White Paper that was the first outline of a plan to complete the European internal market by 1 January 1993 (Moravcsik 1998: 361–2). Between July and December, the Delors Commission decided to also push forward capital liberalization, well beyond what was originally conceived in the single market program. Ultimately these liberalizers would seek to balance market freedom with bureaucratic organization and a broader social agenda that would be embodied in the new European rules (Dinan 2004; Ross 1995). The promises and disappointments of that social agenda continue to be important in their own right, but the effects of the liberalization that was part of that grand bargain continue to define the contours of European markets.

In 1986 the Commission formulated a plan for a series of directives to oblige member governments to liberalize unconditionally. Delors' first big step was a November 1986 Directive that moved many of the capital transactions from the list that the 1960 Directive had placed on the conditional liberalization list to the unconditional list. In June 1988 the final capital movement directive 88(361) was issued. No capital transaction or transfer was exempt from this new obligation to liberalize (Bakker 1996: 211). Thus was the *acquis communautaire* made liberal, and the Community acquired jurisdiction over the capital account policies of its members. The Commission was empowered to oversee and promote the compliance of European countries with their new obligation to liberalize.

Alongside the emergent doctrine of managed globalization, other considerations influenced the French approach to the codification of the norm of capital mobility. Most important was a quid pro quo with the Germans, who accepted a more symmetrical European Monetary System (EMS) and a firm timetable for moving towards monetary union (Grieco 1995, 1996; Jabko 1999; Parsons 2003; Sandholtz 1993).

Having created a European institutional foundation for internationalizing financial markets, the organizers of globalization turned their attention to a broader club: the OECD. Membership in the OECD is only for the privileged (Chavranski 1997: 7). It is symbolic of having achieved the status of 'developed' country. The most consequential obligation of OECD membership is adherence to its Code of Liberalization of Capital Movements. Adherence to the Code is non-negotiable, and its commitments are taken very seriously. Until the Commission's 1988 Directive, the Code of Liberalization was the only multilateral instrument promoting the liberalization of capital movements.

The Code of Liberalization, when established in 1961, excluded short-term capital movements on principle. As noted, the CMIT oversaw amendments to and members' compliance with the Code of Liberalization. On each of the occasions when the Code's obligations were broadened in 1964, 1973 and 1984 to include other types and maturities of financial transactions, members could not reach consensus about the desirability of including short-term capital movements. The French presented the most forceful arguments against such 'hot money'. The CMIT spent the end of the 1980s working towards such a consensus in favor of the liberalization of all capital movements among members. Yet the French eventually joined this consensus, and in 1989 the Code was amended one last time to include all capital movements. The single most influential policy-maker during the CMIT's evolution was Henri Chavranski, Chair of the committee from 1982 until 1994 and a member of the French delegation to the OECD. One of the central but under appreciated stories of globalization is of the Code of Liberalization of Capital Movements, the CMIT, and the convergence of European finance ministers to a worldview that enshrined the freedom of capital movements.

The origins of the Code had much in common with those of the Treaty of Rome. Both documents were founded amidst a profound mistrust of short-term capital movements, or 'hot money'. Thus, according to Raymond Bertrand, a senior official in the OECD Secretariat, the Code's obligations were self-consciously limited to long-term capital flows, particularly foreign direct investment. The Code's omission 'stems from the recognition that short-term financial transactions, in particular those initiated by banks, can pose problems for the management of money and of exchange reserves, especially under fixed or managed exchange rates' (Bertrand 1981: 6).

On each occasion when the CMIT discussed an extension of the Code's obligations to new capital transactions, the Europeans worried about 'hot money'. When the Code was first amended in 1964, the OECD, according to the Secretariat's Pierre Poret, 'took an explicit decision not to extend the scope of the Code to short-term operations on the grounds that their liberalization would make their balances of payments vulnerable to shifts in market participants' sentiments and compromise the independence of their economic policies' (Poret 1998: 5). Throughout the 1960s the United States urged their OECD colleagues to embrace capital liberalization, and was met with the reluctance, and, in the case of France, outright opposition of the Europeans (Shafer 1995: 123). The 1973 amendment was again quite modest, and included only collective investment services, and in 1984 the Code's jurisdiction of foreign direct investment was amended to include the right of establishment for non-resident investors.

The late 1980s were a period of profound change in the OECD, and the rethinking of finance that marked the Delors Commission also found expression at the OECD. As Henri Chavranski recalls, 'The French position in the OECD had always been to slow down the expansion of the Code of Liberalization. When the French position changed in the middle of the 1980s, the CMIT could begin its work toward a truly liberal Code' (Abdelal 2006: 15). After 40 years of contention in la Muette about short-term capital flows, the CMIT discussions on a new amendment proceeded consensually. According to Chavranski, 'There was no strong opposition to the expansion of the Code. A few countries were reluctant, but there was no big fight. The idea was accepted' (Abdelal 2007: 102). By the late 1980s, the US no longer needed to take the lead in expanding the liberalization obligations of the OECD, and this was true for the Code.

By 1990, then, the institutional foundations of the internationalization of finance among developed countries had been laid. The new rules had been shaped primarily by French policy-makers, both at the EU and OECD levels. The only institutional void in the architecture of globalization was the codification of capital mobility in a truly global organization. While the EU is for the Europeans, the OECD is for the rich, the IMF is for everyone. The Fund's near-universal membership makes its codified rules the legal foundation of the entire international monetary system.

The effort to codify the norm of capital mobility at the Fund was a phenomenon of the mid-1990s. The proposed amendment represented a dramatic reversal. Although the Fund's rules have, since 1944, obliged members to move towards current account convertibility, they have also reserved for members the right to control capital movements: members 'may exercise such controls as are necessary to regulate international capital movements'.[7] The IMF's Articles of Agreement list among the organization's purposes the liberalization of trade, but not of capital.

The proposed amendment emerged within the Fund when Michel Camdessus arrived in Washington as the new Managing Director, a post he held between 1987 and 2000. In late 1993, Camdessus approached Philippe Maystadt, Chairman of the Fund's powerful Interim Committee, with a proposal that the Fund extend its jurisdiction to the capital account (Abdelal 2007: 140). Camdessus worked with Fund management behind the scenes until 1995 when the idea was presented to the Executive Board. The European executive directors embraced the proposal enthusiastically. The amendment had two parts – first, giving the Fund the purpose of capital account liberalization, and second, giving the Fund actual jurisdiction over capital movements. Listing capital account liberalization among the Fund's purposes would allow the organization to include liberalization in the conditions attached to Fund programs. Jurisdiction would mean that the Fund would have the authority to judge members' capital account restrictions as consistent or inconsistent with their obligations as members.

Many Fund critics saw the proposal as the complete codification of liberalism in the international financial system and assumed that Fund management was doing the bidding of the US Treasury, which in turn must have been following the orders of the big banks on Wall Street. But neither was true. As Charles

Dallara, Managing Director of the Institute of International Finance, insists, 'The proposal was by no means a Treasury or Wall Street initiative' (Abdelal 2007: 139). Rather, for Camdessus and Fund management, the amendment would adjust the Fund's authority to a global economy, a world in which capital flows vastly exceeded trade flows. Meanwhile, the view from Wall Street and the Treasury was that the Fund's management was desperately attempting to make the IMF more relevant to globalization. Former Treasury Secretary Lawrence Summers called the proposal 'a bureaucratic imperative'. Dallara saw the Fund attempting to 'enhance its role in the international financial system, to bring it back to the center of the financial universe, where it had not been for some time'. (Abdelal 2007: 141).

The proposal to amend the Fund's Articles almost succeeded. Startled by the financial crisis in Asia, however, a number of developing country directors on the Executive Board opposed the amendment. The possibility of a capital account amendment was destroyed ultimately by the US Congress, when powerful Democrats in the House of Representatives threatened to withhold support for an increase in US contributions to the Fund if the Treasury did not withdraw all US support for the amendment.[8] The US Treasury withdrew its already meager support. Without US support, not to mention a G-7 consensus, no proposal for dramatic change had a chance. With only a few European executive directors still in favor of the proposed amendment, Camdessus and Fund management were left without even the most putatively natural allies of the codification of capital mobility. By 1999 the proposal was completely dead, and it has remained so. Although the rules of the EU and OECD still organize the vast majority of the world's capital flows, the effort by Camdessus and his European colleagues to codify globalization in the rules of a universal organization failed. The US vision of *ad hoc* globalization remains the principle for capital that flows from developed to developing countries, while Europe has organized the rest.

CONCLUSIONS

'Unharnessed globalization', Lamy argued in 2006, 'is an export of American values without going through any negotiation phase. Harnessed globalization is much more consensual.'[9] The G20 meeting in London in April 2009 clearly showed that the rest of the world, starting with Europe, no longer wants to accept this export of American values without counterpart or oversight. The world's financial crisis has revealed the limits of *ad hoc* globalization. Managed globalization, presented publicly as a true alternative, may offer the promise to save the current era of globalization from its excesses and weakening institutional foundations. The doctrine remains useful, even essential, owing to its emphasis on deliberation and co-ordination. Although co-ordination of policy stances is necessary for avoiding the destructive instincts towards closure that inevitably emerge as national economies founder, many of the world's leaders continue to talk past each other in fora, including the G20, that are ill-suited to the task.

Interestingly, at the critical institutional juncture in which the world finds itself in 2010, the French are again present – even ubiquitous – in the very international organizations called upon to rescue and steer globalization. Indeed, these are the very French leaders who invented and pushed forward the doctrine of managed globalization. The G20 meeting, which was called at the insistence of French President Nicolas Sarkozy, was no exception. It has become a forum for countries to vent against the dangers of *ad hoc* globalization and a forum where France (and Germany) can sell the merits of their own vision to other economic powers. Also unexceptional was the usefulness of collecting many of the relevant authorities and insisting that they deliberate together. 'We went faster in six months than in twenty years', claims a French negotiator.

The presence of Frenchmen at the head of so many international organizations (Jean-Claude Trichet at the European Central Bank, Hervé Hannoun at the Bank of International Settlements, Dominique Strauss-Kahn at the IMF and Pascal Lamy at the WTO) has furthered these French and ultimately European ideas about the advantages of deliberation, co-ordination and the codification of rules. 'To reinforce this strategy, Mr. Sarkozy wishes that the current president of the French Financial Markets Authority, Jean-Pierre Jouyet, and the credit mediator, René Ricol, take the helm, respectively, of the International Organization of Securities Commissions and the International Accounting Standards Committees' (Leparmentier 2009a). 'These men are not there by chance. Their concern for multilateralism let them occupy these functions, often judged as not very strategic by their peers. The French are conceptual and cartesian. Their training distinguishes them from Anglo-Saxon pragmatism, which does not work well in these large organizations. It is the revenge of Colbert, ENA, and the Inspection des Finances,' claims Jean-Pierre Jouyet, President of the French Financial Markets Authority. 'France has been statist for an additional generation compared to other countries; elsewhere, people of this caliber are in the private sector,' adds Pascal Lamy (Leparmentier 2009b). Even Sarkozy, whom many Anglo-Saxon analysts had mistakenly labeled a neoliberal during the presidential campaign, has proven to be the epitome of a *dirigiste* leader, and he has been using international fora, such as the 2008 French presidency of the EU and the G20, to push this *dirigiste* agenda at the international level. The November 2009 nomination of Michel Barnier at the helm of internal market and financial services in the second Barroso Commission places one more Frenchman in a key position to attempt to manage globalization in the years to come.

In 2009, it was, as in the mid-1940s, up to people in the public sector to refashion the rules for a private sector preparing itself for an uncertain future, after having left behind a set of financial and business practices that would not soon return. The end of the neoliberal moment has witnessed a pendulum swing towards more rules, more regulations; in a word, more state. The remaining question is whether our era of globalization will survive the process.

The promise of managed globalization as doctrine and practice is to retain the many advantages of our economically interconnected world.

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ACKNOWLEDGEMENTS

We would like to thank the participants of the Princeton and Park City workshop, Suzanne Berger, Darren Hawkins, Peter Katzenstein and Alberta Sbragia, for comments on an earlier version of this essay, as well as two anonymous reviewers for their useful suggestions.

NOTES

1 Author's interview with Pascal Lamy, 25 July 2006 and with Matthew Baldwin, 13 June 2006. Matthew Baldwin was Pascal Lamy's Deputy Head of Staff at the European Commission.
2 For an account of the organization of trade in the EU and the WTO, see Meunier 2005. For an account of the organization of finance in the EU, OECD and IMF, see Abdelal 2006, 2007.
3 Author's interview with Lamy; Author's interview with Baldwin.
4 Author's interview with Lamy.
5 Author's interviews with DG Trade officials, June 2007 and April 2009.
6 Article 69 of the Treaty specified this role for the Commission (Padoa-Schioppa 1994: 27).
7 Articles of Agreement of the International Monetary Fund, Article VI, Section 3, 'Controls on Capital Transfers'.
8 Letter to the Honorable Robert E. Rubin, Secretary, Department of the Treasury, from Reps. Richard Gephardt, David Bonior, Nancy Pelosi, Barney Frank, Maxine Waters, and Esteban Edward Torres, 1 May 1998.
9 Author's interview with Lamy.

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