

La Règle du Jeu:
France and the Paradox of Managed Globalization

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Abstract

Globalization is often portrayed as a tidal wave that originated in the US and its policy of *laissez-faire* liberalization. This paper argues, however, that globalization is not made only by striking down regulations, but also by making them. During the 1980s, French policy makers began to develop the doctrine of “managed globalization,” or what World Trade Organization (WTO) head Pascal Lamy calls today “globalization by the rules.” Central to the doctrine has been the French – and European – effort to make rules and build the capacity of international organizations such as the European Union (EU), Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), and WTO. These organizations then would have the authority to govern commercial and financial globalization. These organizations, however, have also used this capacity to promote liberalization. Thus, the practical effect of the doctrine of managed globalization has been to create a more liberal world. It is a world with rules, a world that is organized, to be sure. But it is also a more globalized world, and one inevitably more liberal as well. This is paradoxical for a number of reasons, including: the traditional French ambivalence about globalization; the creation of the doctrine by the French Left; and the antipathy of American policy makers for these liberalizing and organizing agendas. Most remarkably, the concept of managed globalization has been grossly misrepresented and misinterpreted over the years in the French political and intellectual discourse. Most often, managed globalization is understood to be synonymous with taming globalization to make it less liberal. We explain and restore the more literal meaning of the phrase, which is about ordering and mastering globalization. In doing so, we can also highlight the complex links between globalization and European integration, which can be seen as both a Trojan Horse of *laissez-faire* liberalism in the heart of Europe and as the best tool available to France to shape the world of its own choosing.

Est maître des lieux celui qui les organise. (He who organizes is master of the arena.)

—Jean de la Fontaine

The globalized world of today is one where goods, services, and capital flow quite freely, particularly in historical perspective. According to conventional wisdom, this has been able to happen 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 contributed to reinforcing the process of globalization.¹ Thanks to economic and technological changes, globalization is seen as an ineluctable tidal wave crushing borders against which national policy initiatives are impotent.

And yet, an alternative story of globalization needs to be told. One where globalization is not made only by striking down regulations, but also by making them. One where it is the bureaucrats, rather than the managers and the politicians, who have written the rules of the game. The markets for those freely-flowing goods and capital are built upon institutional foundations, including the myriad formal rules and codes that oblige governments around the world to embrace and maintain their openness. The story of liberalization is well known, but the bureaucratization, an essential foundation of truly global markets, is largely unknown in the United States and deeply misunderstood within Europe. This paper explores how the rules of globalization in trade and finance were made, and how these rules actually shaped the world economy.

Whereas most scholars tend to envision globalization as a process that has been dominated by the United States, European governments and policy makers have crucially marked the process by writing its rules and empowering its governing bureaucracies. Over the past two decades, European technocrats, led by the French, conceived a different process of globalization, one governed by capacious international organizations and filled with rules that both enable and constrain policy makers. By the end of the 1990s, Pascal Lamy, the current head of the World Trade Organization (WTO) and for twenty years a prominent figure in French and European bureaucratic politics,

¹ See for instance Tom Friedman, *The Lexus and the Olive Tree* (New York: Anchor, 2000); Tom Friedman, *The World is Flat* (New York: Farrar, Straus and Giroux, 2006)

had dubbed the emergent doctrine *mondialisation maîtrisée*, or “managed globalization.”² Variants have included the phrases “harnessed globalization” and “globalization by the rules.” 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 twenty 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.³

This alternative story of globalization is paradoxical for at least three reasons. First, managed globalization is not less liberal than *ad hoc* globalization; it is, in important ways, much 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 deviations from liberalism. That is, the European doctrine of managed globalization has left the world much more liberal than it otherwise would have become.

Second, this codifying, organizing, and essentially liberalizing European project was developed to a large extent by French policy makers and intellectuals. Not especially well known for having created globalization as we know it, France tends instead to conjure up images of farmers on bulldozers blocking highways or “dismantling” McDonald’s restaurants.⁴ In the 1990s, while the French were busy complaining about liberalism and reading bestselling pamphlets against globalization,

² See Philip H. Gordon and Sophie Meunier, *The French Challenge: Adapting to Globalization* (Washington, D.C.: Brookings, 2001), p. 98 ff. For more on the French intellectual ambivalence about, but practical embrace of, globalization, see Sophie Meunier, “France’s Double-Talk on Globalization,” *French Politics, Culture, and Society*, vol. 21, no. 1 (2003), pp.20-34; Meunier, “Free-Falling France or Free-Trading France?” *French Politics, Culture, and Society*, vol. 22, no. 1 (2004), pp. 98-107; and Meunier, “Globalization and Europeanization; A Challenge for France,” *French Politics*, vol. 2, no. 2 (2004), pp. 125-150. Also see Pascal Lamy, *La démocratie-monde: Pour une autre gouvernance globale* (Paris: Seuil et La République des Idées, 2004).

³ For an account of the organization of trade in the EU and the WTO, see Sophie Meunier, *Trading Voices: The European Union in International Commercial Negotiations* (Princeton, N.J.: Princeton University Press). For an account of the organization of finance in the EU, OECD, and IMF, see Rawi Abdelal, “Writing the Rules of Global Finance: France, Europe, and Capital Liberalization,” *Review of International Political Economy*, vol. 13, no. 1 (2006), pp. 1-27; and Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, Mass.: Harvard University Press, 2007).

⁴ See Sophie Meunier, “The French Exception,” *Foreign Affairs*, vol. 79, no. 4 (2000), pp. 104-116.

their policy makers were outdoing the Americans in enabling the globalization of markets.⁵

Third, policy makers and politicians of the French Left, almost all of them Socialists, were responsible for managed globalization as a doctrine and practice. These are not mainly stories of the Left's acquiescence after the rise of the Right, but rather the active, considered management by the pragmatic Left.

This paper explores where the doctrine of managed globalization came from, how it was implemented in practice, and whether it has been successful. In so doing, we highlight the paradoxical nature of a doctrine leading to more economic liberalization, whereas most of its proponents today see it as a tool to slow down liberalization. The first section traces the genesis of the doctrine to French politicians in the 1990s and focuses on its main tenets. Section two examines how the doctrine of managed globalization has transformed the governance of global finance in the past two decades. Section three examines a parallel process in global trade, but with a more mitigated success overall. The fourth section attempts to explain why the doctrine was misrepresented, misinterpreted, and later used by the opponents of globalization. In conclusion, we reflect upon the ambiguous nature of the relation between European integration and globalization.

The Doctrine of Managed Globalization

"Managed globalization" is a term that penetrated the French and European discourse for the first time 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.⁶ Since then, the term has been used and abused by French politicians. Its genesis, however, still remains relatively unknown.⁷ A great deal has been written about the famous *tournant*, the U-turn, of François Mitterrand in the spring of 1983.⁸ One theme remains to be explored, however: a handful of French policy makers who orchestrated the *tournant* and replaced socialization with austerity and

⁵ For instance, see Viviane Forrester, *L'horreur économique* (Paris: Fayard, 1996).

⁶ Pascal Lamy, Hearings of Commissioners-Designate, European Parliament, August 30-September 9, 1999. Also, Sophie Meunier's interview with Pascal Lamy, July 25, 2006; and Meunier's interview with Matthew Baldwin, June 13, 2006. Matthew Baldwin was Pascal Lamy's Deputy Head of Staff at the European Commission.

⁷ Meunier's interview with Lamy; Meunier's interview with Baldwin.

⁸ Among the now-classic texts are Peter A. Hall, "The Evolution of Economic Policy under Mitterrand," in *The Mitterrand Experiment*, ed. George Ross, Stanley Hoffmann, and Sylvia Malzacher (New York: Oxford University Press, 1987); Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), chap. 8; and Jonah D. Levy, *Tocqueville's Revenge: State, Society, and Economy in Contemporary France* (Cambridge, Mass.: Harvard University Press, 1999).

rigueur derived lessons from the experience that would later compose the doctrine of managed globalization.

The personalities who were instrumental in elaborating and implementing the doctrine of managed globalization are well-known for their experiences in the Mitterrand administration as well as for their pursuits since then. Jacques Delors was Mitterrand's finance minister, and he later was 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 later was the IMF's managing director. Hervé Hannoun was an advisor to Prime Minister Pierre Mauroy during the episode, 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.

These policy makers of the Left turned France toward 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. Europe thus came to embody what Peter Katzenstein calls "open regionalism," the EU-wide openness to trade and financial flows that literally made the globalization of markets possible.⁹ Three putative lessons of the Mitterrand experiment came in particular to underpin the doctrine of managed globalization: the need to build international institutions, the will to imprint a French touch to globalization, and the adaptive necessity to recast the Left.

Building Organizations

The most important conclusion of 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, *dirigiste* 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."¹⁰ So, as the French liberalized trade and capital flows, those same French policy makers self-consciously sought to empower the bureaucracies of international organizations and expand their competences and jurisdictions.

⁹ Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca, N.Y.: Cornell University Press, 2005).

¹⁰ Quoted in Abdelal, *Capital Rules*, p. 14.

Europe was, naturally, the first step. The French government, and in particular a handful of policy makers from the Mitterrand administration, strengthened the capacities of the European Commission and extended the obligations of European membership. They created the European Union from the Community and harnessed the continental embrace of neo-liberalism for the purposes of market-based integration. Europe was thus built to organize and manage globalization, but not illiberally.¹¹ The EU, according to Lamy, “is the only instrument for harnessing the forces of globalization to make it compatible with our model of society.”¹²

Thanks to the unitary nature of trade policy in the EU and to the progress of the single internal market, the French project was able to become a European project. As Lamy recalls, “Even if it was articulated by French people at the origin, [mondialisation maîtrisée] is fundamentally a European concept.”¹³

Marking Globalization, Displacing Germany and the United States

The second tenet of French socialists during the Mitterrand era was a will to imprint a French touch to globalization. If it is ineluctable that globalization and liberalization have to happen, at least let them happen as an extension of French values, instead of in contradiction with the French organization of society and way of life. Hubert Védrine, Mitterrand’s last socialist foreign minister and one of France’s most influential thinkers on international affairs at the end of the 20th century, suggests: “France will share in the adventure of globalization, which will also be marked by France. Our entire foreign policy is built around this idea.”¹⁴

This idea explains, for instance, France’s acquiescence and even insistence on abandoning national currencies in favor of the euro. Far from being a capitulation to the power of Germany, this policy was instead a way of recapturing control over a domain which was largely escaping France as a result of Europeanization and globalization. Considering France’s modest size and, even by the 1990s, the nascent “credibility” of a newly independent Banque de France, the only way for France to “mark” globalization was to challenge German dominance in Europe and American dominance in the wider world. The Bundesbank’s legendary credibility for obsessive inflation-fighting meant that the mark was the anchor currency of the European Monetary System, and cooperation entailed the other European central banks’ following the lead of the Bundesbank.¹⁵ Similarly, the overwhelming size of American capital markets, the

¹¹ See Gordon and Meunier, *The French Challenge*, pp. 101-105.

¹² Quoted in Gordon and Meunier, *The French Challenge*, p. 102.

¹³ Meunier’s interview with Lamy.

¹⁴ Quoted in Hubert Védrine, with Dominique Moïsi, *France in an Age of Globalization*, trans. Philip H. Gordon (Washington, D.C.: Brookings, 2001), p. 45.

¹⁵ Rawi Abdelal, “The Politics of Monetary Leadership and Followership,” *Political Studies*, vol. 46, no. 2 (1998), pp. 236-259.

dominance of Wall Street financial firms, and the power of the U.S Treasury, and the voracious appetite of American consumers put the United States at the center of the process of internationalizing finance and trade.

With respect to foreign policy *per se*, the same doctrine meant reinforcing the role of France within the managing instances of international organizations. All throughout the 1990s, France led efforts to empower the United Nations and conclude worldwide treaties managing issues as diverse as global warming, nuclear proliferation, and the International Criminal Court.

Not all French policy makers who adopted the doctrine of managed globalization necessarily mistrusted the hegemony of Germany or the United States. Regardless of the effectiveness or prudence of German and American leadership, however, decisions made in Bonn, Berlin, Frankfurt, Washington, and New York would inevitably reflect local concerns and worldviews. Thus, Védryne 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.’”¹⁶ *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 equally skewed, perhaps much more liberal than the French Left would otherwise prefer. The justice of managed globalization would, however, at least be the product of dialogue, argument, and deliberation.

Recasting the Left

The third lesson learned by French politicians’ brush with globalization in the late 1980s and 1990s was the necessity to recast the Left. Policy makers of the French Left – particularly Delors and Lamy – 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.”¹⁷

Capital controls, long a tool of the European Left for macroeconomic management and redistribution, produced increasingly perverse effects when the rich and well connected were able to evade them more easily than the middle classes. “We

¹⁶ Quoted in Védryne, with Moïsi, *France in an Age of Globalization*, p. 19.

¹⁷ Meunier’s interview with Lamy.

recognized, at last," Chavranski recalls, "that in an age of interdependence capital could find a way to free itself, and we were obliged to liberate the rest."¹⁸ The capital controls of the 1950s and 1960s might have constrained the rich and powerful, but no longer.

"The Left's embrace of liberalization was similar to its fight against inflation," argues Lamy. "Eventually we recognized that it was the middle classes that bore the burden of regulation most, as they did with inflation."¹⁹ Within Socialist circles, even skeptics were convinced by the idea that financial modernization would benefit the middle classes, precisely those who had not benefited from the increasingly fluid movement of surplus savings from one society to another. According to finance minister Pierre Bérégovoy's chief of staff, Jean-Charles Naouri, "Bérégovoy hated the obscure, the opaque, the special deals, the clever gaming of the system. He came to see capital controls in that way as well."²⁰

The transformation of the French Left is, of course, exceptional neither in Europe nor in the wider world. It is a remarkable fact of our era that programs of market-oriented reforms have been implemented much more frequently by putatively Left-wing governments than by those on the right.²¹

Some of these policy makers traced their perspective on macroeconomic management to a modernizing minority of technocrats and intellectuals whose politics spanned the Left-Right spectrum. Delors reflects:

Historically there has always been a minority position in France that views inflation as the most damaging for the long-term health of the economy: undermining the value of the currency, tempting capital to flee, and hurting the poor and middle classes. This minority position can be traced back even to [Charles] de Gaulle and [Jacques] Rueff, and more recently a minority in the Left and in the Christian Democrats. This minority has always sought to modernize France: to stabilize the currency, to fight inflation, and to promote healthy growth and employment. And it happened that this minority won in France during the 1980s. It was a long and difficult struggle.²²

¹⁸ Quoted in Abdelal, *Capital Rules*, p. 29.

¹⁹ Quoted in Abdelal, *Capital Rules*, p. 16.

²⁰ Quoted in Abdelal, *Capital Rules*, p. 61.

²¹ John Williamson and Stephan Haggard, "The Political Conditions for Economic Reform," in *The Political Economy of Policy Reform*, ed. John Williamson (Washington, D.C.: Institute for International Economics, 1994). Also see Alex Cukierman and Mariano Tommasi, "When Does it Take a Nixon to Go to China?" *American Economic Review*, vol. 88, no. 1 (1998), pp. 180-197; and Dani Rodrik, "Promises, Promises: Credible Policy Reform via Signalling," *The Economic Journal*, vol. 99, no. 397 (1989), pp. 756-772.

²² Quoted in Abdelal, *Capital Rules*, p. 29.

In a way, these ideas were reminiscent of those held by the Left in an earlier era of globalization. “For the Left to realize its domestic political objectives,” Suzanne Berger writes, “it needed to sustain a broad Republic coalition, and it understood that the platform on which such a coalition could be constructed required anti-protectionism and embrace of an open international economy.”²³

Interestingly, what is striking today is how little the Left has been transformed in France compared to the drastic *aggiornamento* that it has experienced in other European countries, such as Great Britain and Spain. In spite of dramatic changes in the economic outlook of the French socialists in the late 1980s and in the drastic, though gradual, transformation of the French economy in the past two decades, most socialist politicians in France today still hold an old-fashioned discourse which at times seems disconnected from reality.²⁴

Managing Global Finance: Empowering the EU, OECD, and IMF

The most accomplished and successful attempt to implement the doctrine of managed globalization has been in global financial markets. The influence of French policy – and French technocrats – on the evolution of the international financial architecture is, from the perspectives of the conventional wisdom and twentieth-century economic history, downright astonishing. “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.”²⁵

Liberal Europe, Capacious Commission

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.²⁶ The conditionality of the obligation to liberalize capital was, in part, a reflection of the

²³ Suzanne Berger, *The First Globalization: Lessons from the French*, manuscript, p. 118, published as *Notre Première Mondialisation: Leçons d'un Echech Oublié* (Paris: Seuil, 2003).

²⁴ Pepper Culpepper, Peter Hall and Bruno Palier, eds., *Changing France: The Politics that Markets Make* (New York: Palgrave-Macmillan, 2006). See also Vivien A. Schmidt, *From State to Market? The Transformation of French Business and Government* (Cambridge: Cambridge University Press, 1996).

²⁵ Quoted in Abdelal, *Capital Rules*, p. 13.

²⁶ See the discussion in Age F. P. Bakker, *The Liberalization of Capital Movements in Europe* (Dordrecht: Kluwer, 1996), pp. 42-43.

widespread consensus among policy makers around the world 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 very basis of the post-war 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 a new Treaty or by directives issued by the European Commission, and approved unanimously by the Council, that would, in essence, define what members agreed to constitute "the extent necessary" for the common market.²⁷ 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.

Then, for more than twenty years, not a single new directive for liberalizing capital was issued from Brussels. The Commission did submit a third directive to the Council in 1967, but a decade of negotiations led nowhere. "Opposition came from all sides," writes Age Bakker. "But first and foremost from France and the Netherlands."²⁸ The only other movement on capital pushed in the direction of more control, rather than liberalization. In 1972 a directive that obliged members to maintain the apparatus of capital controls "to curtail undesirable capital flows" was adopted.²⁹ 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. Again, the "uncompromising, dogmatic attitude of France" blocked the initiative.³⁰

Everything changed with the *tournant* of 1983. Although French policy makers had merely capitulated to the reality of their capital flight, they also began to reconsider their approach to the freedom of capital movements in Europe. And then on January 1, 1985, the architect of *rigueur*, Delors, became President of the European Commission, a

²⁷ Article 69 of the Treaty specified this role for the Commission. See Tommaso Padoa-Schioppa, "Capital Mobility: Why is the Treaty Not Implemented?" in his *The Road to Monetary Union in Europe: The Emperor, the Kings, and the Genies* (New York: Oxford University Press, 1994), p. 27.

²⁸ Bakker, *The Liberalization of Capital Movements in Europe*, p. 96.

²⁹ Bakker, *The Liberalization of Capital Movements in Europe*, pp. 116-118.

³⁰ Bakker, *The Liberalization of Capital Movements in Europe*, pp. 147-152 and 153.

post he would hold for a decade. After visiting the national capitals, and 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 January 1, 1993.³¹ Even in the summer of 1985, however, neither the Commission nor the White Paper outlined a new legal obligation for the complete liberalization of capital movements in Europe. Between July and December the Delors Commission decided to push forward capital liberalization well beyond what was originally conceived in the single market program.

The Delors Commission began in the spring of 1986 to formulate 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. The Treaty of Rome's qualifier, "to the extent necessary," from the summer of 1988 onward would be defined so that all capital movements were "necessary" for the proper functioning of the common market.³² And, as Bakker observes, French "support of the liberalization process was decisive."³³

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.

In addition to the emergent doctrine of managed globalization, other considerations influenced the French approach to the codification of the norm of capital mobility. Most important among them was a quid pro quo with the Germans, who accepted a more symmetrical European Monetary System (EMS) and a firm timetable for moving toward monetary union.³⁴

³¹ Andrew Moravcsik, *The Choice for Europe* (Ithaca, N.Y.: Cornell University Press, 1998), pp. 361-362.

³² See Bakker, *The Liberalization of Capital Movements*, p. 211; and Oliver and Baché, "Free Movement of Capital," pp. 66-67.

³³ Bakker, *The Liberalization of Capital Movements*, p. 212. See also Julius W. Friend, *The Long Presidency: France in the Mitterrand Years, 1981-1995* (Boulder, Colo.: Westview, 1998), pp. 191-192.

³⁴ Nicolas Jabko, "In the Name of the Market: How the European Commission Paved the Way for Monetary Union," *Journal of European Public Policy*, vol. 6, no. 3 (1999), pp. 475-495; and Craig Parsons, *A Certain Idea of Europe* (Ithaca, N.Y.: Cornell University Press, 2003), p. 205. Also see Wayne Sandholtz, "Choosing Union: Monetary Politics and Maastricht," *International Organization*, vol. 47, no. 1 (1993), pp. 1-39; Joseph M. Grieco, "The Maastricht Treaty, Economic and Monetary Union, and the Neo-Realist Research Program," *Review of International Studies*, vol.

Membership in the OECD is only for the privileged.³⁵ Being part of the OECD is for, in a word, the rich. 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 European Commission’s 1988 Directive, the Code of Liberalization was the only multilateral instrument promoting the liberalization of capital movements.

The Code of Liberalization, when it was established in 1961, excluded short-term capital movements on principle. For more than forty years the OECD’s Committee on Capital Movements and Invisible Transactions (CMIT) oversaw amendments to and members’ compliance with the Code of Liberalization. On each of the occasions when the Code’s obligations were broadened to include other types and maturities of financial transactions, in 1964, 1973, and 1984, members could not reach consensus about the desirability of including short-term capital movements. As in the context of Europe, the French presented the most forceful and articulate arguments against such “hot money.” The CMIT spent the end of the 1980s working toward such a consensus in favor of the liberalization of all capital movements among members. The French eventually joined this consensus eagerly, 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, the 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, who spent much of his career in a senior post in the OECD Secretariat, the Code’s obligations were limited to long-term capital flows, particularly foreign direct investment as a matter of self-reflective purpose. The Code’s omission “stems from the recognition that short-term financial transactions, in particular those initiated by banks, can pose problems for

21, no. 1 (1995), pp. 21-40; and Grieco, “State Interests and International Rule Trajectories: A Neorealist Interpretation of the Maastricht Treaty and European Economic and Monetary Union,” *Security Studies*, vol. 5, no. 3 (1996), pp. 176-222.

³⁵ On the meaning of OECD membership, see especially Henri Chavranski, *L’OCDE: Au coeur des grands débats économiques* (Paris: La documentation française, 1997), p. 7.

the management of money and of exchange reserves, especially under fixed or managed exchange rates.”³⁶

On each occasion when an extension of the Code’s obligations to new capital transactions was discussed in the CMIT, the Europeans, especially, 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.”³⁷ 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.³⁸ The 1973 amendment was again quite modest, and included only collective investment services. By the early 1980s members of the CMIT were discussing means to strengthen the Code’s stance on foreign direct investment. Consensus was reached quickly, 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. 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.”³⁹

After forty years of contention in la Muette about short-term capital flows, by the time the discussions in the CMIT on a new amendment began their tenor was calm and consensual. 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.”⁴⁰ By the late 1980s, the U.S. no longer needed to take the lead in expanding the liberalization obligations of the OECD, and this was true for the Code.

As with the influence of Jacques Delors on the 1988 directive, Henri Chavranski, as the CMIT’s chair, did not achieve success in amending the Code by running too far

³⁶ Raymond Bertrand, “The Liberalization of Capital Movements – An Insight,” *Three Banks Review*, no. 132 (1981), pp. 3-22, at p. 3.

³⁷ Pierre Poret, “The Experience of the OECD with the Code of Liberalization of Capital Movements,” Paper presented at an IMF seminar on Current Legal Issues Affecting Central Banks, May 1998, p. 5.

³⁸ See Jeffrey R. Shafer, “Experience with Controls on International Capital Movements in OECD Countries: Solution or Problem for Monetary Policy?” in *Capital Controls, Exchange Rates, and Monetary Policy in the World Economy*, ed. Sebastian Edwards (Cambridge: Cambridge University Press, 1995), p. 123 ff.

³⁹ Quoted in Abdelal, “Writing the Rules of Global Finance,” p. 15.

⁴⁰ Quoted in Abdelal, *Capital Rules*, p. 102.

ahead of his OECD colleagues. Rather, Chavranski drew upon the support of those CMIT members who had been enthusiastic for some time about bringing short-term capital within the legal mandate of the Code. According to the Swede Jan Nipstad, who became the chair of the working group formed to champion the cause of an expansion of the Code, Chavranski's support was "masterly." Nipstad was himself a relatively recent convert to the cause of capital liberalization, and he and Chavranski worked closely together to enhance the CMIT consensus. Because Chavranski was known in the CMIT not to be dogmatically liberal, and with the French embrace of an amendment so new, his reasoned support of an amendment greatly enhanced its legitimacy among those members who were still skeptical. Nipstad thus insists that Chavranski's role was "essential" to the success of the proposal.⁴¹ American policy makers quietly and curiously observed the enthusiasm of France and other European countries for a more expansive Code and more authority for the CMIT and OECD.

Thus, for OECD members a new standard of appropriate policy practice was agreed to in 1989. Capital account liberalization was becoming the usual behavior of OECD members. In 1989 OECD members agreed that an open capital account was one of the defining – the constituting, the proper – practices of a "developed" country: "While member countries are clearly at different stages of liberalization, they now share the view that the complete liberalization of capital movements is a proper goal."⁴² Louis Pauly's assessment of the meaning of the OECD's amendment was the attempt "to replace the formal legal right to control capital movements with a new right. The effort to codify the norm of capital mobility continues."⁴³

The Attempt to Organize the World

By 1990, then, the institutional foundations of the internationalization of finance among European and developed countries had been laid. The rules had been written primarily by French policy makers. 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 middle of the 1990s. The proposed amendment represented a dramatic reversal.

⁴¹ Quoted in Abdelal, "Writing the Rules of Global Finance," p. 15.

⁴² "Banking and Financial Services: Review and Proposed Amendment of the Codes of Liberalization of Capital Movements and Invisible Operations," p. 8, Committee on Capital Movements and Invisible Transactions and Committee on Financial Markets, February 14, 1989, DAF/INV/89.4 and DAF/MC/SF/89.1 (OECD Archives).

⁴³ Louis W. Pauly, *Who Elected the Bankers? Surveillance and Control in the World Economy* (Ithaca, N.Y.: Cornell University Press, 1997), p. 37.

Although the Fund's rules have, since 1944, obliged members to move toward 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."⁴⁴ The IMF's Articles of Agreement list among the organization's purposes the liberalization of trade, but not of capital.

Under the leadership of Managing Director Jacques de Larosière, Fund management intended for the organization to stand apart from the process of financial internationalization:

We had our catechism: 'Thou must give freedom to current payments, but thou must not necessarily give freedom to capital.' I was comfortable with the idea that the Fund would not move toward compulsory freedom of capital. By the time I left the Fund in 1987, I was not aware of any discussions of changing the Articles to bring the capital account within our jurisdiction.⁴⁵

Thus it is clear that the proposed amendment emerged within the Fund after de Larosière returned to Paris and 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.⁴⁶ Camdessus and the rest of Fund management worked behind the scenes on the idea until it was formally presented to the Executive Board in 1995. Then the European Executive Directors embraced the proposal enthusiastically.

The amendment was conceived of as having 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 the capital account restrictions of members as being consistent or inconsistent with their obligations as members.

Many critics of the Fund saw the proposal as the final step, the complete codification of liberalism in the international financial system. Those same critics assumed that Fund management was doing the bidding of the U.S. Treasury, which in turn must have been following the orders of the big banks on Wall Street. But neither

⁴⁴ Articles of Agreement of the International Monetary Fund, Article VI, Section 3, "Controls on Capital Transfers."

⁴⁵ Quoted in Abdelal, *Capital Rules*, p. 135.

⁴⁶ See Abdelal, *Capital Rules*, p. 140.

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.”⁴⁷

Senior officials at the U.S. Treasury were deeply ambivalent about the proposed amendment. “The idea,” a former senior Treasury official argued, “that the Fund was doing the bidding of the Treasury to push openness is totally wrong.” The proposal “came from the Fund. It didn’t come from us.” There was no one at Treasury with a portfolio that included shepherding the amendment through the Fund and beyond. The proposal, in Treasury lingo, “didn’t get adult supervision.”⁴⁸ As former Treasury Secretary Lawrence Summers recalls, “I gave very little attention to the issue; Rubin gave it less.”⁴⁹

Wall Street, represented in Washington by the Institute of International Finance, was opposed to the proposal altogether.⁵⁰ According to Lex Rieffel, a former Treasury and OECD official who chaired the Working Group on capital account liberalization at the Institute of International Finance, distinguishing between the freedom of capital movements and the proposed amendment to the Fund’s Articles is critical: “Of course, Wall Street was in favor of liberalization. But the financial community had some serious reservations about giving the Fund jurisdiction over the capital account.”⁵¹ These reservations included the fear that the amendment would actually legitimize those capital controls that the Fund did approve. Similarly, Charles Dallara recalls that he and his colleagues “sympathized with bankers from emerging markets who warned against premature liberalization and the vulnerabilities that came with it. Although capital account openness is in the broad interest of financial institutions, bankers are much more interested in particular countries, rather than the system as a whole. And the economies that matter most are already mostly open.” Lastly, Dallara reflected on the private sector’s “confidence in the Fund’s ability to see both the public and the private interest. The culture of the Fund is almost always to see the public interest in any situation. The proposed amendment was an example: although the proposal was exactly at the intersection of public and private, in formulating its approach the Fund consulted with the private sector virtually not at all.”⁵²

⁴⁷ Quoted in Abdelal, *Capital Rules*, p. 139.

⁴⁸ Quoted in Abdelal, *Capital Rules*, p. 139.

⁴⁹ Quoted in Abdelal, *Capital Rules*, p. 139.

⁵⁰ This position was first articulated in *Capital Account Convertibility as an IMF Obligation: A Briefing Note for the IIF Board of Directors*, unpublished memorandum, Institute of International Finance, Washington, D.C., September 9, 1997. An IIF Working Group formed to analyze the issue reached the same conclusion after intensively studying the proposal during 1997 and 1998. *IIF Working Group on the Liberalization of Capital Movements: Final Report*, unpublished memorandum, Institute of International Finance, Washington, D.C., January 20, 1999.

⁵¹ Quoted in Abdelal, *Capital Rules*, p. 141.

⁵² Quoted in Abdelal, *Capital Rules*, p. 142.

As Camdessus recalls, the idea to amend the Articles “came from within the Fund.”⁵³ The proposal was formulated and promoted by Camdessus himself. Jack Boorman, who was then Director of the powerful Policy Development and Review Department, argues that Camdessus was the “driving force” behind the amendment.⁵⁴ Similarly, former Executive Director Thomas Bernes also recalls the proposal having originated with Camdessus, with the amendment “part of Camdessus’ vision for the Fund.”⁵⁵

Camdessus argued that he was applying lessons he learned in the Mitterrand administration:

Exchange controls may help insulate a country’s authorities, but only for a very short time. Even the best conceived and effective exchange control system will be circumvented within six months. Speculators and crooks are extremely sophisticated. And then, after a year, exchange controls are effective only against the poor. The French experience of the beginning of the ‘80s had been extremely convincing for me. I preached on every possible occasion that you cannot trust exchange controls in the long term.⁵⁶

For Camdessus and Fund management, the principle of the amendment was to adjust the Fund’s authority to a global economy, a world in which capital flows vastly exceeded trade flows. Camdessus and Fund management were surprised that so many did not trust them with jurisdiction over the capital account.

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. Summers called the proposal “a bureaucratic imperative.”⁵⁷ Dallara saw it as an attempt by the Fund 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. The Fund had been increasingly marginalized, and the Fund’s management appeared eager to play a more important role.”⁵⁸

The proposal to amend the Fund’s Articles almost succeeded. Emboldened by the financial crisis in Asia, however, a number of developing country Directors on the organization’s Executive Board began actively to oppose the amendment. The possibility of a capital account amendment was destroyed ultimately by the U.S. Congress, when powerful Democrats in the House of Representatives threatened to

⁵³ Quoted in Abdelal, *Capital Rules*, p. 140.

⁵⁴ Quoted in Abdelal, “Writing the Rules of Global Finance,” p. 18.

⁵⁵ Quoted in Abdelal, *Capital Rules*, p. 140.

⁵⁶ Quoted in Abdelal, *Capital Rules*, p. 144.

⁵⁷ Quoted in Abdelal, *Capital Rules*, p. 141.

⁵⁸ Quoted in Abdelal, *Capital Rules*, p. 141.

withhold support for an increase in U.S. contributions to the Fund if the Treasury did not withdraw all U.S. support for the amendment.⁵⁹ The U.S. Treasury withdrew its already meager support immediately. Without U.S. support, not to mention a G-7 consensus, no proposal for such a dramatic change in the international financial architecture had a chance. Moreover, the U.S. enjoys 17 percent of the weighted votes in Fund decisions, and amendments to the Fund's Articles require 85 percent of the weighted votes. 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 U.S. vision of *ad hoc* globalization remains the principle for capital that flows from developed to developing countries, while the French have organized the rest.

Managing Global Trade: Empowering the EU and WTO

European policy-makers and technocrats have also tried to implement the doctrine of managed globalization in trade. The central goal was to ensure liberalization alongside redistribution. In order to harness globalization in trade, France could do it only through the European Union. For four decades now, trade competencies have been transferred to the supranational EU level.⁶⁰ Moreover, because the doctrine of managed globalization represented the convergent position of the EU member states on the issue, it was consensual and straightforward to erect into the official EU doctrine in trade.⁶¹ The steps involved in managing globalization in trade included building a set of constraining trading rules, promoting multilateralism, widening the definition of trade issues subject to rule-making, exporting EU practices, and redistributing the benefits and costs of globalization, both outside and inside Europe. The overall success of managed globalization in trade has been more mitigated than in the case of finance.

Building and Respecting the WTO

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 World Trade Organization (WTO). In the following years, the WTO became the main target of the groups denouncing globalization. Ironically, it also became for France one of the main tools of

⁵⁹ 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, May 1, 1998.

⁶⁰ Meunier, *Trading Voices*.

⁶¹ Meunier's interview with Lamy.

its policy of harnessed globalization, even though the phrase officially penetrated the discourse only in 1999.

The EU strongly supported the creation of clear rules for settling trade-related disputes in the WTO. This meant making a codified set of rules for reporting violations, adjudicating disputes, and implementing resolutions in order to facilitate trade liberalization in the world. As Lamy 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.”⁶²

This approach was initially subject of controversy in Europe, both by people concerned about national sovereignty and by people 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 made by sovereign parliaments: why were multilateral rules better than national ones? The second set of criticisms focused on the nature of the decisions made: 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, the bananas case and the beef hormones case, were ruled in favor of the plaintiff, the United States.⁶³ 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.”⁶⁴

Yet the EU stayed the course of its “harnessed globalization” policy by accepting the verdicts and, eventually, 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.”⁶⁵ Subsequently, the EU won major cases against the United States, forcing

⁶² Pascal Lamy, “Trade Policy in the Prodi Commission 1999-2004: An Assessment” European Commission, November 19, 2004 (also known as “Pascal Lamy’s Legacy”).

⁶³ On the banana dispute, see Karen Alter and Sophie Meunier, “Nested and overlapping Regimes in the Transatlantic Banana Dispute,” *Journal of European Public Policy*, vol. 16, no. 3 (2006), pp. 362-382.

⁶⁴ Mr. Martinez, in Pascal Lamy’s Hearings of Commissioners-Designate, European Parliament, August 30-September 9, 1999.

⁶⁵ Pascal Lamy’s Hearings of Commissioners-Designate, European Parliament, August 30-September 9, 1999.

the US to change its policies in the cases of steel and the Foreign Sales Corporation tax scheme, for instance.

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.

Multilateralism

For the power of globalization to be “harnessed,” the second step after creating fair rules of the game is to ensure a multitude of players. Since globalization is, by definition, global, the EU has insisted on expanding the number of members in the WTO. The more members, the more countries subjected to the rules, and therefore the less anarchy in the trading system. The policy consequences have been, first, a priority given to multilateralism over bilateralism and, second, a diminished role of the EU’s influence over the outcomes of international trade negotiations.

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, 149 countries are members of the WTO, and about 30 are involved in negotiations to join in the future. From the time of the creation of the WTO in 1995, the EU has been a champion of enlarging it to more countries as part of its strategy of managed globalization. The EU played an important political role in the admission of China, pushing for its inclusion into the world trading system against American reluctance. It has also pushed strongly for granting membership to Russia, even though these negotiations have not been yet successfully concluded. The EU has also been very instrumental for the inclusion of countries such as Cambodia, Saudi Arabia and Vietnam into the WTO.

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. This is in contrast to the stated policy of “competitive liberalization” in the US during the same time. This policy was based on the premise that the pursuit of small bilateral trade agreements with a host of small economies will help liberalization at the multilateral level by unlocking deadlocks. As a result, the US has engaged into a multitude of bilateral free trade agreements, but critics say that this has occurred at the expense of multilateralism since these agreements

“offer benefits to the few while requiring a substantial amount of investment and political capital to negotiate, legislate, and implement.”⁶⁶

The policy of pushing forward multilateralism in the WTO has actually 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. In addition to its smaller membership, the GATT was also characterized by the preponderant influence of the so-called Quad (EU, US, Japan, Canada). Up until the end of the Uruguay Round in 1994, most of the important decisions were actually negotiated by the Quad, when not by the EU and the US exclusively. The current round of multilateral negotiations in the WTO, the so-called Doha Development Agenda (DDA), is notable above all for the new-found strength of some developing countries, such as India and Brazil, not intent on letting the US and the EU run the show as they did in the previous GATT rounds.

Supporting multilateralism in the name of managing globalization put head-to-head two competing interests of the EU: on one hand, defending its narrowly defined economic interests, such as in the case of agricultural subsidies, which are under attack by a multitude of members; on the other hand, casting the net of global rules over a wider number of countries, therefore harnessing globalization more tightly. The problem for the EU, and for France in particular, is that it does not seem to have prioritized one set of interests over the other. In principle, multilateralism should have a liberalizing effect on the world economy, as long as the clash of interests it reveals does not lead to the ultimate collapse of multilateral trade talks and a retreat to national or regional protectionisms.

Rule-making for Trade and Non-trade issues

Globalization is not only about trade, even though trade is often its most visible face. For the EU, the third tool in the arsenal of “harnessed globalization” has been to bring non-trade issues into the fold of the WTO – the most encompassing global organization for rule-making. This agenda of “trade and” issues was launched in the mid-1990s, with a particular focus on trade and trading conditions, trade and environment, trade and labor laws, and trade and culture.⁶⁷

As Lamy summarized in 1999,

controlled globalization or globalization with a human face are more than mere words. I am seeking, perhaps in vain, an idea which sums up the fact that the range of views which posed no real problems in the past now affect the

⁶⁶ Lael Brainard, “US Shares Blame for Trade Talk Collapse,” *The Washington Post*, July 28, 2006.

⁶⁷ See for instance Robert Howse and Kalypso Nicolaidis, “Enhancing WTO Legitimacy: Constitutionalization or Global Subsidiarity?” *Governance*, vol. 16, no. 1 (2003), pp. 73-94.

environment, the social sphere, culture, and so forth, thereby becoming much more sensitive issues with far greater significance in political terms. Where can this balance be found? I apologise to some when I say that I do not subscribe to the traditional reply, which runs that the balance in these areas is automatic, in that undertakings are given by states alone and when states are parties to several multilateral agreements pertaining to diverse matters or fields, compatibility has, by extension, been achieved, since the same states have given their consent. In other words, it should be supposed that compatibility is a natural product of the consent given by states. Experience has shown that this is not so ...⁶⁸

Trade and trading conditions. The Uruguay Round of GATT revealed the extent to which the nature of trade had changed in the 1980s. The EU wanted the next round of multilateral trade negotiations to take this reality into account, in particular by addressing and establishing rules for the conditions under which trading takes place. During the inaugural ministerial conference of the WTO held in Singapore in December 1996, four working groups were set up to analyze non-trade issues which have a direct effect on trade: competition policy, transparency in government procurement, trade facilitation, and investment protection. The EU later became the champion of including the “Singapore issues” into the multilateral trade negotiations. At the Seattle meeting supposed to launch the Millennium Round in December 1999, the EU insisted on addressing the Singapore issues in the upcoming round of multilateral trade negotiations. When the negotiations failed, the EU reiterated its demands at the Doha conference of the WTO in December 2001, where it pushed strongly again to incorporate the Singapore issues into a broad agenda for the Doha round of negotiations, which were explicitly about further trade liberalization and new rule-making.⁶⁹ At first, the EU seemed to succeed, since the Doha Development Agenda mandated, in addition to negotiations on agriculture and industrial products, negotiations on services, intellectual property, the Singapore issues, and trade and environment.

But the EU did not succeed in imposing its viewpoint about regulating trading conditions (especially the rules about foreign investment) upon the other WTO members, especially the developing countries, which had acquired more voice than ever in multilateral trade negotiations and insisted on retaining control over key sectors of their economy. At the WTO ministerial meeting held in Cancun in September 2003, negotiations collapsed without an agreement in sight. They later resumed in 2004 with all of the Singapore issues, except trade facilitation, dropped from the agenda. However

⁶⁸ Pascal Lamy, Hearings of Commissioners-Designate, European Parliament, August 30-September 9, 1999.

⁶⁹ See http://ec.europa.eu/comm/trade/issues/newround/doha_da/index_en.htm, last accessed August 18, 2006.

they are still on the broader agenda of the WTO, and many EU and WTO trade officials are convinced that these issues will reemerge in the near future.⁷⁰

Trade and environment. It is a fact that globalization affects the environment. The position of the EU since the 1990s has been that trade liberalization and the environment cannot be neatly separated for three main reasons. First, all trading activities affect the environment, which is a global public good. Shipping, hauling, air freighting, all have negative environmental consequences that increase as trade becomes more liberalized. Second, the protection of the environment may sometimes encroach upon free trade and have protectionist consequences. This was shown forcefully in the 1991 tuna/dolphin case in GATT and the 1998 shrimp/turtle dispute in the WTO, both of which showed the rules of international trade being in contradiction with the rules of biodiversity conservation. And third, trade may be the way a particular environmental issue is addressed, such as in the case of the shipment of toxic waste. After some initial political hesitations regarding the conclusion of international environmental agreements in the 1980s, the EU has become a champion of the Kyoto Protocol and other international environmental regulations. Consequently, for the EU, WTO members should clarify the complex interactions between trade and the environment by making rules that will both protect the environment and enable the freer flow of goods.⁷¹ At the Seattle conference in 1999 and later Doha in 2001, the EU went the furthest of all WTO members in pushing for multilateral negotiations linking trade and the environment. But this was firmly opposed by developing countries such as India, concerned that this would be used to justify “green protectionism.”

Trade and labor standards. Globalization also has a visible impact on labor and labor standards, although experts and politicians disagree about the extent or even the direction of such impact. In the late 1990s, both American and European leaders were under growing domestic pressure to address the interface between social development and trade.⁷² For EU policy-makers, promoting the effective application of so-called “core labor standards” was at the center of the agenda of managed globalization. This was also, even more forcefully, part of President Clinton’s agenda of “globalization with a human face” when he declared at the Seattle meeting in 1999 that the US would demand the enforcement of minimum labor standards, complete with the use of sanctions, for trade to proceed. Given the institutional confusion resulting from the existence of the

⁷⁰ See for instance Matthew Baldwin, “EU Trade Politics – Heaven or Hell?” *Journal of European Public Policy*, vol. 13, no. 6 (2006), pp. 926-942.

⁷¹ See for instance Gregory Shaffer, “The World Trade Organization under Challenge: Democracy and the Law and Politics of the WTO’s Treatment of Trade and Environment Matters,” *Harvard International Law Review*, vol. 25, no. 2 (2001), pp. 1-93; and Richard H. Steinberg, “Trade-Environment Negotiations in the EU, NAFTA, and WTO: Regional Trajectories of Rule Development,” *American Journal of International Law*, vol. 91, no. 2 (1997), pp. 231-267..

⁷² Lamy’s Legacy, 2004.

International Labor Organization, which many see as the only competent body to address labor-related issues, and the fierce opposition of the developing world, the EU has toned down its demands for regulating the interaction of trade and labor standards for the moment –now a central reason for criticisms of the EU inside Europe.⁷³

Trade and culture. For many French intellectuals and politicians, the most damaging aspect of globalization has been its adverse effects on culture. Through the progressive liberalization of trade, culture has been commodified and the perception, particularly strong in France, has been that national cultures are not economically equipped to resist the onslaught of American popular culture. Since a level playing field cannot be restored, culture should be protected and even, in some cases, excluded from the normal rules of trade. French policy-makers and intellectuals indeed like to repeat that “culture is not merchandise.” This French policy to regulate the globalization of culture goes back to the 1980s, when France was the main impetus behind the 1984 “Television without Borders” directive of the EU, which mandated a minimum European content of television broadcasting in Europe. Towards the end of the Uruguay Round of GATT, France resisted forcefully American attempts to include cultural goods and services as part of the multilateral trade negotiations, leading to an almost collapse of the whole deal in 1993. It is then that it developed the concept of “cultural exception” according to which culture cannot be subjected to the laws of the market. During the 2000 Inter-Governmental Conference designed to revisit the European Union treaty, France managed to enshrine the principle of cultural exception within the new Nice Treaty in the new treaty articles related to the competences over trade policy.⁷⁴ For French policy-makers, the next step in regulating cultural globalization was to enshrine the principle of cultural exception at the global level. France was the main impulse behind the multilateral negotiations started in UNESCO negotiation, which led to the adoption of the “Convention on the Protection and Promotion of the Diversity of Cultural Expressions” in October 2005.⁷⁵ After two years of intense negotiations sponsored by France and Canada, who initially hoped to secure a wholesale exemption of cultural products from the WTO, the treaty was passed by 148 votes for and 2 against (the US and Israel).⁷⁶ It allows countries, in certain cases, to use subsidies, quotas and

⁷³ See for instance Dirk de Bièvre, “The EU Regulatory Trade Agenda and the Quest for WTO Trade Enforcement,” *Journal of European Public Policy*, vol. 13, no. 6 (2006), pp. 851-866; and Daniel Drezner, “Bottom Feeders,” *Foreign Policy*, no. 121 (2000), pp. 64-70.

⁷⁴ Sophie Meunier and Kalypso Nicolaidis, “Revisiting Trade Competence in the European Union: Amsterdam, Nice, and Beyond,” in *Institutional Challenges in the European Union*, ed. Madeleine Hosli, Adrian van Deemen, and Mika Widgren (New York: Routledge, 2002).

⁷⁵ http://portal.unesco.org/culture/en/ev.php-URL_ID=11281&URL_DO=DO_TOPIC&URL_SECTION=201.html, last accessed August 23, 2006.

⁷⁶ <http://www.ictsd.org/weekly/05-10-26/story4.htm>

other measures to support domestic cultural products in the name of “cultural diversity.”

Of all the attempts by France, and more broadly the EU, to frame globalization within a set of rigid rules, the one purporting to culture may be the one with the least liberalizing effects as it exempts some cultural goods and services from the reach of free trade. The interactions between the UNESCO treaty and the WTO remain to be tested, however.

Exporting the EU Model in Trade

Many French and European policy-makers believe that the EU is itself an experiment in managed globalization. Therefore, the fourth step in implementing this doctrine in global trade is to export the EU model to other regions.⁷⁷ As Lamy 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.”⁷⁸

The 2004 enlargement of the EU to ten new countries, with yet more to come, is of course an extreme form of expanding the EU model of managed globalization. But it has obvious geographical limits. Another strategy has been to conclude trade agreements between the EU and other regions, subject to certain conditions, such as accepting some social, environmental or even human rights rules.⁷⁹ This strategy has had a clear liberalizing effect on world trade. For instance, trade between the EU and Mediterranean countries has risen by 35% between 1999 and 2003. Yet it may also come in conflict with the other pillar of the doctrine of managed globalization, namely multilateralism.

⁷⁷ Sophie Meunier and Kalypso Nicolaidis, “The EU as a Conflicted Trade Power,” *Journal of European Public Policy*, vol. 13, no. 6 (2006) pp. 906-925; and Mary Farrell, “From EU Model to External Policy? Promoting Regional Integration in the Rest of the World” in *Making History: European Integration and Institutional Change at Fifty*, ed. Sophie Meunier and Kathleen R. McNamara (Oxford: Oxford University Press, forthcoming 2007)

⁷⁸ Pascal Lamy, “Trade Policy in the Prodi Commission 1999-2004: An Assessment” European Commission, November 19, 2004 (also known as “Pascal Lamy’s Legacy”).

⁷⁹ Emilie Hafner-Burton, “Trading Human Rights: How Preferential Trade Agreements Influence Government Repression,” *International Organization*, vol. 59, no. 3 (2005), pp. 593-629; and Meunier and Nicolaidis, “EU as a Conflicted Trade Power,” pp. 914-915.

Redistributing the Benefits and Costs of Globalization

Finally, managing globalization means not only building a framework of rules within which trade can occur, but also redistributing its costs and benefits. In principle, it is an extension of social democracy at the global level.

The stated cornerstone of the EU's trade policy since the launch of the Doha Round in 2001 has been to distribute fairly the benefits of globalization, using trade liberalization to improve the economic development of the least advanced countries. This explains some recent EU trade initiatives, such as the 2001 "Everything But Arms" policy, the "Access to Essential Medicines" policy designed to improve the affordability of medicines in developing countries, and the new Generalized System of Preferences (GSP) for developing countries adopted by the EU in 2005.⁸⁰ The main problem of this European commitment to using trade to foster development is that it runs head-to-head against some traditionally protectionist interests, especially in agriculture. This clash of interests is particularly apparent in the current round of multilateral trade negotiations in the WTO, also named "Doha Development Agenda."

European policy-makers have also been under intense pressure to deal with the redistributive effects of globalization inside Europe. In 2005, in the wake of the French referendum and a wave of layoffs in France by multinational companies (especially Hewlett Packard), French president Chirac criticized the EU for being impotent in the face of globalization-induced job loss. At the Hampton Court EU summit in December 2005, the 25 EU leaders agreed to accompany liberalization with redistribution in the form of a "globalization fund", in order to harness the negative effects of globalization. In March 2006, the president of the EU Commission, José Manuel Barroso, announced the creation of a European fund specifically designed to ease the adjustments imposed by globalization.⁸¹ The European Globalization Adjustment Fund, supposed to start operating in January 2007, will help to train and relocate about 50,000 workers a year throughout Europe when their jobs are lost to the dynamics of global trade. It will provide retraining, job search assistance and the promotion of entrepreneurship with an annual budget of 500 million euros.

Overall, French and European efforts to codify the rules of globalization in trade over the past two decades have been a mitigated success. France was adamant about framing trade with coercive rules, and to a large extent this has been achieved. The dispute settlement capacities and the true multilateralism of the WTO are textbook-managed globalization. Yet this has come at a price for the EU, which in a way has

⁸⁰ On the new GSP, see http://ec.europa.eu/trade/issues/global/gsp/index_en.htm, last accessed August 25, 2006.

⁸¹ James Kanter, "EU fund to ease globalization pain," *International Herald Tribune*, March 1, 2006; "José Barroso relance son projet de fonds européen d'ajustement à la mondialisation," *Le Monde*, March 1, 2006.

become the victim of its own success in the WTO. Establishing the rules of the game has indeed enabled greater trade liberalization, but also deprived the EU of some leverage for achieving further rule-making in the areas immediately juxtaposed to trade, while at the same time revealing some of the fundamental tensions between competing EU interests.

The Rhetoric of Managed Globalization: Misunderstandings and Double-Talk

The doctrine of managed globalization has been welcomed with some reticence, especially in the United States, but nowhere has it aroused much passion or known a stellar political fate – except in France. “Managed globalization” as a phrase, if not a doctrine, has been used widely in the French political and intellectual discourse since 1999. Yet much of this use was indeed abuse. The concept of managed globalization has been grossly misinterpreted over the years and its meaning has evolved to signify taming and even halting liberalization, instead of promoting it within a regulated framework as in its original conception. How can this paradox be explained?

Managed globalization was for the French a way to regain control over a phenomenon that precisely seemed out of control and without alternative. Under the Mitterrand presidency in the 1980s and especially during the tenure of Lionel Jospin as prime minister from 1997 to 2002, the French Left liberalized France itself more than the Right could or would have done. And the Left’s invention of the doctrine of managed globalization led to a more liberal world economy than even the United States could have promoted through *ad hoc* globalization. The Left’s promotion of the marketization of social life both within and without France created a widespread sense that there were few alternatives available to societies in this era of globalization, and that even the traditional dialectic of Leftist social democracy and Rightist market efficiency had been replaced. In its stead, a seemingly unavoidable uniqueness of thought, *la pensée unique*, is available to French voters.⁸² This apparent absence of choice has left the French electorate anxious about how it is represented and the degree to which its policy makers have been ostensibly insensitive to their anxieties about the globalization of markets.⁸³ “By promoting market competition at home,” writes Peter Hall, “but deploring the effects of globalization, political leaders have inspired a diffuse sense of hypocrisy that feeds cynicism about the political class.”⁸⁴

⁸² See for instance François Furet, Jacques Julliard, and Pierre Rosanvallon, *La République du centre* (Paris: Hachette, 1989); Jean-Francois Kahn, *La Pensée unique* (Paris: Fayard, 1995).

⁸³ See Suzanne Berger, “Representation in Trouble,” in *Changing France*, ed. Culpepper, Hall, and Palier, especially pp. 283-287.

⁸⁴ Peter A. Hall, “Introduction,” in *Changing France*, ed. Culpepper, Hall, and Palier, pp. 19-20.

France has undergone tremendous change in the past two decades.⁸⁵ Most of the traditional tools of state control over the economy have disappeared: price and credit control, monetary policy, and to a large extent industrial policy. At the same time, France has become a very open economy, mostly but not only to the rest of Europe. Open in terms of trade, but also in terms of investment. Managing globalization was seen as the answer to the chaos, a reassurance that the French economy could still be centrally managed. Many of those voters on the Left have been reassured that their representatives have been engaged with their concerns about the consequences of marketization and globalization by “harnessing,” “mastering,” and “managing” globalization. That is, the doctrine is often invoked as the French way of tempering, moderating, or even undermining globalization.⁸⁶ Yet these stories of liberalization and bureaucratization in trade and finance reveal that the doctrine and its derived policy stances have done very little to undermine globalization. Rather, France and Europe have been responsible for a great deal of liberalization and globalization.

Despite the early efforts of Delors and Lamy, the French Left has undertaken two inconsistent approaches to globalization over the past decade. On the one hand, some policy makers of the Left have employed the rhetoric of “managed globalization” to imply their distrust of the phenomenon, when in fact its practice has been the embrace of more global markets subject to a collection of new rules. As Lionel Jospin explained in 2001: “Political globalization remains to be built: it is regulation. Everywhere where the law of the strongest might apply, where private interests may be damaging to the general interest, where the quest for short-term profit weakens social justice and damages the environment, states have to define the “rules of the game”. Through cooperation and in a multilateral framework, states must build an international regulation architecture.”⁸⁷ Yet the process of managing globalization has hardly been illiberal. Although socialists have been left with the impression that France is leading the charge against globalization, liberalization, and marketization, in fact France has, with the exception perhaps of the United States and Germany, done more than any other country to make our current era of globalization possible.

These socialist policy-makers also used the rhetoric of managed globalization as a way of masking the real adaptation of France to the global economy. The French double-talk on managed globalization started in the late 1990s, while the Socialist government accelerated the privatization of state enterprises, significantly cut France’s historically high rate of taxation, and made France home to the world’s second highest volume of executive stock options. At the same time, the Jospin government covered its

⁸⁵ See for instance Schmidt, *From State to Market*; Gordon and Meunier, *The French Challenge*; Culpepper, Hall, and Palier, eds., *Changing France*.

⁸⁶ See Gordon and Meunier, *The French Challenge*, chap. 6.

⁸⁷ Lionel Jospin “Maitriser la mondialisation”, speech of April 6, 2001 in a symposium organized by the Candido Mendes Center and the Brazilian Center of International Relations

tracks with such apparently managed globalization measures as the 35-hour workweek and the en-masse trek of government ministers to the successive Social Forum in Porto Alegre, widely applauded by the French public.⁸⁸

On the other hand, other French Leftists have adopted a more nostalgic, and increasingly anachronistic, approach to the problem of globalization. “Managing globalization” could also, in some cases, mean rejecting globalization. Between 1998 and 2002, a powerful anti-globalization (later self-called “alterglobalization”) movement developed in France, culminating in the unexpected success of the Trotskyist candidates in the 2002 presidential election. The organization ATTAC (Association pour la Taxation des Transactions pour l’Aide aux Citoyens) founded in 1998 is the most emblematic of this alternative vision of globalization, whose motto is that “another world is possible.” It, too, favors managing globalization through rule-making, but mostly global taxation, such as its proposed famous “Tobin tax” on international financial transactions. ATTAC’s main themes were later picked up by some of the most prominent politicians. By 2002, ATTAC had a membership of 30,000 and its omnipresence in the media had managed to impose its vision of globalization in the French public, even though internal infighting and the diffusion of its ideas into the mainstream political discourse have today reduced its intellectual and political influence.⁸⁹

Bernard Cassen, head of ATTAC, was pointing to the liberalizing effects of “managed globalization” in his criticism of Pascal Lamy, then EU trade commissioner: “Lamy holds exactly the same discourse as Chirac. While spending his time asking the French to adapt to globalization, he tries to make believe that he does the maximum to limit its effects. He should carry a card from *Democratie Libérale*, Alain Madelin’s party, since there is not a hair of difference between them.”⁹⁰

Cassen, however, misses the point that it is not only Lamy who sounds like Chirac, but also Chirac who sounds like Lamy. Embracing the rhetoric of managed globalization has not been limited to the Left. In many ways, the discourse of Chirac has been almost interchangeable with the discourse of Jospin and Lamy on the issue. Indeed, Chirac has never openly embraced market liberalism in discourse, and even today, the ambiguities are clear in the message of the Villepin government. On the one hand, Villepin acknowledges that France needs more flexibility in its labor market as a result of globalization. But this is taking place in parallel to praise for his new concept of “economic patriotism” –a new form of industrial policy which seems to run counter to the spirit (and the law) of the European Union. With his rhetoric of “globalization with a

⁸⁸ Meunier, “France’s Double-Talk on Globalization.”

⁸⁹ See Sylvia Zappi, “ATTAC en perte d’influence chez les altermondialistes,” *Le Monde*, June 16, 2006.

⁹⁰ Quoted in Romain Gubert, “Les quatre vérités de Lamy,” *Le Point*, no. 1613, August 15, 2003, p. 18.

human face,” the rightist Chirac has preached the managed globalization gospel all around the globe and has worked closely with Brazilian president “Lula” da Silva on several globalization-related projects. In July 2006, France even implemented a tax on airline tickets (also known as the “Chirac tax”) to fight poverty and disease in Africa – a way of redistributing the costs of globalization.

These French ambiguities over globalization surfaced during the divisive debate over the referendum on the EU. On the Left as on the Right, the partisans of the “yes” argued that the EU was the best tool at France’s disposal to manage globalization and that the proposed EU constitution would lock in this doctrine for the future. By contrast, the partisans of the “no” argued that the EU had abdicated its responsibilities in the face of the onslaught of neo-liberal globalization and that another Europe, one that recognizes that “the world is not a merchandise,” was possible.⁹¹ Interestingly, both camps have taken ownership of the doctrine of managed globalization. These ambiguities will likely resurface again during the campaign for the 2007 presidential election, especially since the Socialist party has adopted in August 2006 a platform filled with references to “managed globalization,” while remaining, at least in rhetoric, one of the most staunchly anti-liberal party in Europe.

Conclusions: Globalization and European Integration

The most familiar face of globalization today is the Starbucks in Malaysia, the ubiquitous toy manufactured in China, or the Indian worker answering credit card questions in Mumbai. Rarely does France, or even Europe, factor in the picture that the general public has about globalization. And yet, without French leadership and European integration, the world economy would be much less globalized than it is today. Although the United States and United Kingdom promoted the *ad hoc* globalization of markets for goods, services, and capital, that process already had run up against political limits during the early 1980s. Then, the emergent French doctrine of managed globalization, combined with the longstanding German insistence on market-based harmonization and market-tested policy making, helped to create a world economy that was simultaneously bureaucratized, organized, and liberalized. In so doing, the French have made their mark on globalization.

The 2005 referendum on the European Constitution and the subsequent calls for “economic patriotism” make it harder for France to shape the globalization agenda today, both within Europe and within international institutions. However, since the tools for managing globalization have been institutionalized throughout the 1980s and 1990s, France no longer needs to play a central role for its goals to be pursued by the international community – they are locked in the international institutions for trade and

⁹¹ José Bové and Francois Dufour, *Le Monde n’est pas une marchandise* (Paris: La Découverte, 2001).

finance. In addition to a strong apparatus for rule-making, the French-inspired doctrine of managed globalization has also empowered international organizations to speak, in principle, on behalf of all those countries that are not the world's lone hyperpower. "Unharnessed globalization," Lamy argues, "is an export of American values without going through any negotiation phase. Harnessed globalization is much more consensual."⁹²

Other consequences of the codification of the norms of trade openness and capital liberalization have followed, and it is not clear that such effects were intended or even anticipated. These newly liberal rules have constitutive consequences, defining the very practices that define what "developed" and "European" states are. These rules have thereby delimited the boundaries of legitimate policy making, and many of the traditional tools of the post-war Left – selective protectionism, capital controls, and the like – have through the process of codifying and managing globalization become illegitimate for those countries that seek to be recognized as full members of the international community. The "script" for "developed" and "European" policy makers has been, as a consequence, rewritten.⁹³ After the collapse of state socialism during the late 1980s and early 1990s, those central and east European states that looked toward the OECD and EU for guidance on how to organize their economies found a collection of practices and rules that were more liberal even than those in which the post-war world economy had flourished during the 1950s, 1960s, and 1970s. Central and east European policy makers eagerly embrace these norms not because Paris and Brussels demanded, but because the definitions and scripts already were clear. Compliance was necessary for recognition and, ultimately, for membership, as the OECD and EU expanded during the 1990s and early years of the new century.

Thus, the doctrine of managed globalization created a world economy that is more democratic and consensual, governed by international organizations in which European and developing countries at least have some voice and influence. But the very rules that empower those organizations have helped to delegitimize alternatives to a liberal orthodoxy that has since become less a collection of beliefs, and more a fact of law. The *acquis* is now also a mechanism for the expansion of liberalism. As goes Europe, so goes globalization.

⁹² Meunier's interview with Lamy.

⁹³ See, for example, Frank Dobbin, "The Sociological View of the Economy," in *The New Economic Sociology*, ed. Frank Dobbin (Princeton, N.J.: Princeton University Press, 2004); and Michael Barnett and Martha Finnemore, *Rules for the World: International Organizations in Global Politics* (Ithaca, N.Y.: Cornell University Press, 2004).