



Europe and global governance

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Backdrop



reforming global economic governance

An Unsettled Order

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ECONOMICS
IN THE
REAL WORLD

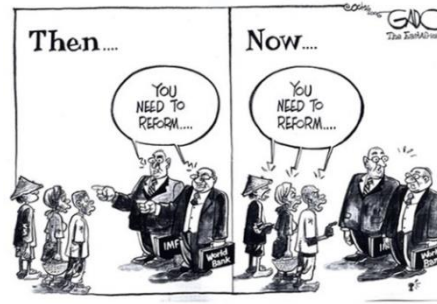
- ✓ Radical, unsettled reform in governance
- ✓ **Features:** Fragmentation, Purposeful experimentation, Inter-connectedness, Concern for inclusiveness - social media revolution

Pervasive reform

✓ G7 →

G20

✓ IMF →

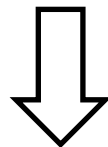


✓ MDBs

- More power in the "old"
- Creation of two new ones

✓ FSF →

FSB and SSBs *with* the new powers as members



Weak role of Europe

Outline

What is Europe?

- **Geography / Council of Europe / European Union / Euro-area**

Ineffectiveness of European external representation

- **Long tradition**
- **Missed opportunities in global governance reform**
G20; IMF reform

Three Misconceptions

(and EU decision-making does not help)

- **Global nationalism**
- **Fight with the Joneses**
- **Conflicting national interests**

The decline is not inevitable

- **Start with better representation in IFIs**
- **A stronger Europe is good for the world too**

What is Europe?

- ✓ Geography / Council of Europe / European Union / Euro-area
- ✓ Unprecedented experiment of monetary integration embraced by some of the European countries (*sharing a single currency while retaining decentralized budgetary policies*)
- ✓ A stronger Europe implies: *The acceptance of relinquishing (some) national sovereignty, while maintaining cultural identity and basic democratic self-determination*

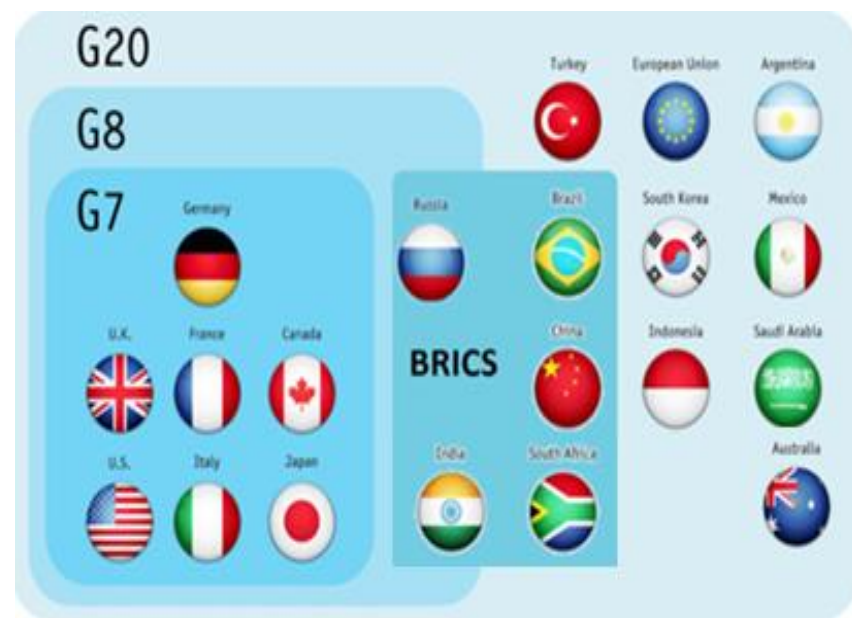


The long tradition of punching below one's weight

- ✓ **Europe's weakness as international power has its roots in the aftermath of the WWII:** The economic embodiment of the *pax Americana* and the *Bretton Woods system*
 - **Ikenberry:** US power in Europe was “an empire by invitation”
 - **De Gaulle:** Bretton Woods architecture was considered “abusive and dangerous”
 - **Kissinger:** “Who do I call when I want to call Europe?”
- ✓ **G7 – Centre of global economic governance:** European participation was a *national* prerogative to promote *national* interests → G20 and the FSF
- ✓ **Treaty of Lisbon (2007):** Major innovations in EU's external representation
 - EU legal personality
 - A new Brussels-based troika

Missing a crucial opportunity – G20

- ✓ The great financial crisis: **G7 → G20**
(key global forum)
- ✓ Intra-European differences:
 - Rhine divide: macroeconomic policy
 - Channel divide: financial policy
- ✓ May 2010 (*controversial decision on the first rescue package for Greece*)
→ European sovereign crisis



→ **Europe's nationally-centred behaviour caused it to miss a crucial opportunity to shape the global governance reform in G20**

Missing a crucial opportunity – IMF

- ✓ Weak role in re-shaping IMF governance reform
 - Paradoxical coexistence of high representation (quotas, chairs) and poor influence
 - Backward looking and divided position vis-à-vis rebalancing demands of new powers
 - Reduction of “1,64 chairs” in the board
- ✓ IMF and the European crisis
 - European inability to bridge differences → IMF involvement (*Tangled governance*)
 - A new troika (*IMF, ECB, Commission*)
 - “Systemic clause” perceived as an act of overbearingness (although it could be useful)

Three Misconceptions

Single European position still struggling... *The European external interests and the best national interest are not the same*

An attitude rooted in 3 entrenched convictions

Nationalism
(resurgent)

Global nationalism

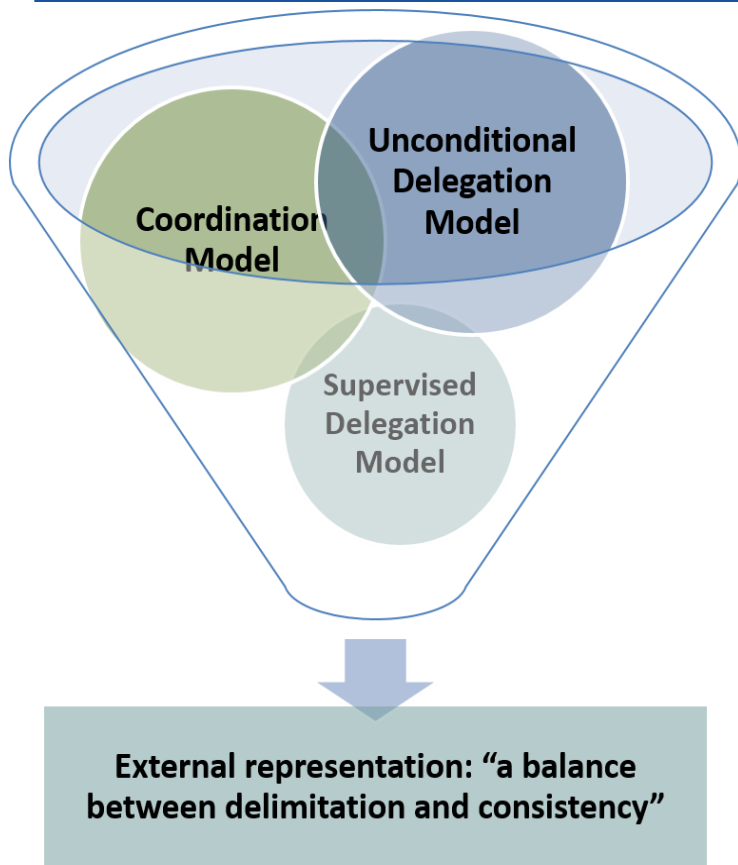
Economic and
cultural
differences

Fight with the Joneses

Contrasting
economic
interests

Economic conflicts

European decision-making does not help



- ✓ **Multi-layered intricacy of European decision-making processes**
- ✓ The “**leadership paradox**”: The “hydra-headed” nature of the external representation of the EU
- ✓ The **Lisbon Treaty’s** tempered by the veto powers of MS
- ✓ Models overlapping → complex governance: “**Intensive transgovernmentalism**”
- ✓ Long time recognition of EU decision-making complexity, with its deep-rooted motivations... (ToRs: single European position – *ambiguous, not legally binding, yet formal*)

Kissinger: “Who do I call when I want to call Europe?” → **Complex and topic-dependent**

The decline is not inevitable

***Ideology and nationalism may,
but need not, prevail***

Start with stronger European representation in IFIs

- ✓ **No need for legislation changes**, only political good-will and determination
→ method of constituencies in IFIs applied to Europe
- ✓ Viable, not utopian wishful thinking
(e.g. **Single euro-area chair** in the AIIB - "just do it" approach)
 - **Flexible** in its implementation (easily adopted in other IFIs), and
 - Highly **symbolic** message for European unity and common resolve
- ✓ **Effective in strengthening European clout in global governance reform** and in decision-making
- ✓ Crucial significance of a single seat in the *IMF board*:
 - Radical alteration of voting equilibria (**Veto power**, like the US)
 - Strong significance in geopolitical equilibria



A more effective Europe is good for the world too

- ✓ A more **united** and **stronger Europe** would not only benefit the defence of its interests ...
- ✓ ... but it would also **improve global governance quality**
 - Diffuse **EU socio-economic model** features (*social-welfare, democratic participation, equitable and fair economic integration*)
 - Improve world stability and financial resilience (***multipolar systems more stable than bipolar configurations***)
 - Foster the emergence of a more **balanced international financial architecture**
 - **Euro** as a potential reserve currency which could help smooth adjustment of outstanding stock imbalances

Conclusion

- ✓ Long tradition of ineffective external representation, reflecting the idea that European and national external interests differ
- ✓ This notion is based on three misconceptions which must be corrected
- ✓ Europe's nationally-focused behaviour caused it to miss a crucial opportunity to contribute to shaping the global governance reform (G20, IMF)
- ✓ Yet Europe's declining influence is not inevitable
- ✓ *Single chair* in IFIs is the first step to raise Europe external profile. It is viable, not just wishful thinking – single euro-area chair in AIIB
- ✓ A more united and effective Europe in global governance would be beneficial to world prosperity