Europe and global governance

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Backdrop

- Radical, unsettled reform in governance

- **Features**: Fragmentation, Purposeful experimentation, Inter-connectedness, Concern for inclusiveness - social media revolution
Pervasive reform

✓ G7 ➔ G20
✓ IMF ➔
✓ MDBs
✓ FSF ➔

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

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

  - 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)

**Economic and cultural differences**

**Contrasting economic interests**

*Global nationalism*  
*Fight with the Joneses*  
*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
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