

Book Review

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Global Governance and the Role of the EU: Assessing the future balance of power
by Carlo Secchi and Antonio Villafranca (eds)

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In seeking to analyse the impact of the global financial crisis on Europe and its subsequent place in global economic governance, both editors and contributors to this new collection of essays set themselves two main challenges. The first is to identify the political and economic conditions under which sustainable growth can be achieved and the governance structures appropriate to support that. The second is the role that Europe should play in this arena in the future. The difficulty of meeting these should not be underestimated. The obvious complexity of national, regional and global financial relationships and interactions has been made manifest in recent years, not least by the frequently inadequate and incoherent policy responses to the crisis, particularly within the Eurozone. In addressing the first challenge, this volume provides an analysis that combines depth and sophistication with a broad level of agreement on the causes of the crisis, and on the economic and financial forces which continue to drive it, particularly from a European perspective. In meeting the second, mapping out an appropriate role for the EU in global economic governance structures, it is unfortunately less convincing.

Franco Bruni's initial examination of the governance of the global economy provides a useful starting point. He sees the roots of the crisis not in the US sub-prime mortgage sector, but in Europe's inefficient and nationally-segmented financial supervision architecture. While it is perhaps too much to blame this on a failure of integration per se, there were fundamental flaws in Europe's "monetary constitution". In particular, there was a clear disconnect between the requirements placed on Eurozone members by the Stability and Growth Pact, and the inability or unwillingness of national supervisory authorities to ensure these were met. This highlights the key systemic defect: the decentralisation of prudential powers left national authorities to determine what structures they would implement while the ECB, surely best placed to act in this regard, had no responsibility for financial regulation or supervision. In his policy prescriptions, Bruni therefore calls both for the ECB's remit to be broadened and for a new global financial and economic architecture – a "new Bretton Woods" – that builds on the G20's work thus far, and involving a "deeply reformed" IMF. However, while noting the ongoing challenge over enforcing supranational decisions, he offers no real answer to what is essentially a political problem: how the relationship between independent technical bodies and elected national politicians will work.

Following on from this, Jacques Mistral assesses the importance of renewed transatlantic cooperation, particularly given America's relative decline and inability to exercise the global leadership it once did. Important differences in European and American perspectives on the causes – systemic failure versus a broad failure of human judgement

– and on the best macroeconomic solutions – premature tightening versus uncontrolled stimulus – make such co-operation difficult. However, agreement is essential if destabilising regulatory competition is to be avoided and a new system that balances market efficiency and supervisory security is to be constructed. Mistral is careful to locate such transatlantic co-operation within the wider context of an increased role for the G20 in facilitating “workable convergence”. Even so, he contends that unless this particular relationship, representing an “acquis atlantique”, is made to work, both sides will find it very difficult to construct a rules-based system through which the rise of the emerging powers can be managed. The unspoken message is that time is running out, as evidenced by the global list of Top 100 banks in which $\frac{1}{3}$ of the institutions listed are now from emerging economies. The problem, though, remains one of political will.

In juxtaposition to this, Xiaozu Wang analyses China’s place in the emerging global economic order, highlighting the obvious political will demonstrated by central government in promoting economic growth while preventing instability. Although the specific insights are interesting – for example the emphasis in the current 5 Year Plan on achieving higher value-added and more environmentally-friendly outputs – there is little on the wider impact of China’s growing economic power. Beyond a re-statement of the generally accepted view that China is now an even more important global economic actor, Wang remains silent about what this means for global economic governance, or the role and responsibilities China might envisage for itself. Moreover, given that this volume seeks to analyse Europe’s place in these governance structures, some insights into the relationship between China and its European partners would have been instructive. Whilst it is reasonable to expect that such questions are still under discussion in Beijing, an opportunity has been missed here to incorporate a Chinese perspective on what the country’s growing economic dominance will mean for itself and the rest of the world.

Addressing specifically European questions, the remaining chapters consider the range of problems facing the Eurozone, including the increasing divergence in economic performance between Eurozone members; the need for more effective external representation of the EU, including the perennial lack of a “single voice” in Europe’s negotiations with its global partners; low growth; and the sovereign debt crisis.

For Vanessa Rossi, internal divergence is a reality Eurozone members must now accept, however significant the likely policy and political implications. China is likely to overtake France as Germany’s major trading partner, and income inequality between states is expected to grow. At the same time, Eurozone countries may have little choice but to accept more intrusive supervision and surveillance of their economies and finances, something which again raises significant political issues. However, while accepting the importance of reforms, Carlo Altomonte et al. are wary of creating an institutional framework which might “impose a straight-jacket” on growth and leave Europe marginalised globally. Indeed, they suggest that there has been too great a focus on short-term financial stability in the Eurozone as opposed to structural reforms that will enhance the growth which they contend remains “the only definitive cure” for Europe’s current ills.

Divergence is also central to Daniella Schwarzer’s and Fabian Zuleeg’s contributions. As a consequence of the crisis, Schwarzer sees the old east-west European divide now replaced by a north-south split. However, if the strategic consequences of Europe’s relative economic decline are to be mitigated, particularly its potential loss of influence

when negotiating future economic governance structures, further economic integration is perhaps the only realistic choice. Moreover, this must go hand-in-hand with more effective external representation – meaning greater pressure on Member governments to pool their strength and speak with one voice, despite the opposition of some to surrendering national positions in international fora such as the IMF. For Zuleeg, meanwhile, the central question is whether divergence is temporary or long-term. He locates this within a broader range of policy challenges including an ageing population, increasing global competition (particularly for natural resources), and the cost of mitigating climate change, all of which have been exacerbated by the crisis. But given the difficulty for Europe in generating future growth, it must use all the tools at its disposal, particularly to develop human capital and achieve a level of investment in weaker countries that enables them to catch up with the richer core.

In the final chapter, Antonio Villafranca considers the EU's governance role in the context of climate change policy. Reiterating the argument for improved external representation, he identifies this as a policy issue where Member States have a "big incentive" to negotiate collectively at the global level. However, while Europe can claim to be a genuine leader in this area, concerns remain among Member States that their mitigation efforts may actually hamper growth while external partners gain a competitive advantage. Consequently he calls for a new, more coherent governance model to replace the "increasingly confused" interaction at global level, and incorporating the G20 as well as supporting an OECD market in carbon. Most importantly, it must be accepted by emerging economies and address properly the issue of burden-sharing, both past and future. While some of Villafranca's assumptions might be questioned, particularly over the willingness of European states to reduce their over-representation in key international institutions, his analysis is comprehensive in terms of identifying the problems facing the EU, the governance role it could conceivably play in this field, and how this might be achieved.

Overall, this volume makes a significant contribution to our understanding of the origins of the crisis and how it has manifested itself in Europe. However, given the broad consensus on issues such as economic diversity, external representation, low growth and the decline in European (and American) influence, it is disappointing not to have more on Europe's place in the emerging global economic order. This is never really tackled satisfactorily, although this in itself is indicative of the difficulty posed by this issue. Thus, while this book takes us a long way down the path it sets itself, ultimately it is not quite far enough.
