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# The OECD and Transnational Governance



# Introduction

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This book brings together a diverse group of students of public policy and international relations (IR), working from different perspectives within these fields to understand the role of the Organisation for Economic Co-operation and Development (OECD) in transnational governance. The contributors avoid the constraints of “methodological nationalism” (Taylor 1994; Brenner 2004) and posit that although nation states still make policy, they do so in the context of an increasingly dense web of transnational networks, operating at different scales. International organizations such as the OECD function as important nodes in these networks, which, taken as a whole, constitute an uneven (and contested) system of transnational governance.

Why focus on the OECD, a little-studied international organization that has been variously described as a “rich man’s club,” an international think tank, or even a “shared state apparatus” (Dostal 2004)? After all, in contrast to the International Monetary Fund (IMF) and the World Bank, the OECD lacks the power to enforce compliance with its decisions. The OECD does, however, operate as an important site for the construction and dissemination of transnational research and policy ideas embracing a wide range of contemporary issues, as the chapters in this volume indicate. More broadly, the OECD is a “purveyor of ideas,” and ideas play an important role in contemporary transnational governance. Institutions and interests (of nation-states, international organizations, and social forces) are important, but ideas also play a critical role. In the broadest sense, transnational norms identify what a modern state “is,” and thus sanction appropriate modes of internal and external conduct. In policy terms, the ideas sanctioned by international organizations help to identify problems and to map out the range of “best practice” solutions. Yet, as the chapters in this volume show, this is by no means an uncontested process.

Unlike the United Nations’ or the World Trade Organization’s large membership of predominantly states from the global South, the OECD’s membership is small, currently limited to thirty countries.<sup>1</sup> Its membership includes

the United States and Japan and the other advanced capitalist states, to whom the nature of its membership – “rich nations’ club” – makes it attractive as an alternative forum for dealing with contentious issues, in comparison with international organizations with a broader membership base. The OECD played a significant role in the construction of the postwar world order, helping to lay the basis for the economic unification of Western Europe and also to constitute the North Atlantic bloc. As this postwar order unravelled, the OECD altered its horizons geopolitically through the expansion of its membership, incorporating former members of the Soviet bloc and a leading “Asian tiger” (South Korea). It also intensified its “outreach” activities, especially to the major economies of Asia and Latin America. The current Secretary-General aims to make the OECD a “globalization hub.” Accordingly, at the 2007 meeting of the Council of Ministers, the OECD extended an invitation to Chile, Estonia, Israel, Russia, and Slovenia, while recommending increased engagement, as part of the Group of Eight (G8) Heiligendamm process, with Brazil, China, India, Indonesia, and South Africa.

### **Transnational Governance**

In both international relations and policy studies, and much of modern social science,<sup>2</sup> the dominant approaches have long been rooted in a “methodological nationalism” – the assumption that “all social relations are organized at a national scale or are undergoing processes of nationalization” (Brenner 2004, 28). Increasingly, however, policy studies have come to recognize the importance of international and transnational policy transfer and policy learning. The increased incidence of policy transfer is seen partially as a product of advances in the ability of information communication technologies to diffuse information rapidly across time and space, and partially as a consequence of the increasing coordination of policy through international arenas. As Dolowitz and Marsh (2000) suggest, policy transfer involves “a process in which knowledge about policies, administrative arrangements, institutions and ideas in one setting ... is used in the development of policies, institutions and ideas in another setting” (2000, 5). The policy transfer literature draws attention to the ways in which seemingly closed national policy routines can be “disrupted” by the policy prescriptions of international and supranational organizations, as well as the expertise supplied by transnational consultants (Stone 2003). In some accounts, lesson drawing is considered a rational, voluntary activity, in which learning “starts with scanning programmes in effect elsewhere, and ends with the *prospective evaluation* of what would happen if a programme already in effect elsewhere were transferred here” (Rose 1991, 3). Dolowitz and Marsh, however, raise the important question of the extent to which transfer is always “voluntary” or even necessarily “rational.”

For students of international relations, nation-states have operated as the core organizing principle since the Treaty of Westphalia (1648) sanctioned the organization of the world into territorially exclusive, sovereign nation-states. For neo-realists, the state remains the central actor in a largely anarchic state system, and power, understood primarily in military and diplomatic terms, is seen as the most important factor in world politics.<sup>3</sup> “Neo-liberal institutionalists” within international political economy (IPE) posit that international organizations are necessary to assist states in achieving their ends (Hobson 2000, 102-3), a perspective retained even by those versions of the approach that emphasize a networked world order (e.g., Slaughter 2004). Mainstream IPE has been increasingly challenged by neo-Gramscian and social constructivist approaches. While the power of transnational capital is highlighted by neo-Gramscians, they, along with social constructivists like Keck and Sikkink (1999), recognize the importance of social movements that increasingly operate beyond the national scale. Nor is the contemporary world (dis-)order understood as consisting simply of nation-states and transnational social forces.

The twentieth century witnessed the proliferation of international organizations, and these are more than “empty shells or impersonal policy machinery to be manipulated by other actors” (Barnett and Finnemore 1999, 704). As a result, interest has grown in “global” (Wilkinson et al. 2002; Wilkinson 2005), “transnational” (Djelic and Sahlin-Andersson 2006a), or “multi-level/scalar” (Hooghe and Marks 2001; Jessop 2003) governance. The term “transnational” will be used in this volume as it captures the complex patchwork of networks, operating at variable scales, that together comprise the contemporary system. As Djelic and Sahlin-Andersson argue, “‘transnational governance’ suggests entanglement and blurred boundaries to a degree that the term ‘global’ could not ... Organizations, activities and individuals constantly span multiple levels, rendering obsolete older lines of demarcation” (2006b, 4). Similarly, Robert Cox has argued that “the old state system is resolving itself into a complex of political-economic entities: micro-regions, traditional states and macro regions with institutions of greater or lesser functional scope and formal authority” (2005, 149). In other words, transnational networks, whether supranational structures like the European Union or the much more limited North American Free Trade Agreement, define a new porous and variable territoriality, (macro-)regional in scope. At the same time, cities and other subnational governments have gained a new international visibility as centres of important “micro-regions” or as “global cities.” Nation-states still matter, but their boundaries are increasingly recognized as permeable.

The choice of the word “governance” is deliberate. It refers to “governance without government” (Cox’s famous “*nébuleuse*”): that is, the development, at multiple scales, of a variety of mechanisms of regulation, operating in the

absence of an overarching political authority. The absence of formal hierarchy, in turn, suggests the utilization of “soft” as well as “hard” (i.e., formal laws and directives) regulation. Thus, in addition to classic regulation, with formal laws or directives backed by penalties for violation, the emergent system of transnational governance includes *inquisitive* and *meditative* modes of regulation (Jacobsson 2006), in which the OECD is heavily involved. Inquisitive regulation involves the surveillance or monitoring of the actions of states: “member states are not obligated to follow up specific policies, but they are required to ‘open up’ to others to examine and critically judge what they are doing” (2006, 207). Accordingly, practices such as establishing benchmarks and the organization of peer review processes entail the auditing, comparison, and ranking of state practices. In contrast, meditating activities “are mainly framed as discussions among experts about what is the best way or ways of doing something” (Jacobsson 2006, 208). Jacobsson suggests, in fact, that it is from such “meditative” fora that hard regulations frequently emerge, and from which the standards or “benchmarks” that constitute the stuff of inquisition are derived.

Formal international organizations play an important role here and are supplemented by the work of quasi-formal networks such as the G8 and private actors such as international bond rating agencies and international cartels (Murphy 2005). “Epistemic communities” (Haas 1992) or networks of knowledge-based experts, sometimes operating through international organizations, other times through informal networks, are also engaged in identifying state interests and/or common problems to be tackled in a coordinated fashion. In addition, “social forces” (Cox 1987) or “transnational advocacy coalitions” (Keck and Sikkink 1999) contribute to the construction/transformation of structures of transnational governance.

This does not mean that nation-states have disappeared. They remain key decision points, though they make policy in a context increasingly shaped by multiple and overlapping transnational networks. While some forms of “policy transfer” entail direct or indirect measures of coercion, transnational governance, especially as it is applied to advanced capitalist countries, more typically takes the form of “policy learning.” It should not be assumed that such learning is simply a rote exercise (though it may be), through which policy and program models are simply imported from elsewhere and applied in procrustean fashion. Rather, as Djelic and Sahlin-Andersson suggest, “the travel of ideas is an active process and ideas are shaped and translated differently in different settings. Carriers are active in structuring flows and patterns of diffusion but they are also translating the ideas they mediate, reflecting in the process their own projects and interests” (2006b, 15-16).

Nor does the emphasis on “soft” instruments of governance and transnational networks mean the absence of power and contestation. Clearly, meditative activities channelled through international organizations involve

the power to classify, fix meanings, and diffuse norms (Barnett and Finnemore 1999, 711), while inquisitive processes such as peer review entail the exercise of the power of surveillance/monitoring, creating pressures on states to conform to new standards and practices. Thus, in this volume, Tony Porter and Michael Webb argue that the transnational “knowledge networks,” orchestrated by international organizations like the OECD, help to define what it means to be a “modern” state. States participate in the construction of shared understandings of appropriate behaviour and, through inquisitive activities like peer review, generate “socialization processes” that encourage states to adopt behaviours identified as appropriate (Chapter 2). In the sphere of economic policy, such processes link the OECD with domestic agencies (e.g., ministries of finance) and actors (such as business associations) likely to share its views. The OECD’s advice may help to strengthen the latter’s position in domestic debates.

For Finnemore, the dominant norms and ideas are decidedly “Western” – such as individual human rights and modern bureaucracy as the paramount form of political organization (Finnemore 1996, 332). To this, Porter and Webb would add liberal economic theory and its definition of efficient economic organization (market economies). The terminology of neo-Gramscians may be different – bourgeois individualism, capitalist relations of production – but it points in the same direction. Power needs to be understood in relational terms, however. For Finnemore, the existence of deep tensions in globalized Western culture leaves ample room for contestation over “the logic of appropriateness” (1996, 342). Drawing on neo-Gramscian theory, Arne Ruckert argues that “hegemonic power cannot be imposed on subordinate social forces but must be secured in a process of negotiation in which consent is engendered through material incentives and social compromises ... Hegemony is thus in constant flux, never complete, and as such is always open to multiple contestations” (Chapter 5). It is important, therefore, to recognize the implications that such contestation holds for international organizations.

### **The OECD in the Emerging Structure of Transnational Governance**

The OECD’s work does not focus on classic foreign policy issues. Although its biographer could boast that, in the 1960s, “it stood as a colossal, and colossally successful, challenge to Soviet and Chinese Communism” (Sullivan 1997, 33), this came about through its contributions to the postwar liberalization of trade and investment and, more specifically, the consolidation of the North Atlantic as the centre of the world capitalist economy. The OECD does not possess the budgetary or sanctioning powers enjoyed by the main economic international organizations, the IMF and the World Bank. Unlike the International Labour Organization (ILO), whose conventions have to be submitted to parliaments (Armingeon 2004, 227), governments can choose

simply to ignore the OECD's advice. Nonetheless, the OECD did play an instrumental role in developing the "inquisitive" and "meditative" modes of (Western) governance in the postwar period. Furthermore, the OECD Secretariat<sup>4</sup> enjoys a certain autonomy vis-à-vis both transnational social forces and member states, including the most powerful among them (the US). That autonomy, however, is only relative.

While the IMF and World Bank were charged with provision of short-term loans to relieve balance of payments difficulties and longer-term loans for "development," the OECD initially focused on surveillance of economic policies and outcomes in the North Atlantic, with an eye to harmonization. As Cox notes, "such procedures began with the mutual criticism of reconstruction plans in Western European countries (the US condition for Marshall Plan funds), continued with the development of annual review procedure in NATO ... and became an acquired habit of mutual consultation and mutual review of national policies (through the OECD and other agencies)" (1986, 231). In fact, it was the OECD's predecessor, the Organisation for European Economic Co-operation (OEEC), that was created to manage this process. As Robert Wolfe argues in Chapter 1, the OEEC was unable to play the role – allocation of Marshall Plan aid – initially envisaged by the Americans. From 1948 to 1958, however, the OEEC successfully worked to remove quantitative trade restrictions in Europe. Moreover, it helped lay the foundations for the European Economic Community and the European Free Trade Association (Salzman and Terracino 2006, 315), while the European Payments Union it formed worked to secure currency convertibility in Western Europe (Chapter 2).

Formed in 1961, the OECD went on to develop and refine techniques for surveillance of member country economic performance and assessment of their policies across a growing range of fields. Article 3 of its convention contains a commitment by member states "to furnish the Organisation with the information necessary for the accomplishment of its tasks" (Chapter 1). This commitment formed the basis for the routine collection of statistics from member (and sometimes non-member) countries, and their assembly into regular reports such as the Economic Outlook (Economics Department) or "Society at a Glance," produced by the Directorate for Employment, Labour and Social Affairs (DELSA). Such activities are routine, however, only in the sense that they form one of the organization's regular, ongoing activities. As Porter and Webb argue, these seemingly mundane activities constitute the basis for intersubjectively meaningful comparisons of national experiences (Chapter 2). The OECD Secretariat plays an active role here, identifying "appropriate" indicators and developing common ways of measuring in order to permit cross-national comparison and ranking. The "league tables" thus constructed make visible each country's performance relative to that of its peers, putting pressure on the "laggards" to improve their performance.



Sometimes inquisition involves more elaborate activities. For instance, the Programme for International Student Assessment (PISA) student performance assessments require participating countries to administer a specific examination procedure, designed by a network of experts coordinated by the Directorate for Education (Morgan 2007; Chapter 13). The biennial country surveys produced by the Economics Department involve a deeper, ongoing engagement of OECD staff with their national counterparts. As this methodology is applied, more or less systematically, in other OECD studies, it is worth considering in greater detail.

The production of a country report begins with the design of a questionnaire, prepared by the country desk in the Economics Department of the Secretariat. The questions posed “direct their attention to a set of problem areas that the OECD finds interesting. The questionnaire also provides a vocabulary introduced by the OECD, which conceptualises the problems and limits the margin of manoeuvre for member countries” (Noaksson and Jacobsson 2003, 32). The country under review is obliged to answer the questionnaire, and thus to enter into the mental framework established by the Secretariat. The next step is a visit by the OECD mission, which involves meetings with key ministries, the central bank, appropriate domestic experts, and relevant civil society representatives. This, as Marcussen notes, “might help raise important questions and ideas in the minds of the political and administrative actors in the national polity” (2004a, 29). In addition, it enables the OECD team to establish/reinforce links with like-minded domestic officials, creating a potential basis of support for the recommendations to be contained in the final report.<sup>5</sup>

Up to this point, the process is led by the Economics Department, which engages in a “bilateral” dialogue with its member country counterparts, especially the key economic ministry (usually the department of finance). The completion of the next draft launches the peer review process, drawing in representatives of other member states. The draft report, which “can be quite explicit with pointed recommendations and detailed case studies” (Salzman and Terracino 2006, 319), is distributed four weeks in advance of the meeting of the Economic and Development Review Committee (EDRC). Two peer reviewers are appointed to lead the discussions, which can involve quite sharp debates, with the country under review seeking to blunt criticism, especially in domestically sensitive areas. The whole debate takes place under the rule of “derestriction”: that is, no publication can be released until all – both the country under review and its peer-critics – agree (Salzman and Terracino 2006, 319).<sup>6</sup> The final report that is released to the public thus typically represents a compromise, which the Secretariat often plays an active part in reaching (Noaksson and Jacobsson 2003).

The production of the country reviews thus constitutes a classic example of the inquisitive mode of governance in operation. A similar procedure is

followed by other parts of the OECD Secretariat in conducting other reviews or special thematic studies, such as the regulatory review launched by the Directorate on Governance and Territorial Development (GOV) in 1997 (Lodge 2005). Just how effective is this process, however, in inducing conformity on the part of the member states?

The Armingeon and Beyeler volume (2004) examines the impact of OECD country reports on the social policies of its Western European members. Armingeon (2004) concludes that the OECD's advice enjoyed "low efficacy." Even where there appeared to be a strong link between OECD recommendations and member country policy, as with the United Kingdom, there was little evidence that the OECD set the agenda for change (Manning 2004, 209). Several chapters in this volume also address this question. Stephen McBride and colleagues' cross-national assessment of the impact of the Economics Department's Jobs Strategy<sup>7</sup> (Chapter 8) indicates that a significant group of countries did not follow the OECD's prescription for "liberalization" of domestic labour markets – and prospered. Holly Grinvalds' in-depth analysis of the Danish case (Chapter 10) suggests that transnational policy learning may involve a more subtle – or creative – process, in which the pupil applies the lesson in original ways, or is inspired by the OECD's definition of the problem to focus on an area but finds its own solution through domestic debate.

The OECD's main contribution to transnational governance may, however, be its meditative function, as Marcussen (2004a) has emphasized. Here its formidable research capacity is brought into play. Its research enables it to highlight certain trends, to identify common problems, and to map out a range of appropriate solutions. This can involve complex technical work, which enables the broadening of the range of statistical surveillance by factoring new data into the equation. Sometimes the concepts thus produced facilitate the coordination of member country activities vis-à-vis non-members. Occasionally, practical concepts originating at the OECD migrate into agreements sanctioned by other international organizations.

Thus, for instance, Sullivan (1997a) credits the OECD's Environment Directorate with devising the concept of "polluter pays." In this volume, Wolfe argues in Chapter 1 that the Trade Directorate and Trade Committee's work on the concepts of producer and consumer subsidy equivalents laid the basis for the "aggregate measure of support" breakthrough at the World Trade Organization (WTO). In Chapter 5, Arne Ruckert notes the role played by the OECD's Development Assistance Committee (DAC) in the formation of codes of best practice in the implementation of development assistance, and goes on to discuss the OECD's work on international development targets, which subsequently formed the core of what has become known as the United Nations "Millennium Development Goals." In Chapter 6, Russell Williams traces the OECD's impact on guidelines for the operations of

multinational corporations, including the aborted negotiation of the Multilateral Agreement on Investment (MAI) in the late 1990s.

Such meditation does not, however, take place in circumstances equivalent to that of the proverbial ivory tower: “ethnographic studies of IOs describe a world in which organizational goals are strongly shaped by norms of the profession that dominate the bureaucracy and in which interests themselves are varied, often in flux, debated, and worked out through interactions between the staff of the bureaucracy and the world in which they are embedded” (Barnett and Finnemore 1999, 706). This accurately describes how the OECD performs its meditative function. OECD staff conduct research and produce a range of background studies and reports. In this they draw on their disciplinary knowledge, supplemented by what Dostal refers to as an “organizational discourse” – “claims encapsulating long term political projects as defined by the organization in question” (2004, 445). The latter reflects the effects of organizational learning. An ethnographic account of a directorate thus would map the way key studies and policy documents produce important themes and concepts, which infiltrate and modify the “pure” disciplinary discourse. The “Jobs Strategy,” discussed in several chapters, became such a key document/learning experience for the Economics Department, while *New Orientations for Social Policy* (1991) and *A Caring World* (1999) arguably played a similar role in terms of DELSA’s social policy staff (Deacon et al. 1997).

Nor does such learning occur purely in-house. Research directions and priorities are set by the managing committee to which each directorate reports; below this is a myriad of subcommittees and working and expert groups that regularly bring OECD staff into dialogue with national officials and other experts in their field (Salzman and Terracino 2006, 324). In Chapter 11, Lisa Drouillard and E. Richard Gold provide a good example of the organizational learning such working groups facilitate, and in Chapter 7, Neil Bradford illustrates the way the OECD’s extensive research networks enabled it to produce a new, hybrid urban paradigm.

Elsewhere, Sahlin-Andersson (2000a) has examined the way in which the Public Management Committee (PUMA) of the Governance Directorate helped codify and disseminate the themes of “new public management,” an amalgam of public choice theory, principal-agency theory, and transaction cost economics, given practical significance by the public sector reforms instituted in the Anglo-Saxon countries, especially New Zealand, during the 1980s. She argues that PUMA’s actions involved the editing out of country-specific experience to produce generalizable conclusions: “Reforms and experiences were generalised and assembled as a reform agenda or policy package, and a common logic and common explanations were ascribed to the reforms. The reforms were described and justified as responses to a common set of problems facing all OECD countries, and they were labelled as a coherent

and consistent package” (2000a, 16). In Chapter 3, Leslie Pal suggests, however, that PUMA provided a forum for ongoing learning on the part of OECD staff and committee members, such that the diversity of national experiences has been “edited” back in.

The OECD’s “policy learning networks” also include representatives of civil society. From the outset, the OECD has been involved in regular dialogue with the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC).<sup>8</sup> Both regularly consult with the OECD Secretariat and the various committees and working groups. The two associations can also discuss OECD agenda items through the Labour/Management Programme, which is partly financed by the OECD (Salzman and Terracino 2006, 329). In Chapter 4, Richard Woodward charts TUAC’s waning status, relative to BIAC, as the OECD abandoned Keynes for monetarism in the late 1970s. As he notes, “increasingly BIAC’s agenda was in vogue and it progressively assumed a privileged ideational position within the OECD.”

More broadly, while the Committee for Agriculture and the Environmental Directorate have long had relations with civil society groups, it was the MAI fiasco that spurred the OECD to develop what Woodward calls complex multilateralism, “where states remain the main arbiters but have to coexist with a cacophony of civil society voices” (Chapter 4). While the OECD has exhibited real leadership in this regard, Woodward finds that there are clear limits. It is the more conservative non-governmental organizations (NGOs) and business interests that are favoured interlocutors. Moreover, not all parts of the OECD are equally engaged in dialogue with civil society representatives. Thus, while the Agriculture, Environment, and (now) Investment Committees have been actively engaged, the Economic Policy Committee (EPC) remains aloof from such civil society consultations. Yet, as Sullivan suggests, it is the EPC – and its highly influential Working Party 3 (WP 3) – that is in charge of key routines, including the working out of common policies in advance of the annual G7 (now G8) summits (1997, 62).<sup>9</sup> This suggests that the “inner sanctum” – the sites where the most important economic policy issues are dealt with – remains relatively insulated from civil society.

What of the OECD’s relationship with non-member states? From the outset, the OECD functioned as a key node in the construction of the North Atlantic alliance (to which Australia, Japan, New Zealand, and Finland were later admitted) against the Soviet bloc in Eastern Europe. With the latter’s disintegration in the late 1980s, the OECD joined other international organizations in facilitating the transition to market economies. According to Sullivan, “a key element in the program ... [was] SIGMA – Support for Improvement of Governance and Management in Central and Eastern European Countries, run jointly by the OECD and the European Union” (1997, 45). Through SIGMA, the Economic Development and Review Committee pre-

pared reports on Eastern European countries, “essentially bringing those non-member states into the OECD surveillance process” (Chapter 6). These reports focused on issues of appropriate forms of public sector management for the emerging market economies. In the 1990s, the Czech Republic, Hungary, and Poland were admitted to the OECD, with the Slovak Republic following in 2000. Their admission to the club marked their progress towards the establishment of market economies and liberal democracies.

It is in its relation to the global South that the OECD especially stands out as a rich nations’ club. In contrast to UN agencies, the OECD has offered its member states a “safe” forum to explore common interests of the (capitalist) North vis-à-vis the South. Chapter 5 documents the way this has allowed the OECD to play a role in coordinating aid policy and, later, in mapping out the core of what was to become the UN’s Millennium Development Goals. Yet the states of the global South are not monolithically composed of equally poor countries, a point driven home in the 1980s by the performance of the “Asian tigers.” Since 1992, the OECD has permitted the participation of non-members in its work and one of the Asian tigers – South Korea – was admitted to the organization in 1996, following Mexico, admitted in 1994 after it became a signatory to the North American Free Trade Agreement with Canada and the United States. The OECD is currently involved in active outreach activities in East Asia, Latin America, and Africa. More broadly, one of the key issues concerning its future is the effect of the expansion of membership to include the large and booming economies of China, India, and Brazil.

Nor are the OECD’s original member states equal in wealth and power. This raises the question of whether the OECD is and has always operated as a site for the exercise of “Americanization.” For Djelic and Sahlin-Andersson, the emergent system of transnational governance represents a process of Americanization in a double sense. First, they identify the “unique and often powerful role and place of American actors and blueprints in the regulatory process, both at the origins and at critical ... moments” (2006c, 397). Chapter 11 in this volume provides an interesting example of the latter. Here it was not agents of the US state per se, but rather leading scholars and key sites for meditative activities within the US, that the OECD drew on in setting its guidelines for genetic invention. Second, Djelic and Sahlin-Andersson suggest that American power “is particularly linked historically to the post second world war period and is associated in part with the threading of an international organizational network – key nodes being the World Bank, the IMF, the OECD, and United Nations and its satellites, the GATT and the WTO” (2006c, 397). There is evidence in support of this proposition as it applies to the OECD.

The OECD’s predecessor, the OEEC, was established to help implement the US Marshall Plan. Its replacement by the OECD brought the US (and Canada) into what had been a European organization. The OECD’s budget

is based on financial contributions that reflect the size of each member's economy. Hence, the US contributes the largest share of the OECD's budget, followed by Japan. While the Secretaries-General have come from a variety of countries, one of the Deputy Secretary-General posts is normally occupied by an American.<sup>10</sup> More broadly, Dostal (2004) estimated that of the OECD's professional staff of 858, Americans (133) were exceeded only by the French (182).<sup>11</sup> Many of these are economists, trained in neoclassical economics, a discipline where the US increasingly sets the standard. There are also specific instances where American policies clearly set limits to what the OECD could do. Thus, for instance, Webb's analysis of the fate of the OECD's "harmful tax competition" treaty concluded that "the Bush Administration's anti-tax ideology had a huge impact on the OECD project even though that ideology found little official support in any other OECD country" (2004, 815). Elsewhere, Graefe (2006) has argued that international organizations like the OECD have played an important role in adapting and disseminating the (neoliberal) American social policy model.

Nevertheless, unlike the World Bank and the IMF, the OECD's headquarters are in Paris, not the US. The majority of member states remain European, and Europeans constitute the majority of its professional staff. In Chapter 9, Andrew Jackson suggests that this has enabled the addition of social democratic ideas to the policy mix, especially with the victories of Left governments in key European states during the latter half of the 1990s. In addition, there are strong connections between the European Commission and the OECD. The European Union is an active participant in many of its committees and has representation on the Ministerial Council. The two organizations collaborate on various projects, although the OECD's longer research involvement around labour market and social policy issues and larger staff complement means that it is the Commission that looks to the OECD, rather than the reverse.

Perhaps, however, the real question is not which member country dominates the OECD. Such a question seems to fit better with the (neo)realist view of international relations as agents of powerful national principals. It is more useful to focus instead on the networks of transnational governance and the concomitant internationalization of the state. Thus, for Cox, one consequence of the internationalization of the state is that "new axes of influence link international policy networks with the key central agencies of government and big business" (2005, 232). Chapters 9 and 10 lend support to Cox's thesis, that it is principally core ministries, such as finance, that are most strongly linked to dialogue and "meditation" with the OECD, especially its central components, the Economics Department and its key committees. Yet while national states may have been penetrated by transnational networks, they still remain important sites of deliberation and ultimately policy decision. They remain, therefore, more than mere transmission belts for

ideas established elsewhere. As the chapters on the Jobs Strategy show, policy learning may be taking place in an increasingly transnational context, but that learning can involve a creative process in which national states draw their own conclusions from the lessons learned.

### **The OECD as Creator, Purveyor, and Legitimater of Ideas**

Thus far, we have stressed the central role ideas play in the OECD's contribution to transnational governance, and the processes through which it develops and disseminates these. We have not, however, closely examined the question of what sorts of ideas the OECD has developed and supported. We can imagine that, like states in relation to powerful interests in their own societies, the OECD enjoys a relative autonomy in constructing ideas, even if, in general, it tends to reflect the ideological tenor of the times. Thus, until the mid-1970s, the OECD reflected the postwar conventional wisdom of Keynesianism. Thereafter, the organization gradually came to adopt a different policy paradigm, generally referred to as monetarism or neoliberalism, contemporary renditions of traditional neoclassical economics. Many observers detect some shift in OECD thinking in recent years. How far it has moved from earlier neoliberal orthodoxy remains a matter of debate and may, in fact, vary by issue area.

The OECD's internal discourse has often been viewed as dominated by Anglo-American-trained professional economists. As such, it can be expected to reflect trends in economics, especially as taught in the Anglo-American universities and popularized by think tanks based in those countries (Dostal 2004, 440, 446). That said, the OECD is not one-dimensional and is not simply a transmission belt for the ideas dominant in economics departments. Different trends within orthodox economics may be utilized by different agencies within the OECD itself. In part, this may reflect their links with different agencies in member states. Thus, for instance, the Economics Department tends to interact closely with national finance ministries, and DELSA with ministries dealing with labour and social issues. In addition, different directorates develop distinct organizational discourses, which are reflected in key documents. To the extent that these transnational networks draw on different trends within orthodox economics, one might expect to see an "inclusive" or an "innovative" liberalism, compared with the hard neoliberal economics perspective of the Economics Department.<sup>12</sup>

The "McCracken Report," written by experts commissioned by the OECD to investigate the relationship between employment and price stability, marked the beginning of the hegemony of neoliberalism within the OECD. Adopting a supply-side approach to the labour market, its analyses and prescriptions pointed the way to a new orthodoxy, based on removal of rigidities and enhanced flexibility within the labour market (OECD 1977, 221-23), themes that would figure prominently in the Jobs Study of the

1990s. Of course, particular member states had already begun the shift away from the OECD's previous discourse. For example, in Canada, the central bank had adopted a policy of "monetary gradualism," prefiguring a gradual shift away from Keynesianism in 1975 (McBride 1992, 71-117). Similarly, British Labour Prime Minister James Callaghan had told his followers in 1976 that the Keynesian era was over: "We used to think you could just spend your way out of recession and increase employment by cutting taxes and boosting spending. I tell you in all candour that option no longer exists" (Hall 1993, 285).

Nonetheless, the McCracken Report formed part of a broader paradigm shift in which the inability of an existing paradigm to explain discordant evidence and advance solutions to problems played a part in its replacement. A new paradigm, or specific policies derived from it, may, however, also rest uneasily on an evidentiary basis. As Cox argued, paradigms, like theories, reflect a particular perspective: "All theories have a perspective ... The world is seen from a standpoint definable in terms of nation or social class, of dominant and subordinate, of rising and declining powers, of a sense of immobility or of present crisis, of past experience and of hopes and expectations for the future. Of course sophisticated theory is never just the expression of a perspective. The more sophisticated a theory is, the more it reflects upon and transcends its own perspective but the initial perspective is always contained within a theory and is relevant for its explication" (Cox 1983, 128).

In this context, it is worth recalling criticisms made of the McCracken Report at the time.

Robert O. Keohane (1978) posed two questions about the use of knowledge and expertise, the foundations of OECD policy influence then and now: "To what extent are the policy recommendations of these OECD economists derived from the findings of economics per se – and to what extent do they stem, instead, from unexamined political or ideological assumptions? Are the analytical accomplishments of economics used to generate sound prescriptions, or do they merely serve (with the reputations of the report's authors) to legitimize an essentially political argument?" (109) Keohane concluded that this ostensibly economic report relied on political and sociological explanations of inflation that were beyond the expertise of the team of economists. The latter, moreover, made "no attempt to specify the importance of those phenomena, or even carefully to verify their existence ... they are quite content to select important variables in a casual, ad hoc fashion and to evaluate their significance impressionistically, without benefit of either information or research" (113). Thus, for Keohane, the report actually owed little to disciplinary expertise. According to him, the McCracken Report's recommendations thus contained a "large dose of ideology, which is neither explicitly defended nor critically examined" (125). Indeed, reading the review leads one to think that this is political ideology being rendered



as economic science, and legitimized by the reputations of its economist authors. In stating that economics and economic expertise play a key role in the OECD's success, therefore, we need to be careful in how we interpret this source of power.

A later example of the power of economic orthodoxy is provided by the Jobs Study and Jobs Strategy exercises of the 1990s and early 2000s. The Jobs Study proved to be an important document, especially for the organizational discourse of the influential Economics Department. To a degree, the initial Jobs Study reflected different institutional interests within the OECD, which are themselves reflective of broader interests and theoretical disputes in society. Initiated in response to concerns about unemployment, especially in a number of European member countries, the Jobs Study provided an analysis that involved several directorates under the lead of the General Secretariat. Although there was some effort to recognize that economic flexibility for employers should be combined with economic security for workers, the document was grounded in a neoliberal analysis of labour markets based on the concept of a non-accelerating inflationary rate of unemployment (NAIRU) (McBride and Williams 2001). The significance of this theory is that it locates obstacles to non-inflationary employment growth within the labour market itself, rather than deficiencies in aggregate demand or productive capacity. It therefore provides an economic rationale for deregulated "flexible" labour markets. While certainly mainstream by the early 1990s, the doctrine is by no means uncontested within the economics profession (see Sawyer 2004; Setterfield 1996). The original document evolved into the Jobs Strategy, for which the Economics Department assumed sole responsibility (Noaksson and Jacobsson 2003, 17-18). It typified the department's neoliberal discourse and was strongly reflected, *inter alia*, in the biennial country surveys discussed in the previous section. With DELSA no longer closely involved, moreover, the desire to balance flexibility with security gave way to a more pronounced focus on deregulation and flexibility in the labour force (Noaksson and Jacobsson 2003, 47-48).

The contrast between selective, theory-driven approaches on the part of the OECD, emanating from its Economics Department, and more contextual, interdisciplinary approaches characteristic of other organizations is traced in a comparison of the Jobs Study and the EU's Employment Strategy. Noaksson and Jacobsson suggest that "while the EU attempts to adapt knowledge to fit reality, the OECD attempts to adapt reality to fit existing knowledge" (2003, 10). Similarly, Casey points to the greater influence of social considerations on EU analyses of the labour market: the European strategy reflects greater awareness of the potentially negative outcomes that can result from following through some of its recommendations. Accordingly, it is more willing to counsel caution, and more willing to suggest the need for compensatory actions. That it does so is a corollary of its being influenced by a social model

“in a way that the OECD strategy is not” (Casey 2004). This would be one reason for non-compliance with the Jobs Strategy on the part of some countries. The strategy appears to have been perceived as one that was useful for finance ministers in pushing for reforms but, where social partners were in a position to resist, unlikely to be implemented (Chapter 8).

It is not only in the Jobs Strategy that evidence can be found of OECD rethinking. Bob Deacon and Alexandra Kaasch argue in Chapter 12 that DELSA’s reflections on social and health policy have clearly broken with neoliberalism. Similarly, Bradford argues in Chapter 7 that the OECD’s Territorial Development Policy Committee has produced an “innovative” liberal synthesis. At its 2007 meeting, the Ministerial Council announced plans to develop an innovation strategy equivalent in stature to the Jobs Strategy. It will be interesting to see whether the new strategy adopts the kind of blend that Bradford found in the cities reviews. Since such rethinking is evident in other areas, identifying the source and extent of change is an important element of analysis.

One unresolved issue is whether the change(s) represent a new paradigm, distinct from the neoliberalism that has characterized OECD policy approaches since the mid-1970s, or whether it represents adjustment, modification, and fine-tuning of that approach that responds or reacts to criticisms of the neoliberal model without sacrificing the fundamentals of that approach, offering what Graefe (2006) calls “flanking mechanisms.”

The most comprehensive statement of the thesis that the OECD has undergone a paradigm shift is contained in Chapter 14 of this volume. Rianne Mahon’s analysis of the growing significance of gender in the OECD’s social policy discourse signifies that “the OECD is no longer singing exclusively from the neoliberal hymn book,” and its reconciliation agenda reflects an “inclusive liberal” approach. While the latter shares certain features with neoliberalism, it departs from it in important ways. Thus, “inclusive liberalism” is seen as a distinctive variant of liberalism, of equivalent status to classic, new, or social liberalism and neoliberalism.<sup>13</sup> Mahon argues that, triggered by the unpopularity of neoliberalism around the world, electoral results in some key European countries, and the European influence on the Paris-based OECD, the OECD’s discovery of the need for state intervention to facilitate the reconciliation of work and family life is consistent with neoliberalism in certain important respects: acceptance of trade and investment liberalization, commitment to non-inflationary growth and fiscal conservatism, a supply-side approach to employability, and acceptance of inequality “in the here and now.” It differs, however, in its emphasis on investing in people who demonstrate that they are willing to take responsibility for their own development, providing carrots rather than sticks within a supply-side approach, providing incentives to encourage men to share parental leave, and a range of other “positive” measures.

Clearly, detectable changes are underway at the OECD, but do they amount to the emergence of a new paradigm? DELSA's "inclusive liberalism" is distinct from, but does not pose a fundamental challenge to, the neoliberalism that remains dominant within other sections of the OECD, notably its Economics Department. McBride et al. (2007) argue that the revised (2006) Jobs Strategy belatedly accepts that there is a route to good labour market performance and international competitiveness other than that recommended by the original Jobs Strategy. Indeed, what is remarkable, given the preponderance of empirical evidence on this point, is that it took the OECD so long to formally recognize this. Nevertheless, the new Jobs Strategy primarily reflects neoliberal goals and policy instruments, an indication that any change in direction is one of adjustment rather than transformation. In this respect, the OECD's position has undoubtedly evolved since the early days of neoliberal certainties.

The debate about whether new trends amount to a new paradigm is not merely an academic or scholastic exercise. It is important to assess to what degree of change has occurred and is occurring. In discussing Peter Hall's concept of "policy paradigm," Hemerijck and Visser (2003, 12) make the point that when new paradigms emerge, they contain statements of policy goals, identifications of policy techniques to attain them, and prescriptions about the settings of these policy instruments. This can be classified as "higher-order" policy learning (Hall 1993), which is distinguished from "lower-order" learning by its scope. For the latter, learning and change involves fairly minor, incremental changes in instrument choice or in the settings of the instruments. Typically, a higher-order change would be occasioned by some sort of crisis that intensified the search for new solutions. Evans (2004, 68) notes that the adoption of the neoliberal paradigm had involved five specific types of policy change. At the macroeconomic level, financial orthodoxy, control of inflation, and monetarism had displaced full employment and Keynesianism. More attention was focused on microeconomic policy initiatives such as deregulation and welfare-to-work programs. Internationally, protectionism gave way to the embrace of free trade. New regulatory structures were established to condition the behaviour of states and the promotion of enterprise. Innovation and competition displaced general welfare enhancement as the primary goal of politics. To what extent have these characteristics of the neoliberal approach been eroded or transcended?

There are parallels here with the evolution of policy in the Keynesian era. Starting, at least in the Anglo-Saxon world, as policy made by the big levers of fiscal and monetary policy, the Keynesians gradually became more intrusive and coercive (as the example of wage and price controls in many countries indicates) in response to the contradictions of Keynesian policies themselves, and changes in the internal political economy made old instruments

unworkable. For some time, the original Keynesian goals continued to inform policy making, and new instruments were devised to keep the enterprise functioning. Whether this was still Keynesianism was a matter of dispute, and various prefixes were applied – late-Keynesian, post-Keynesian, and so forth. By analogy, one interpretation of the shifts in discourse at the OECD would be that the organization continues to sing from the same hymnbook, but different units are now allowed to select their own preferred hymns. More technically, different instrument choices may be possible within the same overall policy paradigm.<sup>14</sup>

This is the conclusion that Craig and Porter come to in their analysis of inclusive liberalism as practised in contemporary development programs as well as the policies of “third way” governments. Despite greater inclusion of the poor and marginalized, inclusive liberalism ultimately has a “hollow ring,” falling well short of the social liberalism of the postwar years (Craig and Porter 2004, 233). Similarly, inclusion can mean greater consultation between international organizations and representatives of civil society (O’Brien et al. 2000), though the results of this engagement, in terms of engineering of real change in the dominant policy paradigm, remain ambiguous. However one reads the degree of shift, the fact of contestation and the development of modified and alternative visions is real and is embedded in OECD processes, relations between the OECD and national governments, and intra-bureaucratic differences with national governments, as well as in the broader class relations reflected in interest group and social movement politics in society at large.

## **Conclusion**

The chapters in this volume explore in more specific ways the OECD’s role in transnational governance. Some focus on policies and practices explicitly designed to contribute to the liberalization of trade (Chapter 1) and investment flows (Chapter 6), while others focus on its stance vis-à-vis non-member states in the South (Chapter 5) or its relations with non-state actors that are part of an emerging “global civil society” (Chapter 4). Others focus on matters long considered to be domestic concerns – innovation (Chapters 7 and 11), labour market policy (Chapters 8, 9, and 10), education (Chapter 13), health and social policy (Chapters 12 and 14), and public sector reform (Chapter 3). That an international organization like the OECD concerns itself with domestic issues reflects the growing reach of instruments of transnational governance. Even in the Keynesian era, the need for cross-national coordination of domestic policies was recognized by the OECD, but the very economic liberalization to which the OECD has contributed, and the tensions this has generated, have expanded the scope and intensity of transnational regulation.

Although the authors work from different perspectives, one thread running through all chapters is that the OECD represents an important but underemphasized node in the growing networks of transnational governance. In fact, it has pioneered the inquisitive and meditative forms that other international and supranational organizations have more recently discovered. The studies it conducts feed into policy discussions in other international fora such as the G8 and WTO, but its reports also infiltrate national debates, often from privileged locations within them such as ministries of finance, where the aura of expertise surrounding the OECD may be used by national and subnational actors who seek to advance the broader neoliberal agenda. Nevertheless, in times of transition and marked contestation such as these, the OECD is far from monolithic. Different ideological and policy currents may find expression in, and even result in conflict between, different branches of the organization, opening up the possibility that actors seeking alternatives to neoliberalism may draw on the OECD's prestige for their own purposes.

#### Notes

- 1 Australia, Austria, Belgium, Czech Republic, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, South Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.
- 2 Some might argue that the "world systems" approach escaped such methodological nationalism, yet the world as imagined by Immanuel Wallerstein and others was still a relatively simple one, composed of said "world system" and core and peripheral states.
- 3 The authors especially wish to thank Tony Porter for his insights into the main theoretical debates in international relations. We also thank Cristina Rojas for comments on an early draft of this chapter.
- 4 Staff of some 2,000. Initially, the intent was to recruit middle- and higher-level civil servants on five-year rotations from the member states, but Salzman and Terracino suggest that "many in the secretariat make their careers at the OECD" (2006, 324).
- 5 There is often a second visit, following the production of the interim report, to enable the team to update information and engage in more protracted discussions with national officials (Schäfer 2006, 74).
- 6 Sullivan (1997, 491) suggests that some reports have been held up for months, as the country under inspection tries to persuade staff and fellow committee members to adopt a different tone or to change prescriptions, while Salzman and Terracino (2006, 319) suggest that some reports are never published.
- 7 The original Jobs Study, carried out by the Economics Department and the Directorate for Employment, Education, Labour and Social Affairs, became the basis for the Jobs Strategy, overseen by the Economics Department.
- 8 TUAC's origins date back to the immediate postwar period, when it was created "to provide advice to the OEEC in its implementation of the Marshall Plan" (Salzman and Terracino 2006, 327). Mindful of the tide of worker revolts in the aftermath of the First World War and fearing the spread of communism, Western leaders were keen to involve unions in postwar reconstruction. BIAC's birth coincided with that of the OECD.
- 9 It became eight with the addition of Russia.
- 10 Initially, there were two posts. Now there are four, and one of these is occupied by an American.

- 11 The US was followed by 90 from the UK, with Canada, Germany, Japan, and Italy accounting for between 51 and 62 professional staff each.
- 12 On these variants of liberalism, see Chapters 5, 7, and 14.
- 13 On these distinctions, see O'Connor et al. (1999, 43-65).
- 14 A good example can be found in Boyle and Roy's comparison (2003) of UK youth labour market policy under Prime Ministers Thatcher and Blair.

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Part 1:  
The OECD and Transnational  
Governance





# 1

## From Reconstructing Europe to Constructing Globalization: The OECD in Historical Perspective

*Robert Wolfe*

The story of the Organisation for Economic Co-operation and Development, created in 1961, begins with the political and economic reconstruction of a stable and prosperous international order after the Second World War.<sup>1</sup> In his famous Harvard University commencement speech of 5 June 1947, reflecting on the plight of Europe after the frightful winter of 1946-47, US Secretary of State George Marshall declared that US policy “should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist” (OECD 1978, 227-29). This liberal idealism is still the rock on which the OECD rests.

Two themes emerge from the history of the organization: economic cooperation can serve political purposes, and the way to get to the desired policies is through social learning more than reciprocal obligation. I begin with a description of the origins and demise of the OECD’s predecessor, the Organisation for European Economic Co-operation (OEEC), and then outline the evolution of the OECD before looking more closely at the two central aspects of its work, money and trade, and the relationship between the OECD and other international organizations, notably the Group of 8 (G8) and the World Trade Organization (WTO). I conclude with some reflections on the organization’s changing role as the European Union expands far beyond the original membership of the OEEC and globalization continues to transform governance. European reconstruction is long finished, but developing the consensual knowledge needed to construct globalization is an expanding work in progress.

### **Origins: The Organisation for European Economic Co-operation (OEEC)**

The Marshall Plan was not in fact a plan but an invitation to the European countries to tell the United States what needed to be done to assist postwar reconstruction, implying that aid would be contingent on their ability to work together. After a failed attempt to negotiate a joint response with the

USSR, on 3 July 1947 the foreign ministers of Britain and France invited all European countries to meet in Paris to draw up an economic recovery plan for transmission to Marshall. The conference created the Committee of European Economic Co-operation to manage the initial phases of the European Recovery Program. As the need for a more permanent body became apparent, the OEEC was created in April 1948. Canada and the United States were soon “associated” in OEEC work. Spain, then still under Franco, was excluded, but otherwise the membership was self-selected: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom, and Western Germany. By 1958, all were also members of the North Atlantic Treaty Organization (NATO) except the neutrals (Austria, Ireland, Sweden, and Switzerland).

By developing the disciplines of cooperation and networks of officials, the OEEC laid the basis for subsequent efforts at European integration (Marjolin 1989). A.F.W. Plumptre, a senior Canadian official, recalled that the OEEC developed

an elaborate code and procedure for European trade liberalization ... supported by credit facilities provided through the European Payments Union (EPU) ... During the 1950s, the OEEC code of intra-European commercial conduct was supplemented by the introduction of other codes of regional economic conduct dealing with capital movements, shipping and other forms of transportation, and other international transactions ... [each] ... supervised by a committee, and other committees concerned with the problems and possibilities of each of the main European industries were set up. The headquarters of the OEEC ... became a centre for intra-European consultation and collaboration on economic matters. (Plumptre 1977, 129-30)

The Americans had wanted the OEEC to be a vehicle for European integration by requiring that the organization allocate Marshall Plan aid, but the OEEC could not bear this burden. The organization carried on for nearly a decade, but it was undermined by its members' growing preference for discussions in the NATO economic committee, and was finally doomed by structural change in trade and payments. In trade, the achievement by December 1958 of 90 percent liberalization of quantitative restrictions, even by France, ended the value of this role just at the moment when the OEEC's limited role in managing the European payments system ended, when European currencies became convertible. Europeans were also embroiled in debates about how to respond to the creation of a common market among six OEEC members following the Treaty of Rome, signed earlier in 1958 (Griffiths 1997). When the Council of the OEEC met on 15 December 1958,

its main business was the question of intra-European trade, and specifically the scheme for a free trade area that was being pressed hard by Britain, which was not a member of the new European Economic Community (EEC). An Anglo-French confrontation about discrimination and retaliation led to disarray (Shonfield 1976, 7-13).

The Council of the OEEC never met again. In Europe, the EEC Commission and many influential French officials felt that the cohesion of the Six, the political purpose of the Treaty of Rome, would be undermined if trade liberalization were pursued either through an OEEC-wide free trade area or a free trade link between the Six and the seven countries of the European Free Trade Area (EFTA). American preferences for liberal global trade rather than European discrimination led Douglas Dillon, then US Under-Secretary of State for Economic Affairs, to propose in November 1958 what came to be known as the Dillon Round of multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT) (Curzon 1965, 98). The tensions, still pressing a year later, were taken up at a Western Summit (France, the United States, the Federal Republic of Germany, and the United Kingdom) in Paris, where the political imperative of Atlantic cohesion during the Cold War was as salient as economic policy cooperation. Leaders agreed that they should now be “devoting cooperative efforts to furthering the development of the less developed countries,” and they elaborated a set of principles for discussion of the commercial problems caused by the co-existence of multilateral and European economic regional organizations. This communiqué launched the process of high-level meetings and drafting groups that ended in the signing of the OECD Convention a year later.

Canada and the United States became full participants in the new body: like NATO, it was to be an Atlantic, not a European, organization. Members believed that commercial conflict led to war; that the GATT and the International Monetary Fund (IMF) were the first line of defence; that regional conflict could undermine this broader objective; and, therefore, that the OECD could help, both by promoting the broad objectives of the regimes for trade and payments and by encouraging the leading industrial countries to work together. The Council of the OECD met for the first time in December 1961, with Donald Fleming, Canada’s minister of finance, in the chair.

### **What the OECD Does**

In the early years, the OECD’s tasks fell in three groups. The first set of tasks, which involved member countries alone, derived from the high degree of similarity and interaction among the economies of the advanced industrial countries. The next set of tasks, involving third countries, derived from the desire of OECD countries to order their relationship or to coordinate their strategy vis-à-vis other groups of countries. The last set of tasks involved the coherence and effectiveness of the international economic system (Camps

1975, 14). Change in how members understand good policy, and structural change in the world, has altered these tasks. Members now place more stress on good national policy than on coordinated international action, and they spend more time talking to third countries than they spend talking about them. Engagement with the most dynamic global economies is now central to the OECD's role.

The OECD has no regulatory responsibility, no independent source of funds, no money to lend, and no instruments within its control. Where the preamble of the GATT speaks of a desire to enter into "reciprocal arrangements," Article 1 of the OECD Convention says that the organization shall "promote policies" designed to achieve "the highest sustainable economic growth and employment and a rising standard of living in member countries." My focus below will be on two policy areas most relevant to global governance – money and trade – but the OECD is also active in all the substantive domains of modern governments, from the environment, through tax, to public management. Energy was not an original head of cooperation for the OECD, but part of the collective response to the first oil shock in 1973 was a conference that led to the establishment in November 1974 of the International Energy Agency (IEA). Members (which did not include France until the 1990s) decided that the IEA should have autonomy in its operational role but that it should work closely with the OECD on policy.

Article 1 also provides that members will "contribute" to sound economic expansion in non-member countries in the process of economic development. A.F.W. Plumptre recalled that "the Americans hoped to encourage greater participation by European countries in programs of economic aid to developing countries; the United States appeared to have been carrying the greater part of the load and the US administration was anxious, not only to obtain some relief for US balance of payments, but also to reassure Congress that this particular 'white man's burden' was being shared with reasonable equity. Thus D for development became one of the initials of the new organization" (Plumptre 1977, 131). The OECD was never intended to be a development assistance institution, however. Its role, as discussed by Arne Ruckert in Chapter 5 of this volume, was to facilitate burden sharing and policy discussion among donors. Development Assistance Committee (DAC) principles define the structure of national aid agencies; DAC definitions of Official Development Assistance (ODA) and "technical assistance" become national definitions.

Here, too, the OECD has sometimes been used to manage political tensions among its leading members. The first time an American secretary of state led the US delegation to the annual meeting of the OECD Council at ministerial level (or "ministerial") was in 1975 (Camps 1975, 9). The double issue provoking such interest was the problem of the collective response to the collapse of the Bretton Woods system of fixed exchange rates, along with the

response to the first oil shock. The result was a declaration on relations with developing countries under which the Americans agreed to the Conference on International Economic Cooperation (CIEC) (Putnam and Henning 1989, 22), which itself was partly a response to problems in negotiations with the Group of 77 (the group that coordinated developing country participation in key United Nations agencies, notably the UN Conference on Trade and Development, or UNCTAD) elsewhere. The initial group was succeeded by a Group on North-South Economic Issues to coordinate the participation of OECD countries in the various instances of the “North-South dialogue.” Since the end of the Cold War, the OECD has become a forum for policy consultations with non-members, including the countries in transition, and leading developing countries in Asia and Latin America. Many non-member countries now participate in the activities of OECD subsidiary bodies.

In Article 3 of the convention, members agree: (1) to furnish the Organisation with the information necessary for the accomplishment of its tasks; (2) to consult together on a continuing basis; and (3) to cooperate closely and, where appropriate, take coordinated action. The closer an activity is to the beginning of the list, the more common it is at the OECD. Consistent with the first two items of Article 3, the development and sharing of standardized information is the basis of all the rest. The OECD adds value to national data by coordinating definitions and measurements. In any domain, a single country can conduct comparisons with itself through time, but the OECD helps conduct rigorous comparisons with other similar countries at the same point in time. The UN cannot do this job at the same level of detail and sophistication because of its wide membership; similarly, the IMF and the WTO develop information for the different purposes of their near-universal membership.

Surveillance, sometimes called peer review, has been part of the process of sharing and evaluating information, of developing a common understanding of how the world works with a view to better policy making and better policy implementation. (For more on peer review, see Chapters 2 and 9.) OECD surveillance over macroeconomic policies is two-sided: the coherence between domestic policy objectives and the conduct of policy is examined in the Economic and Development Review Committee (EDRC); the way policies add up and, more specifically, the international coherence of national policies has been the focus of the Economic Policy Committee (EPC) (Koromzay 1991, 164). One of the particular strengths of the OECD is that this surveillance is carried out in a number of policy fields drawing on Secretariat expertise in a dozen microeconomic domains (Pagani 2002a). Each reinforces the others. In addition to the traditional surveillance of economic, energy, development, capital, and investment policies, there are now surveillance exercises of education, employment, science and technology, environment, and regional policies.

The third item of Article 3, coordinated action, is relatively rare at the OECD, although in certain areas its long association with the process of regional cooperation in Europe has made it a useful forum. The legal force of OECD obligations is problematic. In Canada, they rarely even require Cabinet let alone parliamentary approval, and they are not “enforceable” in the usual sense because the OECD has nothing approaching a dispute settlement system. OECD commitments work to the extent that they are subject to surveillance by fellow members whose good opinion of one another is of some value. The Export Credit Arrangement, to take one example, was probably negotiated at the OECD for negative reasons: debilitating competition among the OECD countries needed to be restrained, but no other forum was available involving only this group of countries and having a competent secretariat (Moravcsik 1989, 198). No doubt similar reasons exist for the OECD work on money laundering and for the OECD Convention on the Corruption of Foreign Public Officials, negotiated shortly before the failure of the Multilateral Agreement on Investment (MAI) in 1998. The anti-bribery convention was successful because at the time, the OECD could still be said to encompass the home countries of the major global infrastructure contractors and heavy equipment manufacturers, making it the relevant group of countries for dealing with the problem. The investment story, discussed in detail in Chapter 6, goes in the other direction.

Investment was discussed in negotiations for the Charter of the International Trade Organization (1948), but it did not enter the GATT at all until the 1980s, when the United States challenged the performance requirements imposed on investors by the Canadian government through the Foreign Investment Review Agency (FIRA). In the absence of other fora for negotiations, the OECD played an active role. The Code of Liberalization of Current Invisible Operations and the Code of Liberalization of Capital Movements were important as a focus for an emerging normative consensus. The 1976 Declaration on International Investment and Multinational Enterprises was adopted to forestall efforts by UNCTAD to craft a code on multinationals. The declaration and the codes did not go far enough for some American officials, who pushed first for a Wider Investment Instrument and then, in the mid-1990s, for what came to be known as the Multilateral Agreement on Investment. The OECD being unsuited to negotiation of binding reciprocal obligations, the MAI failed, not least because it would have reduced the flexibility of signatories in a potential comprehensive WTO negotiation with the many significant countries that do not belong to the OECD.

### **The Organization**

The purposes and methods of the OECD imply the need for an unusual organization. It relies on strong participation of delegates from national governments in its subsidiary bodies, as does the WTO. It also has a highly

competent professional secretariat, as does the IMF. The committee structure reflects the organization of member governments and the evolution of various policy communities. Officials find the OECD useful for exchanges of ideas with colleagues who face similar problems. Often there is nowhere else for such consultations, or consultations at the OECD provide more and faster information about policy intentions than is available elsewhere. While its importance for officials is undiminished in most sectors, its value to politicians and senior officials appears to have declined.

The ministerial was once the highlight of the OECD year. The Communiqué signalled themes to the public, to markets, to other governments or institutions, and to bureaucrats. It could be a directive to the Secretary-General, a normative statement of good intentions, and a signal of policy decisions to come, depending on the conjuncture. Attendance fluctuated, but, with many more opportunities to meet, fewer senior ministers now participate. (In contrast to the Council ministerial, sectoral ministerials – for example, of the Agriculture Committee – usually attract the relevant ministers.)

When the OECD was created, there was no body that would provide a regular forum for senior officials whose responsibilities touched on the management of the international economic system. The Trade Committee and the Economic Policy Committee do not do much work in common, a fact that reflects the division of labour in capitals more than the nature of the issues. When US President Nixon made his famous statement about a New Economic Policy in August 1971, he called for a new linkage between trade and monetary policies. As at the creation of the OECD twelve years earlier, American fears of a new step for the European Community (EC) (in this case, enlargement) were part of the political context. The only way for the Americans to use the OECD to follow up their president's linkage of trade and monetary policy was to call for a new restricted body, which eventually held its first meeting in December 1972. It came to be called the Executive Committee in Special Session (ECSS) the next year. Its creation did respond to the American interest in having a forum where trade and monetary policies could be considered together, but it is debatable whether the body ever fulfilled its potential. In the 1980s, the ECSS frequently played a role in preparing issues for subsequent ministerial discussion, which allowed it, on occasion, at least, to have an overview of international economic cooperation, but its role gradually declined and now senior officials rarely attend.

### **The European Community/Union and the OECD**

European integration and cooperation have always affected the evolution of the OEEC and the OECD. In 1947, political disarray in Europe was the reason the United States tried to use the OEEC to foster European integration. In 1958, the creation of the Common Market and the end of the

European Payments Union fatally undermined the OEEC. In 1972, the enlargement of the EC contributed both to a sense that the OECD had lost its way and to the creation of the ECSS. In the late 1980s, as the EC appeared to be revitalized by the Single European Act, people began to mutter again about the OECD's being adrift. The European Commission wanted to join the OECD but was ignored. Instead Protocol 1 of the OECD Convention allows the Commission to "participate in the work" of the OECD, something more than the observer status granted other international organizations. The Commission, which has its own delegation in Paris, has practically the same rights as a member, with two exceptions. It has no vote in the formal adoption of acts of the OECD and, not being a member, it pays no part of the general budget (Schricke 1989, 805-7).

Nineteen of the OECD's current thirty members are European Union (EU) states. Many people wonder whether the ever-closer integration of the EU will render the OECD irrelevant. EU enlargement poses a challenge for the OECD because member states maintain their individual voices, yet the range of things on which they can speak without reference to collective decision making is diminishing. If the Atlantic area were still the focus of OECD work, this imbalance would be serious, as it would be if formal decisions of the Council were important, but the continuing relevance of the OECD goes beyond the North Atlantic.

### **Non-Members and New Members**

The OECD has always been a forum for concerting the policies pursued by member countries in other fora, but in the 1990s, the organization began to face pressures to include non-members in its work. The Group of the Council on Non-Member Countries was created in May 1988 to oversee the developing dialogue with what were then called the Dynamic Asian Economies, in recognition of the reality that in a globalized world economy, understanding developments in OECD economies requires a window on their partners. The organization has also applied its standard working methods and analytic frameworks in major studies of non-members (for example, see OECD 2007a). These studies, which in themselves demonstrate the continuing relevance of the OECD, are useful both to members and to the countries under examination. In 1992, ministers agreed for the first time to elaborate principles for the participation of non-members in OECD work, and eventual membership. Debates on who should be allowed to join the OECD have echoed some of the less edifying debates on EU expansion, but the organization had to manage a set of rather delicate questions. On the one hand, the OECD cannot divert human and financial resources to programs and activities tailored to non-members without a loss to existing members. On the other hand, the fundamental goal of the OECD is enlarging the zone of stable peace by spreading the knowledge of how the liberal



economy works to a larger group of countries. Many OECD economies did not share these values at the outset, and the postwar pattern of cooperation was aimed at building such a community of values.

The major geographic expansion of the OECD area took place in 1964, when Japan's place in the Atlantic community was signified by its membership, which was followed by those of Australia and New Zealand in 1973. The OECD subsequently admitted Mexico (1994), Korea (1996), and a number of European countries. In 2006, a former Mexican foreign minister, Angel Gurría, took office as the new Secretary-General. Enlargement and engagement with non-members was a contentious theme at the June 2007 ministerial. Ministers agreed first to a process of "enhanced engagement" with Brazil, India, Indonesia, China, and South Africa. (Indonesia was added at the last minute at the insistence of Australia.) Second, they agreed to open accession negotiations with Chile, Estonia, Israel, Russia, and Slovenia. The EU was unhappy that the list included only two of its eight new member states not already in the OECD, but others emphasized the global role of the organization by not making OECD membership automatic upon joining the EU. A higher priority will probably be placed on the enhanced-engagement countries than on accessions, especially after the June 2007 G8 summit, where leaders asked the OECD, together with the International Energy Agency, to act as a platform for dialogue with the major emerging economies of Brazil, China, India, Mexico, and South Africa on issues that included innovation, freedom of investment, corporate social responsibility, development in Africa, and energy efficiency. The OECD's expanding global role complements its traditional role in money and trade.

### **Economic Policy Cooperation**

Under the first head of cooperation in the OECD Convention, members are committed to promoting policies designed "to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy." Assessing OECD performance in this area is difficult because the questions are simultaneously highly technical and completely political.

The Bretton Woods system of fixed exchange rates succeeded only to the extent that the United States supplied the system with liquidity by running a budget deficit. As long as people believed that the dollar was literally as good as gold, the illusion could be maintained. After the European currencies became convertible in 1958, cracks began to appear. The system relied on American balance of payments deficits to provide liquidity, but this chronic deficit over the long run undermined confidence in the system. The first run on the dollar came in November 1960. Some authorities maintain that the Bretton Woods system began to operate in pure form only when

the European currencies became convertible. The IMF did not prove to be a useful forum, and consultations among the major countries shifted to the OECD, reflecting both the increase in membership of the IMF and a European desire to meet on more equal terms with the Americans (Fischer 1988, 27). The EPC working party on Policies for the Promotion of Better Payments Equilibrium, known as WP 3, was meant to have a limited membership that would keep financial developments under close and continuous review. Members were senior representatives from the treasuries and central banks of countries most affected by world trade and short-term capital movements – Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. It was useful both as a place for senior officials to talk freely and for the analytic work of the secretariat (Plumptre 1977, 184-85). Later, the General Arrangements to Borrow (GAB) was created in the Group of Ten (G10), with WP 3 as its secretariat, as part of the process by which the rest of the OECD financed American predominance while putting pressure on the American authorities to deal with the dollar problem.

The greatest public prominence for the OECD probably came with its 1966 report on the balance-of-payments adjustment process (OECD 1966a; for a discussion, see Crockett 1989). But if the OECD was *the* forum for international economic cooperation in the 1960s, did this activity amount to anything? Michael Webb argues that “multilateral surveillance in the [OECD] was supposed to encourage countries to pursue policies that were consistent with international equilibrium, but it had no impact on monetary and fiscal policies” (Webb 1992, 160). In his study of the making of American foreign economic policy in the 1960s and 1970s, John Odell concluded that “coordination certainly took place among central bankers and within the Group of Ten, the IMF, and the OECD. This interaction gave rise to attitudes of professional camaraderie. Even occasional coalition building in this field may have taken place, as in the fall of 1971. But when major new directions were determined, the decisions were made by the President and by senior officials whose attitudes were little affected by these networks” (Odell 1982, 349-50). Barry Eichengreen concluded that resolution of liquidity problems in the 1950s was largely accomplished through the market power of the United States, but this factor was less important than coordination in the 1960s because US political and market power alone was insufficient to ensure the stability of the international monetary system (Eichengreen 1989, 258). Adjustment required strategic action among the largest players, coordinated by communication among them, which often took place in WP 3 at the OECD.

The international monetary system did collapse in 1971, in spite of the existing institutions for cooperation. Reform of the system was discussed at the OECD, but it was also on the agenda of the revived Group of Twenty at the IMF, which became the Interim Committee. When the IMF was reformed

in the 1970s, the new Article IV surveillance undermined the role of the OECD. Even as new mechanisms for policy coordination were created, the OECD remained a political forum for consensus building on issues of economic management. This role was evident in the mid-1970s, when stagflation troubled OECD governments. The beginnings of the new sound money paradigm (what other chapters in this volume characterize as neoliberalism) are already apparent in the 1977 McCracken Report on how to achieve both full employment and price stability (OECD 1977; for critiques, see Keohane 1978; Cox 1987, 283).

In the mid-1970s, the OECD was renowned as a redoubt of British economists espousing Keynesian principles (Fratiani and Pattison 1991). Conventional wisdom assigns blame to OECD Keynesianism for the supposed disaster of the Bonn Summit package of 1978, which influenced monetary and fiscal policies to move in the wrong direction (Putnam and Henning 1989, 54-55). The agreement, which began life at the OECD, is a famous example of both the benefits and the disasters of coordination. For a time, multilateralism came to be seen as at most the coordination of national policies as countries concentrated on putting their own houses in order (Llewellyn and Potter 1991, 8).<sup>2</sup> Later, the leading countries became more interested in active international economic cooperation, understood as joint action among the largest economies, but that task was assigned to the Group of Seven (G7), not the OECD.

The OECD has had an ambiguous relationship with the annual economic summits precisely because their tasks overlap. OECD relations have been especially unsatisfactory with the G7 finance ministers, who began work in the mid-1980s, negotiating their Plaza and Louvre accords far from the Château de la Muette. Balance of payments problems were perceived to be severe in the 1980s, especially during the period of concern over the so-called twin deficits in the United States, but accounts of the controversy over the significance of the imbalances and how they came to diminish in importance do not even mention the OECD WP 3 (Krugman 1991).

From the beginning, countries excluded from the summit tried to influence its deliberations (Putnam and Bayne 1987). The custom was therefore established, from 1976 onward, of holding the annual Ministerial Council of the OECD a few weeks before the summit itself. Work prepared for the ministerial was often meant to contribute to summit preparations. Shortly after the summit, the sherpa of the host country would visit the OECD to give an account of what had happened. This process gave the non-participating countries outside the European Community some sense of being involved in the summit process. In addition, the summit declarations often linked the understandings reached by the leaders with the work of other economic organizations, notably the IMF, World Bank, and GATT. These devices helped to render the summits, with their highly selective format, acceptable, or at

least tolerable, to a wider circle of influential nations. The use of the OECD and, less directly, other bodies for *reassuring* non-participants was one aspect of the interaction of the summit and international organizations. But the summits also turned to the international organizations to provide *continuity* in the subjects that they addressed only at yearly intervals. Maintaining the OECD link to the summit is therefore important for the effectiveness of the summit. It is hard to imagine a useful summit discussion of issues that involve all OECD members that would not involve some relationship to further OECD work. On the one hand, the summit cannot replicate the analytic work of the OECD. On the other hand, the OECD cannot provide the high-level attention generated by a summit. The difficulty now is that one participant in what has become the G8 is not a member of the OECD – Russia proved unable to draw successfully on OECD resources in preparing the St. Petersburg summit in 2006 – while attention is shifting to what some call the “G8+5” (Brazil, China, India, Mexico, and South Africa now have a side meeting with G8 leaders), four of which are also not OECD members.

Meanwhile the EPC has not talked about “policy coordination” in years. Even by the time of the Plaza Accord in 1985, the centre of gravity in EPC discussion was “get your own house in order.” Coordination is still very much on the agenda, but not as collaboration. Discussion of coordination now involves the development of what one OECD official has called a “common policy culture,” which ensures that approaches to policy in different countries reflect broadly common objectives and a shared understanding of the ways in which policies should be implemented.

### **Trade Policy**

It is hard to imagine an OECD “common policy culture” that did not include a trade dimension, both as a microeconomic instrument for adjustment and as an element of international economic cooperation. Under the OEEC, closer cooperation in trade was seen as a means to political integration in Europe. Trade conflicts arising over different understandings of integration brought down the OEEC, and so, in reconstituting the organization, states hoped to create the capacity for the political management of trade friction.

Recall that where the GATT preamble speaks of a desire to enter into reciprocal arrangements, Article 1 of the OECD Convention says that the organization shall *promote policies* designed to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations. Nevertheless, during the time that the OECD Convention was being negotiated, the GATT was struggling inconclusively with the Dillon Round. Some people thought it possible that the OECD would prove to be a better vehicle for trade liberalization than the GATT. This ambiguity is the reason that, although the Trade Committee is one of

the organization's most important bodies, it is surprisingly difficult to assess its work.<sup>3</sup> Cooperation on trade ranges from exchanges of information on trade policies through analytic work on how to conceptualize new issues, to discussions about the management of the trading system. Discussion and coordination of action to be taken elsewhere has been important, though now in decline, but attempts at joint action to remove obstacles to trade liberalization were not successful.

The OEEC had an operational role in trade liberalization through the removal of quantitative restrictions, but it had always left tariffs to the GATT (Brusse 1997), and the OEEC Code of Liberalization was not carried over to the new organization. The Americans would not be bound by agreements others had negotiated, and the Canadians were insistent that nothing be done at the OECD that might usurp the role of the GATT. Some minor operational agreements were subsequently negotiated at the OECD, but it is questionable whether such political actions as the 1974 Trade Pledge have been worthwhile. The early notification process gradually fell into disuse as members made more use of GATT dispute settlement procedures, and it became redundant with the many notification requirements incorporated in WTO obligations after 1995. The periodic reviews of main developments in the trading system withered away as the new WTO Trade Policy Review Mechanism came into use.

In 1961, it was not self-evident that the GATT would have such a bright future. In retrospect, given the Kennedy, Tokyo, and Uruguay Rounds, it is clear that the Trade Committee has been valuable precisely because it was *not* operational. It is the place where the principal trading states could assess the state of the trading system without having to hedge their analysis for fear of being tightly bound by their conclusions. The Secretariat can be asked to conduct studies of issues not yet ready for formal negotiations. Strategy for UNCTAD negotiations with developing countries can be discussed in private. When politics makes trade too hot to handle, the OECD could assess the significance of East-West trade, as it did in the early 1980s as part of US Secretary of State George Shultz's strategy for defusing the Soviet pipeline fiasco.<sup>4</sup>

The committee's strengths and weaknesses are illustrated by an example from the Tokyo Round of the GATT. The OECD had begun discussions on government procurement in 1962, when Belgium and the United Kingdom complained against the US Buy American Act. In subsequent years, the Secretariat and the US delegation produced draft guidelines, and the matter remained under discussion until it was transferred to the Tokyo Round in 1976. Gilbert Winham reports that "this lengthy discussion essentially uncovered the political problems and resolved some terminological difficulties of the subject, but *the major trading powers were unable to reach agreement on*

*the matter in isolation from other areas of international trade*" (Winham 1986, 140, emphasis added).

In the aftermath of the Tokyo Round, states were worried about growing protectionist tendencies and the danger that the move towards greater liberalization might grind to a halt, or at least slow. The response was "Trade Issues in the 1980s," a project involving most directorates, launched after a comprehensive discussion of trade at the 1981 ministerial. Work involved most OECD bodies in a report to the 1982 ministerial, which preceded the GATT ministerial of that year. The proposals in the subsequent horizontal ministerial trade mandate (MTM) work program concerned, first, problems that could result in immediate action (including safeguards, for example); second, longer-term trade and related questions, and systemic problems arising initially in a number of sectors, including high technology; and third, the links between trade and other policies: structural adjustment, investment, and competition. The Trade Study was the foundation for the Trade Committee's invaluable role in the preparations for the Uruguay Round, both on services (Drake and Nicolaidis 1992) and, in cooperation with the Agriculture Committee, on farm trade (OECD 1987a, 1990a).

The organization had begun its important work on domestic agricultural policies in the time of the OEEC, but the work on agricultural trade really began only in the early 1980s. The well-established domestic agricultural policies of the industrialized countries caused few troubles for anybody but the taxpayers who supported them, until an unhappy conjuncture of factors led to extreme conflict between the principal exporters (Wolfe 1998). The MTM allowed states to work together when the issue was not yet ripe for negotiation and in the absence of a forum in which it could be negotiated. The study demonstrated analytically a point that was important politically, namely, that a multi-country, multi-commodity approach to negotiations was essential. The OECD work also made the negotiation of reform possible, by developing the concept of the producer and consumer subsidy equivalents (PSE/CSE), which was the basis for the WTO Aggregate Measure of Support.<sup>5</sup>

In both agriculture and services, the problem was how to think about the issues to be negotiated. Work at the OECD on the conceptual problems posed by the new issues was not easy, but it was possible only because governments knew that negotiations over binding obligations would take place in another forum. The third part of the MTM called for an analysis of the most appropriate methods for improving the functioning of world agricultural markets. It was not easy to get this part of the work launched. Its fruits were reform commitments in the 1987 Communiqué, which, as demonstrated in the annual monitoring reports, countries ignored until the WTO agricultural agreement entered into force. The Uruguay Round would have been difficult

without the OECD's work, but analysis is useful only to a point, and the OECD is not the place for negotiation.

Even before the creation of the WTO, members wondered whether the OECD still had a trade role. When the GATT had infrequent meetings, a highlight of the OECD Trade Committee used to be no-holds-barred discussions in private among senior trade policy people from capitals, but members now have many more occasions to meet at formal and informal WTO meetings, and the people they most need to see to resolve negotiating impasses are their counterparts from Brazil, India, and China. To take the Canadian example, the head of multilateral trade policy in Ottawa attended every meeting of the Trade Committee in the 1980s, often accompanied by a junior official. More recently, however, someone from Ottawa attended one in every three meetings, at best. Senior attendance from other countries has been equally sparse, although the level of attendance has picked up recently under the chairmanship of Crawford Falconer, New Zealand's WTO ambassador and chair of the Doha Round agriculture negotiations. It might pick up more if not for the fact that Trade Committee discussion is dominated by the nineteen countries that are also member states of the EU, who have no competence for trade policy under Section 133 of the Maastricht Treaty. The EU members therefore relish Paris as their one multilateral chance to speak (the European Commission speaks for them in Geneva), but other OECD members are bored by the Eurocentric repetition of arguments they have already heard. EU efforts to work through how they are to be represented in international bodies will become more important as more of their members join the OECD.

The analytic role of the OECD continues, however. Unlike World Bank research on trade, the OECD has tried not merely to provide negotiators with useful background but also to advance the negotiations. It maintains good links with the WTO secretariat, and senior members of the WTO secretariat attend the Trade Committee. The OECD Trade Directorate undertook useful work in the early years of Doha, when WTO members were still scoping out the ambition and range of negotiations. Its ability to contribute declined markedly over time, due mainly to the refusal of OECD members to allow work to proceed in a range of areas for fear that it might negatively influence their interests in the negotiations.

Take three examples. First, Secretariat ideas for work on improving services negotiating modalities were rejected because the Trade Committee thought it too close to the negotiations. Second, the OECD has the best comparative data on the main agricultural exporters, the sophisticated models, and the analytic tools to prepare country studies of the leading developing countries, including calculating PSEs, but members have blocked analytic work that might have developed ideas that they did not want to hear. Third, two

members of the committee are “developing countries” in WTO terms: they blocked vital work on “differentiation” among developing countries, presumably because the conclusions might have affected their own status.<sup>6</sup> In contrast to these lapses, the WTO has been particularly appreciative of OECD work on trade facilitation and preference erosion, among others, all areas with a strong development dimension and that have involved close cooperation with non-OECD countries. Perhaps the most valuable work has been on making sure that aid works for trade, and on managing the joint WTO-OECD database on trade-related technical assistance and capacity building. One of the main contributions of the OECD to the Aid for Trade Task Force was to focus the debate on improving effectiveness rather than confine attention to providing additional financial resources.

The OECD’s future role depends on its ability to consider where the WTO agenda will be in the next decade, not next week. The OECD can use its unparalleled access to networks of experts in all policy domains to bring new ideas to the consideration of commercial problems. EU member states can participate in such discussions without turning Trade Committee debates into a pale reflection of the WTO meetings from which they are excluded. With ever-increasing trade being one driver of globalization, and the vector by which OECD members are brought into ever-deeper contact with the non-members on the organization’s “enhanced engagement” list, trade policy remains a vital aspect of its evolving common policy culture.

### **Conclusion**

The topic of the future of the organization has been indelibly inscribed on the OEEC/OECD agenda since ministers first met in Paris in July 1947. The peaks in interest came in the 1947-50 period, when European integration was first mooted, and again in the late 1950s, after the signing of the Treaty of Rome. The turmoil and uncertainty in the multilateral system of trade and payments provided a dramatic backdrop for the round of soul searching stimulated in the 1970s by the enlargement of the European Community. It is surely no accident that the 1990s round of introspection took place at a time of further European integration and disarray in international economic cooperation. In the twenty-first century, transatlantic tensions persist, but the principal threats to global economic stability are elsewhere. The OECD contributes not by being a political forum but by applying its traditional analytic tools to the new economic powers (OECD 2006a) and by helping its members and its new partners think through the challenges of globalization.

As always, the central OECD challenge is good domestic policy, and the message is about how adjustment to globalization does not always take place at the border, which is why OECD work must still embrace so many policy domains. OECD analysis goes much more deeply into the detail of domestic



policy than do WTO negotiations but with a smaller group of similar countries and no binding obligations, which makes discussion of such intrusive matters easier. The OECD is more than a think tank because it develops not merely new ideas but also consensual knowledge about how the world works. The most important thing that changes because of the OECD might be the thinking of the people – from technical officials to ministers – who attend its meetings or participate in its peer review process. The ideas it develops can have influence far beyond the organization – the “polluter pays” principle, for example, was first developed there. Yet it does not move that knowledge to joint action. Once issues are well understood, and the likely positions of all parties are known, it makes sense to move to a table that is equipped for bargaining. The OECD is not an executive, rule-making body. Nothing in its convention mandates such a task; little in decades of experience suggests that it would have fruitful results. The OECD contribution lies in influencing policy by identifying norms and principles for negotiations that take place in the many other international organizations that use its ideas, especially the G8 and the WTO.

The OECD began by promoting European integration, which required collective policy action notably in the domains of trade and money. After the creation of the EEC, the OECD was not needed for collective action in Europe but for help in managing the transatlantic tension generated by European integration. The methods and principles it developed for that task have proved remarkably resilient. Rather than promoting European integration, the OECD message is about adapting to globalization, but the broad principles are the same – liberalization and integration are better than protectionism and autarchy. This message is increasingly brought to a wider group of countries: the OECD is no longer centred in the Atlantic, let alone Western Europe. Other authors in this volume analyze the different variants of liberalism manifest in OECD advice, but the underlying belief in open markets and trade as the basis for peace has never wavered.

### **Acknowledgments**

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### **Notes**

- 1 For an early but comprehensive description of the origins and work of the OECD, see Aubrey (1967).
- 2 For an assessment of the institutional and intellectual changes that have affected the OECD, see the historical survey in the fiftieth anniversary issue of the *Economic Outlook* (OECD 1991).
- 3 This section is indebted to the admirable work of Serge Devos (Devos 1991; see also Stone 1984; Blair 1993; and Cohn 2002).

- 4 The Reagan administration angered Europeans when it tried to use US export control legislation to prevent the European affiliates of US corporations from providing high-tech components for a gas pipeline from the Soviet Union to Europe.
- 5 On the origins of the PSE in FAO (Food and Agriculture Organization of the United Nations) work, and on other details on the OECD's role, see Josling et al. (1990, 440ff.).
- 6 Expanding membership may also have undermined the confidentiality of Trade Committee deliberations.