Who compensates the losers? Embedded liberalism, inequality and the limits of global governance

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FIRST, INCOMPLETE DRAFT – PLEASE DON'T QUOTE

Abstract

In this paper I adopt a Polanyian perspective on the division of labour between the state and the institutions of global governance. Traditionally, the state had the dual task of creating and embedding markets. Today, most markets are global in scope and created through international action, but still embedded nationally. In industrialized countries this embedding typically takes the form of social policies that compensate the losers of globalization. The resulting compromise between international liberalization and domestic welfare state development is usually called 'embedded liberalism'. An international embedding of market forces, which would be another option, has remained conspicuously underdeveloped. In this paper I highlight the often-forgotten controversies over attempts at a genuinely international embedding of markets. In the empirical section of the paper I first trace the history of the global trading regime from the beginning in the 1940s to the debates over a new international economic order in the 1970s. In a second step I compare the lessons from the field of world trade to the global policy of climate change that is marked by a commodification of the atmosphere and the development of transnational carbon markets without much regard to questions of social embedding.

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1) Introduction: what is embedded liberalism?

Few terms in international political economy (IPE) have become as popular as G. John Ruggie's famous neologism 'embedded liberalism' (Ruggie 1982). Drawing on Karl Polanyi's ideas on the social embedding of markets Ruggie coined this term to describe the particular arrangement of international governance directly after Wold War II. He in particular seems to agree with Polanyi's diagnosis that the turn to economic nationalism during the 1920s and the disastrous consequences that it had should be read as a reaction to the wave of liberalization and economic globalization in the period before World War I (Ruggie 1982: 386/7). The rise of both socialism and fascism in this view may be explained as a revolt against the subordination of national politics to the imperatives of the world market. The drafters of the post-war arrangements had to come to terms with this anti-liberal legacy in their attempts at devising a new international economic order. As Ruggie explained, the particular purpose of that order was to strike a balance between the competing goals of liberalization through international governance on the one hand side, and national political autonomy on the other. 'This was the essence of the embedded liberalism compromise: unlike the economic nationalism of the thirties it would be multilateral in character; unlike the liberalism of the gold standard and free trade its multilateralism would be predicated upon domestic interventionism' (Ruggie 1982: 393). Embedded liberalism was thus characterized by the rule-based facilitation of market exchange at the international level while allowing states to adapt nationally to the effects and pressures created by this liberalization.

What remains somewhat opaque in Ruggie's account is the precise relationship between the abstract principle of embedded liberalism (that he at times also calls a 'generative grammar' of international institutions) and the concrete post-war settlement. In the literature, the latter interpretation prevails. 'Embedded liberalism' became to be indentified with the concrete

institutional arrangements that were established in the 1940s, in particular the international monetary regime. The regime, agreed upon at the Bretton Woods conference in 1944, provided a system of payments based on the US dollar, in which all other currencies were defined in relation to the dollar, itself convertible into gold. In the prevailing reading, Ruggie's term 'embedded liberalism' became almost a synonym for the original Bretton Woods monetary regime. Authors who adhere to this narrow conception consequently find not only a starting date of 'embedded liberalism' but also an end date in the early 1970s when the monetary system became unsustainable, the oil crisis hit the West, and unemployment rates soared (Harvey 2005: 11/12). Ruggie himself seems to espouse the position that the embedded liberalism was a temporary affair that was lost along the way and may be in need of re-constitution (Ruggie 2003). '"[E]mbedded liberalism" has come to occupy a central place in IPE as a marker of the difference between the postwar moment and our own globalised and neoliberal present" (Aitken 2008: 439). In this sense the story of the rise and demise of embedded liberalism is also a story about the lost golden age of civilized capitalism, a moment in time when the compromise between economic liberalism and social protection, capital and labour allegedly worked out.

In this article I set out to challenge this particular historicized reading of embedded liberalism. I suggest interpreting embedded liberalism in the more abstract sense of the 'generative grammar' as describing a certain division of labour between the national and the international level, a way of embedding an internationalized market domestically. I will refer to Polanyi's 'Great Transformation' to hammer out the contours of this argument. I argue that, in essence, the question of social embedding of markets is a question of how to compensate the losers. Economic exchange tends to divide a society in the realm of winners and losers. Traditional societies had devised mechanisms that limited and ameliorated this bifurcation, which partly explains their static social structure and non-dynamic economy. The liberalization and

accelerated globalization of economic exchange has made these embeddings unviable and spawned the 'social question', which essentially is a question of how and to what extent to compensate the relative losers.

I will proceed to argue that the story of the falling from grace is a particularly Western story. It is necessarily situated as the original embedded liberalism compromise never functioned for developing countries and hence the vast majority of the world's citizens. I insist that there is and always was an alternative to embedded liberalism compromise which consists in the international embedding of international markets. This would have meant a reversal of the division of labour along the international-domestic frontier that is suggested by embedded liberalism. I substantiate this argument by showing that the embedded liberalism compromise was solidified at various moments during the post-war era when it became contested. I mainly draw on evidence from the field of international trade where the connection between trade and development became the main issue in North South relations. It emerges that, not surprisingly, the embedded liberalism compromise was vigorously defended on these occasions by its original sponsors, in particular the United States. In the last empirical section I will open up the discussion and transcend the economic policy realm in the narrow sense by showing that the conflict over the allocation of tasks between the domestic and the international realm has been present also in the field of global environmental politics. The compensation of the losers of global warming will take place again domestically as well.

2) Embedding global markets

The idea of the social embedding of markets is usually traced back to Karl Polanyis famous book 'The Great Transformation' (2001[1944]). It has been picked up later by several authors from various disciplines and its meaning has changed considerably over time (Beckert 2007). Unfortunately, in his celebrated book, Polanyi did not provide a neat definition of the concept

of ‘embedding’, for which he became so famous (Block 2003). In fact, he rarely used the term at all.[2] His ‘Great Transformation’ presents a very complex line of argument that is not easy to summarize. Most notably he was interested in the emergence of the market as a way of organizing economic transactions, nationally and internationally. What he meant by ‘embedding’ of markets can be gathered by contrasting those historical situations in which economic transactions were regulated by factors other than individual rent-seeking and those in which market exchange became dominant.

‘Broadly, the proposition holds that all economic systems known to us up to the end of feudalism in Western Europe were organized either on the principle of reciprocity or redistribution, or house-holding, or some combination of the three. These principles were institutionalized with the help of a social organization, which, inter alia, made use of the patterns of symmetry, centricity, and autarchy. In this framework, the orderly production and distribution of goods was secured through a great variety of individual motives disciplined by general principles of behavior. Among these motives gain was not prominent. Custom and law, magic and religion cooperated in inducing the individual to comply with rules of behavior which, eventually, ensured his functioning in the economic system’ (Polanyi 2001[1944]: 57).

Thus, in pre-modern societies economic activity and the allocation of goods were embedded into wider social structures of meaning. Polanyi had studied these mechanisms of allocation and the principles that governed them at great length (see Polanyi on dahomey). This led him to the conclusion that markets do not crop up spontaneously but need to be actively created by destroying such traditional structures of meaning and the lifestyle that comes with it. The move to the market re-orients individuals towards material gain, barter and trading. He asserts

[2] I found the term four times only, on pp. 60, 64, 73 and 135.

that 'the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than running society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system' (ibidem, p. 60).

A likely consequence of market-building is social unrest. First of all, because market-building itself often is a violent activity, driving people out of their traditional livelihood, custom and habitat; moreover, market exchanges rapidly reshuffle the pattern of allocation in society, creating new winners and new losers. Market-making dissolves social bonds and erodes solidarity. And, most importantly, markets are as prone to regular crisis as they are prone to growth. Economic crises create unemployment and poverty and status loss that people are unwilling to accept. This is why market-making and liberalization of existing markets breed resistance and, as Polanyi argued, always and inevitably create a counter-movement directed towards a 're-embedding' of the market into society. The core function of 'embedding markets' is the (re-)creation of social stability. Social groups, most prominently organized labour, seek to hedge the disruptive forces of economic transactions in the market, and faced with such demands politics seeks to re-conquer at least some of the territory lost. In Polanyi's view on history there was hence nothing irrational or surprising about the collective resort to protectionism during the interwar period. Politicians of all creeds sought to fulfill popular demand for protection against the unpredictable world market. Polanyi, then, was convinced that strong political institutions were necessary to prevent markets from doing too much damage to society. I take such an embedding of the market into society at the macro-level to be the core meaning of 'embedding' in Polanyi and not the micro-level elements of

embeddedness of market transactions into social networks that economic sociology has studied extensively.[3]

If the goal of embedding markets is the maintenance of social order and stability at the macro-level, the social mechanisms available for the compensation of the losers become crucial.[4] Markets cause unrest, as we have seen, because they regularly produce losers. With a view to social stability the question is how to address this issue. Law and the police force might be instrumental in repressing social unrest. Morality appears to be especially apt in soothing it, making losing appear as natural and right. The pronouncedly liberal ethics of the market that puts the blame squarely on the losers themselves has fascinated scholars of American society for quite some time (Hochschildt 1981, Lewis 1978, McClosky and Zaller 1984; Sandage 2005). The arguably most effective way of dealing with the wrath of the losers is some form of material compensation. Historically this was achieved mainly through the development of the welfare state that is particularly elaborated in social-democratic European countries but of course developed in various forms throughout the OECD world (Esping-Andersen 1990). The welfare state offers various benefits for the losers (although it offers benefits to more privileged groups as well), in the form of unemployment benefits, early retirement schemes, subsidized jobs, opportunities at retraining etc. (Kapstein 1999).

[3] The term embeddedness was taken up by several strands of economic sociology. In an often-cited article Granovetter (1985) reintroduced the concept into debate, completely changing the meaning of the term. For Granovetter, embeddedness refers to social structures of economic interaction, that is, networks of economic exchange. The problem addressed here is the building of trust through interaction at the micro-level in society. Beckert sees embeddedness as the functional solution to three fundamental coordination problems that markets face: the problem of value, of competition and of cooperation (2007: 11). The problems he mentions here are preconditions for the emergence and functioning of market economies. Embeddedness refers to social institutions that make the functioning of a market economy possible, thus bridging the gap between individual behavior and societal macro-structures.

[4] From an ethical point of view one might of course object that not only trade creates losers but non-trading creates losers as well. Such counterfactuals are politically rather ineffective in that job loss due to competition is felt and seen by the people affected, while job loss due to non-trading is invisible.

There is a complex relationship between the creation of global markets and national welfare state development. Katzenstein (1985) has shown that small open economies that are particularly vulnerable have particularly elaborate welfare state structures, or, as I would call it, mechanisms of embedding. There is no space here to discuss the various repercussions that the accelerating pace of global market exchanges and the increasingly mobility of capital have had on national welfare state development in the last decades. Yet the particular division of labour between the international and the national level that I identified as the essence of the embedded liberalism compromise still seems to be functioning after the end of the Bretton Woods monetary regime and the oil crises of the 1970s. The global currency regime collapsed at a moment in time when in most industrialized economies public spending figures were still on the rise and the welfare state expanded enormously. And even if the ideological tide then turned (for a while, it seems) against Keynesianism in the 1980s and 1990s the industrialized countries have not become obsolete as embedders of the world market, neither in the 1970s, nor today. They face budgetary restraints and rising inequality but they manage to cope with unemployment to an extent that prevents social unrest and stability.

Yet, all that has been said so far about embedded liberalism is only true for the OECD world. Ex-communist economies and the countries of the global South are not able to cushion the adverse effects of liberalized world markets in the same way. For developing countries, as Ruggie acknowledges, the embedded liberalism compromise never worked. As I will show below they therefore promoted global institutions that would have addressed their inability by fostering development and channeling wealth to the South. This amounted to another ‘generative grammar’ of international institutions – one of global redistributive policies. That alternative, however, has been silenced, ridiculed and fought consistently by most developed countries.

Before turning to the empirical discussion I suggest that we pay briefly take issue with the idea of international cooperation and global governance. Global governance, the textbooks say, is a mechanism for resolving those problems that states cannot resolve on their own any more. Which are those problems? This is, contrary to what is sometimes suggested in the literature, far from obvious. "[G]overning, without sovereign authority, relationships that transcend national frontiers. Global governance is doing internationally what governments do at home" (Finkelstein 1995: 369). This statement is, at least in some sense, wrong. While probably everything that global political institutions do finds some equivalent at the national level not everything that governments do at home is also done at the global level. International organizations do not tax citizens and they do not, at least not officially, redistribute wealth. This disjuncture of regulatory and redistributive policies lies at the heart of the current division of labour between the state and international institutions.

3) Defending embedded liberalism in the field of world trade

When the World Bank and the International Monetary Fund (IMF) had been established in 1944 these two 'Bretton Woods' institutions were to be complemented with an 'international trade organization' (ITO). This proved to be the harder task (Gardner 1956). In the American view, such an organization was supposed to primarily promote the liberalization of world trade. Their British partners, in contrast, favoured a much more comprehensive design that would have included also employment matters and national economic development. In negotiation practice, the main bone of contention for the United States was the *Commonwealth System of Preferences* that systematically privileged trade within the British (ex-)colonial empire over trade relations with the rest of the world. American free traders urged the British to dismantle these regional preferences as they painfully contradicted the

multilateral trade liberalization that the State Department desired.[5] What the United States wanted was, if not full-fledged free trade, so at least a reasonably free play of market forces at the international level.[6]

The Anglo-American dispute resulted in a pragmatic compromise. At the level of principles, the British accepted an essentially liberal design as the starting point for the ITO-negotiations. The Americans in return accepted important qualifications to the principle of free trade, including the continuation of preference schemes. Yet the ITO was supposed to be a multilateral enterprise, resulting from a world conference. Therefore, the American delegation in 1946 referred the matter to the Economic and Social Council (ECOSOC) of the United Nations. As we can see from the records, the independent developing countries, quite few at the time, proposed that such a world trade conference should tackle the issue of economic development and discuss ways of balancing the goal of free trade with the needs of underdeveloped countries.

American negotiators were particularly irritated by the developing countries' plan to consider some form of global redistribution on a world trade agenda. In his book on the Havana Charter, US-negotiator Clair Wilcox displays his anger about some claims that developing countries made.[7] 'Wealth and income, they argued, should be redistributed between the richer and the poor states. Upon the rich, obligations should be imposed; upon the poor, privileges should be conferred' (Wilcox, 1949: 31/32). In practice, the proposals that outraged Wilcox included the protection of infant industries, the permission to create new preferential agreements, the freedom to control foreign investment and the formation of commodity cartels to fix 'remunerative' prices for such exports.

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[5] For the American perspective on the confrontation over the Ottawa system see Gardner, 1970: 113-116.
[6] A 'free trader' at that point in time was considered somebody who thought that tariffs should be applied according to the most-favored nation rule and should not be overly high. Completely abandoning all tariffs was not regarded as an option (Diebold, 1994: 335; Kock, 1969: 9; Viner, 1947).
[7] Wilcox served as vice-chairman of the American delegation during the main part of the preparatory period and at the Havana Conference, see also Graz, 1999: 254.

The developing countries, however, were not willing to step back and drove the negotiations to the brink of failure. After weeks of crisis the Havana Charter was finally signed on 24 March 1948, two months behind the original schedule. Again, the US negotiators had been forced to compromise massively. In 106 articles, grouped in 9 chapters, the Havana Charter covered trade, employment, economic development and restoration, restrictive business practices, and international commodity agreements.[8] Special exceptions for less developed countries formed only a small portion of the countless exceptions in the Havana Charter. Other safeguards were introduced to allow for the economic reconstruction of Europe, still others appeased countries with colonial preference systems like the UK, and a third group favoured all countries with balance of payments problems (Henderson, 1949). As many negotiators had already suspected would be the case in private the ITO-enterprise ended in failure: the Havana Charter was signed in March 1948, but never ratified.

The main reason for this failure was the increasing hostility of the US congress. Public opinion in America had shifted against the internationalization wave of wartime and the immediate post-war years. Moreover, the US business community successfully campaigned against the Charter and castigated the interventionist, if not socialist tendencies in it (Diebold, 1994; Gardner, 1956; Hudec, 1990). Yet the end of the Havana Charter did not come as a surprise. It had dawned on negotiators years before the final act was signed that ratification in the US congress might become an extremely difficult hurdle.[9] As this happened, a good deal of the commercial policy content of the Havana Charter was rescued in GATT – at the expense of sections on development and employment that went beyond the limits of a trade agreement.[10] Thus, during the negotiation of the global regime US delegates quite consistently fought the introduction of distributive elements in a world trade order. As compromising with other countries was the only way to conclude the negotiations they accepted regime elements

[8] See UN Doc. E/Conf.2/78, 24 March 1948, published in: United Nations Conference on Trade and Employment, *Final Act and Related Documents*, Havana 1948.
[9] On this aspect see Jackson, 1989: 33; Graz, 1999: 257-259.
[10] The GATT was signed on 24 October 1947 by 23 nations.

that contradicted their ideological commitments. However, domestic resistance stopped the undertaking and put trade governance back on a liberal track. Thus the US Senate helped to restore the embedded liberalism compromise (which was mainly an Anglo-American one) in the field of trade.

After the failure of the ITO, the most important institutional development in the field of world trade was the advent of the United Nations Conference on Trade and Development (UNCTAD) in 1964. The shortcomings of GATT with respect to economic development were denounced already in the late 1940s (Williams, 1991: 22/23). To the industrialized countries this was not a big loss, as escape clauses in GATT ensured that the reconstruction of Europe was not being hampered by an overly quick liberalization of world trade. Developing countries, however, found themselves outmanoeuvred as GATT occupied the centre of global trade regulation. In fact, the impression that the rich countries of the West could manipulate trade rules to their liking deterred many developing countries from signing the agreement (Kock, 1969: 276). Their protest gained momentum only during the 1950s when more and more developing countries became independent, and the numerical majority in the General Assembly of the UN shifted in favour of less developed nations, taken as a group. Between 1945 and 1960, the number of developing countries in the UN more than doubled, from 31 to 67.[11] Moreover, the concerns of the newly independent ex-colonies, often exploited under colonial rule and poverty stricken were viewed with growing sympathy in the North (Fieldhouse, 1999: 227).

As UNCTAD targeted the trade and development nexus it is interesting to investigate the American attitudes towards this enterprise. After years of negotiation, developing countries in 1963 managed to put this new world trade conference on the UN agenda (UNCTAD, 1964). The United States had resisted the convocation of this conference, but

[11] Source: Sauvant, 1981: 8.

without success.[12] UNCTAD was opened in March 1964. The purpose of the meeting was to study adjustments to the existing international economic order, with the aim of increasing developing countries' benefits from world trade. Authoritative measures of global governance should channel wealth to the South. Of all industrialized countries, the United States took the most clear-cut stance for a liberal international order and free trade, and it made it very clear that it would not accept deviations from this maxim (Beichman, 1967:131). This attitude provoked harsh criticism in developing countries, but not only there. A Canadian observer wrote: 'The United States delegation appeared to lack both an understanding of the basic needs of the less-developed countries and any desire to gain one' (Mills, 1965: 214).

In stark contrast to the hard line of the United States, some European negotiators displayed a more sympathetic approach to the cause of developing countries. A French policy paper submitted to UNCTAD summarized the purpose of the conference in the following words: 'All countries now recognize in practice the desirability of transfers of national income in order to mitigate, or at least avoid aggravation of, the disparities existing in the world between the incomes of different countries. The argument is now limited to the scope of such transfers and the means of effecting them.'[13]

Among the political means discussed at UNCTAD special trade preferences in the name of economic development were most prominent. Trade preferences as such are a very old idea and are the basic mechanism for any kind of trade liberalization. In traditional, bilateral trading agreements two countries granted each other favourable tariff rates in a reciprocal way. Thus they discriminated in favour of each other, or against the rest of the world. In creating the post-war international economic order, the principle of bilateral concessions was abandoned and supplanted by the Most-Favoured Nation Principle (MFN). The MFN was thought to secure free exchange on the world market and became a cornerstone

[12] 'Memorandum from the Under Secretary of State (Ball) to President Kennedy', November 12, 1963, reprinted in: *Foreign Relations of the United States*, 1961-1963, Vol. IX: 622/23.
[13] 'Memorandum concerning certain items on the agenda of the United Nations Conference on Trade and Development', reprinted in: UNCTAD I, *Proceedings*, Vol. VIII: 18-27.

of GATT. The plan to deviate from this liberal order for the sake of development became one of the most contested issues at UNCTAD.

The United States argued consistently in favour of the MFN while the West Europeans were much more prone to accommodate the wish for a preference scheme. They tabled two different proposals for such a global preference scheme. The European Economic Community (EEC) initially presented a Franco-Belgian approach called the *Brasseur-Plan* that suggested a quite complicated scheme of concessions negotiated on a country-by-country basis and limited in scope and time. The UK promoted a system of generalized preferences (GSP) under which favourable treatment would be granted by all industrialized countries to all developing countries. From the ideological point of view, the GSP was more compatible with the MFN than the *Brasseur-Plan* because it envisaged just one single preference scheme. This argument did not, however, convince the US delegation. At a preparatory meeting in May 1963, the American representative still urged for 'a maximum liberalization of trade achieved by across-the-board, equal-percentage, linear cuts in tariffs' in the Kennedy Round of GATT, which started parallel to UNCTAD.[14]

The American position on the issue of trade preferences was known at the time in US foreign policy circles as the 'Ball position', named after the US Under Secretary of State in charge of trade policy, George Ball: No deviation from the MFN principle, and no multilateral trade negotiations outside the organizational framework of GATT. Ball saw the main causes for the under-development of the South in the domestic structures of these countries. In this respect, Ball was much in line with neo-classical American economists such as Walt Rostow (1960). In addition, Ball feared that the entire system of multilateral trade liberalization was at risk if any special deals were made with developing countries. Exceptions made would spawn further requests for exceptions. For Ball, the GATT and the MFN principle enjoyed absolute priority in world trade policy. Every temptation to weaken these institutions had to be resisted

[14] 'Statement Made by the U.S. Special Representative for Trade Negotiations (Herter) Before the Contracting Parties to the GATT', Geneva, 17 May 1963, printed in: *Department of State Bulletin*, 24 June 1963: 991-995.

(Meltzer, 1976: 656). And in fact, due to the resistance of the United States the final act of UNCTAD did not contain any specific provisions regarding a preference system (Weintraub, 1967; Krishnamurti, 1967).

Yet by insisting on the Ball position the United States had manoeuvred itself into international isolation on trade and development issues. In addition, traditional US policy toward trade liberalization appeared to be threatened by precisely this isolation. In the absence of progress toward a GSP, the EEC continued to consolidate its regional preferential systems in Africa and the Asia-Pacific. Moreover, in 1965 Australia launched a new, non-reciprocal preference system, and obtained a GATT waiver for it. Hence critics could warn against an upcoming fragmentation of world trade, divided by preferential agreements in several spheres of the globe. Nevertheless, the American position only changed when George Ball lost influence in the Johnson administration and the trade and development issue was taken over by Anthony Solomon, incoming Assistant Secretary of State for Economic Affairs (Meltzer, 1976).

Solomon took up Ball's liberal free trade views but gave them a twist so that they could accommodate a GSP. In August 1966 a memorandum was circulated that announced a deviation from the 'Ball position' and thus initiated a phase of policy reversal. The three-page document proposes 'to move to the maximum extent possible toward free trade among all industrialized countries. (...) The second element of the proposed strategy would be to offer the poor countries a "head start" in such a move toward ultimate free trade. The benefits of tariff reductions would be given to them immediately while reductions among industrialized countries are phased over a longer period.'[15] The last sentence of course means nothing else than the introduction of a generalized system of preferences. After internal clearance with other departments the policy reversal was announced by Lyndon B. Johnson at the OAS-summit in Punta del Este, Uruguay, in April 1967.

[15] 'Memorandum from Under Secretary of State (Ball) to President Johnson', 15 August 1966, printed in: *Foreign Relations of the United States, 1964-1968*, Vol. VIII: 846-849, here 846.

If we analyze the development of global economic governance as a whole, we see that with UNCTAD a new type of institution emerged. It was concerned with development, but its strategy against poverty was not the implementation of local projects. Rather, its function was to modify the rules of global trade in such a way as to give developing countries an advantage. Unlike GATT that stressed equality of countries in trade, UNCTAD stressed their difference. UNCTAD was consciously and openly biased. Unlike GATT that favoured the market as a means to distribute benefits from economic cooperation UNCTAD favoured political measures. It introduced a 'duality of norms' into international trade governance (Berthoud, 1985:75). It distinguished a body of rules applicable to economic relations among developed countries from those applicable in the relations between a developed and a developing country.

The contrast between the 'egalitarian' design of embedded liberalism and UNCTAD is therefore obvious. When we compare the attitudes of industrialized countries towards it we can see that, along with Japan, the United States was most reluctant to accept this new institution. It was equally reluctant to accept the GSP. As I have argued above, the American position cannot be understood without looking at the ideological friction between the UNCTAD program and the liberal regime design that key figures in American foreign policy promoted. This is not to suggest that this was the only motivation among American policy makers. With regard to the GSP, fears of protectionist industry lobbies and geopolitical considerations influenced the choice. Yet the presence of such considerations cannot overshadow the fact that in the period under study here 'U.S. foreign economic policy has been coherent and consistently liberal' (Pastor, 1980: 5).

The fate of UNCTAD during the 1970s and 1980s shows that this institution never became a serious competitor to GATT. This was partly due to the hyperbole of some developing countries that sought to revolutionize the world economic order by fiat in a couple of years. But more than this it was due to the cold calculus of the developed countries that

agreed in UNCTAD to the declaration of a 'New International Economic Order' without the slightest intention to realize it in practice. Their global forum remained GATT and its liberalization agenda. In retrospect, the creation of UNCTAD might have spared them a lot of friction and stalemate in GATT by opening a new venue that was dedicated to the particular cause of developing countries. The foundation and subsequent marginalization of UNCTAD amounted to an effective outsourcing of the 'trade and development' issue from the world trade order and in the end re-affirmed the embedded liberalism compromise.

4. Embedded liberalism and climate change policy

As the last section has shown, industrialized countries and in particular the United States consistently pushed for the continuation of the embedded liberalism compromise and against visions of a 'redistributive multilateralism' in the field of international trade. To establish whether this is a general trend, á good case for comparison is the multilateral policy against climate change (Yamin and Depledge, 2004). The problem of climate change is global in nature and combating it requires a truly multilateral effort. In addition, climate change has major distributive implications. The reason is that a lot of the currently projected damage arising from the 'greenhouse effect' is expected to hit developing countries and not the industrialized states, which in the majority enjoy a temperate or cool climate (Grubb, 1995). While the causes of climate change are mainly located in the North, the consequences will be felt mainly in the South. It is hence obvious that striving for a global solution to climate change also meant creating a new arena for potential North-South conflict.

In addition, political measures to curb the emission of greenhouse gases will almost certainly have effects on the prospects for further economic development. For the time being, economic growth is still linked to an increase in greenhouse gas emissions. Therefore, multilateral negotiations in the field of climate change also need to tackle the issue of economic development in some way or the other. In negotiation history, the core question

became whether equal obligations for all parties were appropriate, given that their contributions to the problem differed so widely. The first milestone in the multilateral negotiation process was the agreement on the UN Framework Convention on Climate Change in spring 1992. The Convention resolves the problem of differentiation among state parties quite ingeniously by introducing the principle of 'common but differentiated responsibilities'. The idea is that industrialized countries should take the lead in climate negotiations because they contributed more to the problem and have more capacities to tackle it. Exempting the South from duties meant to spare them from contributing to a joint effort that was anticipated to be costly. It is noteworthy, that the United States fought the inclusion of that principle into the multilateral regime in general, and the idea of state responsibility in particular. They highlighted the commonality of the effort while the developing countries stressed the need for differentiation.

European negotiators, quite like in the trade case, were much more willing to accept developing countries' calls for differentiation. In fact, the EU introduced a differentiation of duties into its own regional burden sharing scheme, the so-called bubble. The targets range from a 21% reduction for Germany to a 27% increase for Portugal, aiming at an overall reduction of 8%.[16] This division, mainly informed by the respective state of economic development, was viewed as a major precedent for the global climate regime as 'there is also a North-South dimension to EU-politics, resembling the wider North-South divide at the international level' (Wagner, 1997: 303). The EU differentiated at home on the basis of socio-economic conditions and was prepared to accept this at a global scale. In the US, in contrast, the willingness to accept exceptions for developing countries under a climate regime has always been low (Depledge, 2005).

There is ample evidence that the Americans consistently resisted all such plans during the negotiations of the 1997 Kyoto Protocol, which was supposed to translate the Rio

[16] For details see EU Council of Environment Ministers, Conclusions of the 2106[th] meeting (16/17 June1998), doc 9702/98.

principles into a legally binding document with concrete emission reduction targets. In these negotiations the United States fought all attempts to exempt developing countries from duties under the climate regime in order to guarantee their economic development. The climate bill should be paid jointly by all countries. Once again the United States was not able to win universal support for this view on multilateral cooperation. In a late night session and at the personal intervention of Vice President Al Gore, the Kyoto Protocol was concluded. Yet the chance that such a Treaty would ever be ratified was already low at the time.

While the American foreign policy elite was seeking a multilateral solution to climate change, domestic resistance mounted. In particular the Senate, that would have had to ratify the Kyoto accord, threatened to block the agreement. Its position is enshrined in the so-called 'Byrd-Hagel resolution'[17] that was adopted unanimously on 12 June 1997, roughly six months before the Kyoto Conference. In this resolution that was sponsored by 60 senators from both parties, the Senate expressed its deep concern with the climate policy of the Clinton government. Although the resolution constitutes only a statement of intent, the fact that it was adopted without dissent was a clear indication of where the US Senate stood on climate change – quite independent from party differences or exposure of single senators to energy lobbies. It was also more generally viewed as a sign of increasing domestic opposition to the climate policy course of the Clinton administration.

It is noteworthy that the major argument made in 'Byrd-Hagel' against Kyoto was the differentiation structure of the climate change regime. In the Senate's view, the fatal flaw of the Kyoto regime was that it exempted whole groups of countries from multilateral effort, thus giving them unfair advantage in global economic competition. More than the environmental policy content of the Kyoto Protocol, it was affirmative action in favour of developing countries that the Senate rejected. It hampered the free play of market forces at the global level, necessitated large scale governmental intervention in the economy, aimed at

[17] 105th Congress, 1st session, Senate, Resolution 98.

global re-distribution, fostered the growth of an international bureaucracy and increased the burden on American taxpayers. When George W. Bush became President in 2000, America's anti-Kyoto movement came to power. During the campaign, Bush said the following: 'I oppose the Kyoto Protocol; it is ineffective, inadequate, and unfair to America because it exempts 80 percent of the world, including major population centres such as China and India, from compliance.'[18] So it was only logical that the new administration announced the country's official retreat from the Kyoto regime in 2001.

The core values invoked by the opponents to multilateralism in both trade and climate politics are liberty and economic freedom, which are threatened by big government, taxes, and forced redistribution. Starting from these values, multilateral climate policy almost by necessity becomes a threat. Moreover, it makes national economic development and welfare an international concern. Like UNCTAD it allegedly seeks to impose a sort of international welfarism or 'compulsory charity' upon the United States.[19] Some critics explicitly linked the climate regime to the New International Economic Order of the 1970s (Sebenius, 1994: 290; Singer, 2000: 32). Although the Kyoto regime does not require any direct payments to developing countries, it aims to redistribute wealth on a global scale and to affect the conditions of international economic competition. Therefore, the climate regime is at odds with the generative grammar of embedded liberalism that envisaged the separation between the domestic and the international sphere.

The emergent solution of the climate change issue seems to be a new moment of global market-creation. Carbon markets are the solution that is popular in both Europe and the United States. The details of a global regime still need to be worked out. With regard to North-South relations the devil is in the details here. Will initial entitlements of countries

[18] Interview with George W. Bush in the *Audubon Magazine*, September/October 2000, available at http://magazine.audubon.org/fieldnotes/bushgore.html (checked 13 February 2006).
[19] The term 'compulsory charity' was used with respect to US-resistance against the Kyoto-Protocol by Murray Sale, 'After George W. Bush, the Deluge', in: *London Review of Books*, 23 (12), 21 June 2001.

reflect their state of development and/or past contributions to the greenhouse effect, or will they rather reflect the status quo situation? My suspicion is that a possible global regime will have strong elements of the latter, a tendency known as ‘grandfathering’. [section to be expanded and improved].

Conclusion [incomplete and tentative]

I have argued in this paper that the embedded liberalism compromise can be read as a specific division of labour between the national and the international. Markets are created globally b but embedded nationally. This compromise solution works for industrialized countries only which have the resources to effectively cushion the adverse effects of global markets domestically. Developing countries, but also some ex-communist countries in transition, are unable to achieve this. In this paper I highlighted that there has always been a competing design for international governance that was promoted by developing countries but that has been quite effectively marginalized by the West. For lack of a more elegant formulation I called this rival a blueprint of ‘redistributive multilateralism’. The purpose of the empirical discussion was to show that this competing design has been present, and occasionally made some inroads into global governance (see the GSP case) but in the end was always defeated by a regime design that combined global market making with the (fiction) of an efficient national embedding of the market. It was reproduced also in the field of climate change policy where the question of effective adaptation is largely left to the countries experiencing climate change related problems while the production side is tackled by a new moment of market-making instead of stricter global regulatory policies.

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