The Role of the OECD in the Orchestration of Global Knowledge Networks[1]

May 24, 2007

Prepared for presentation at Canadian Political Science Association annual meetings
Saskatoon, Saskatchewan, Canada, Wednesday May 30, 2007.

Tony Porter
Department of Political Science
McMaster University
tporter@mcmaster.ca

Michael Webb
Department of Political Science
University of Victoria
mwebb@uvic.ca

Abstract:
The Organization for Economic Cooperation and Development has not received nearly the scholarly attention one might expect given its size and budget. It presents a puzzle since states give it considerable support and yet many of the problems it addresses, like education policy, do not involve the interdependence that characterizes most issues involving collaboration among states, and its relative lack of measurable knowledge outputs make it unlikely that state support is due to rational cost-benefit calculations. The paper provides a constructivist analysis of the OECD, arguing that the organization's identity-enhancing role and the way that it produces social facts that are taken for granted and, due to their links to identity, self-evidently of value, are more important than rational calculation in explaining the OECD's existence and effects. These arguments are assessed through an examination of two areas in which it has been active: peer review and corporate governance.

The Organization for Economic Cooperation and Development is commonly perceived as simply a highly technical research organization with little significance for world politics. This underestimates the importance for global governance of the knowledge networks that the OECD helps orchestrate, and the contribution of the OECD's knowledge production to the identities of its member-states. The knowledge produced in these networks is not just a summation of data and lessons from the past, but also a guide to future directions in the reproduction and development of the practices that shape an increasingly harmonized global political and economic system. It also involves the ongoing development of a sense of identity for members as it develops policy prescriptions appropriate for liberal-democratic countries that see themselves as world leaders, and the aspirations of member states (and some non-member states) to that identity gives the OECD considerable influence despite its lack of formal powers.

---

[1] This paper is an extensively revised version of a paper with the same title that was presented at the International Studies Association (ISA) meeting in Montreal, in 2004 and at a workshop on the OECD January 19-20, 2007, at Carleton University, Ottawa, Canada. In revising the paper the authors benefited greatly from comments and ideas from Susan Sell and others at the ISA meeting and the Carleton workshop, including Rianne Mahon and Stephen McBride, who provided subsequent comments as well. Funding from the Social Sciences and Humanities Research Council of Canada was important in supporting this research.

To an important degree states involve themselves in the OECD not on the basis of rational calculation, but instead because of a diffuse identification with the norms and values it represents. As such the OECD is playing a significant role in the constitution of the identity of its member-states in a way that is highlighted by state-centric constructivist approaches. The knowledge produced by the OECD is linked to other coherent knowledge-intensive practices that extend so far away from the control of the state that the effect of this knowledge is much better captured by post-structural approaches to knowledge such as those inspired by Foucault, a set of approaches that can be treated as a type of non-state-centric constructivism. The constructivist approach developed in this paper reveals crucial aspects of the OECD's role that are highly relevant for our understanding not just the OECD but also global governance more generally.

A Constructivist Approach to Understanding the OECD

We begin this section with a review of the existing literature on the OECD, drawing out what it can and cannot contribute to this constructivist analysis. Second, we set out our own conceptual approach, focusing first on identity-formation then on the role of knowledge in constituting reality quite independently of states.

Existing studies

While the OECD has received very little attention in the international relations literature, often not even appearing in textbooks on international organizations (eg. Pease, 2003), there are some efforts to conceptualize it that overlap with our own. Wolfe's (1993: 8-11) working paper stresses constructivist themes such as norm-creation. Martens and Balzer (2004) usefully draw on global governance theory and distinguish between the OECD's roles in governance by coordination, opinion formation, and instruments (eg. standards and laws). Hansen et al (2002) draw on Foucault to analyse the OECD's role in public sector reform. Sahlin-Andersson (2000) distinguishes between three traditional dynamics underlying global trends -- parallel national trends, cross-border imitation and learning – and the transnational dynamics characteristic of the OECD, and explores the ways ideas get modified in these processes.

A number of authors have commented on the OECD's commitment to liberal economic ideas. In analyzing its role in relation to cross-border investment, Smythe has described the OECD as "a missionary for values of liberalization" (1998: 243). In the memorable words of Jim MacNeill, one-time OECD environmental official, "the OECD is to classical economics what St. Peter's is to Christianity. I mean it's the keeper of the keys" (cited in Bernstein, 2001: 198). For liberal economists like David Henderson (another former OECD official), the OECD's "liberalizing vocation" simply reflects the fact that liberal solutions are the most efficient and effective (1996: 20). In contrast, neo-Gramscians have seen the OECD as an important forum for the development and promotion of transnational class consciousness among capitalists and the promotion of neo-liberal hegemony in the interests of this class (Cox, 1992: 30; Gill, 2003: 87, Ruckert, 2007).

Marcussen (2004) has developed the constructivist approach most fully in the literature to date, emphasizing the OECD's role as "ideational artist" and "ideational arbitrator". Marcussen contrasts the kinds of "soft law" produced by the OECD with "hard law" produced by international treaties and some other international organizations, and argues (as we do) that the former is more important than often thought. We go beyond Marcussen's analysis in showing how OECD processes contribute to the construction of a common western liberal identity with clear political consequences, particularly in encouraging the adoption of policies that reflect a distinct ideological perspective and the interests of distinct groups in society. At a deeper level, we also show how the OECD's role in knowledge production helps construct reality, not just develop good policies to deal with a pre-existing reality.

The OECD, social constructivism, and identity

Social constructivist approaches to international institutions can account for some features of the OECD that make little sense from the perspective of state-centric rationalist theories of international cooperation. Rationalist approaches see international institutions as created and used by states because such institutions are more efficient mechanisms for those states to pursue their self-interest than could be achieved through direct state-to-state interactions. As we will show below, the OECD’s work is too complex and detached from the immediate application of tested verifiable practical results to be explained as the result of cost-benefit calculations on the part of rational states. From a social constructivist perspective, international institutions do more than just manage relations among pre-existing states with exogenously determined preferences; they help to define the identity of member states, thereby also helping to define their perceptions of self interest. The OECD can be seen as a paradigmatic example of an identity-defining international organization. Its primary impact comes through efforts to develop and promote international norms for social and economic policy (Wolfe, 1993). It defines standards of appropriate behavior for states which seek to identify themselves as modern, liberal, market-friendly, and efficient (March and Olsen, 1998: 961). This involves distinguishing member states from non-members, and defining the former as superior. Current OECD documents do not put it quite this bluntly, but in its early years, the OECD was explicit about the superiority of member states and the OECD's civilizing mission in the world. In the words of Thorkil Kristensen, the OECD's first Secretary-General,

> the industrial countries with market economies have a definite mission in the world during the present phase of history. They have been the forerunners in economic development; and they will remain for a long time the pioneers in a number of fields because their structures are more refined and their national economies more interwoven ... They can, therefore, develop certain techniques of economic policy-making that can later be transferred to other parts of the world ... that are less highly developed (Kristensen, 1967: 103-04).

While rationalist models of international cooperation operate according to a “logic of consequences” — with international negotiations understood primarily as strategic interaction among actors seeking to maximize exogenously-determined interests (March and Olsen, 1998) — constructivists view international negotiations as deliberative processes in which arguments about the appropriateness of alternative courses of action play an influential role. The “logic of appropriateness” sees the process of policy choice as one of determining what is the appropriate behavior for an actor of a given identity. International discussions often are about what is “right”, not just what will most effectively serve state interests (Risse, 2000: 6-7, 16-19), and about socializing participants into adopting behavior deemed appropriate. The OECD appears to do exactly this, with OECD processes shaped by their own distinctive norms and rules.

First, a great deal of the OECD’s work is oriented towards figuring out what policies governments should pursue. There are about 200 committees, working groups and expert groups operating under the OECD umbrella. These committees bring together officials from national governments and experts from academia and the private sector, under the guidance of the Secretariat. In the OECD's own words, they provide "a setting for reflection and discussion, based on policy research and analysis, that helps governments shape policy" (OECD, 2004c: 4). Persuasive arguments in the OECD are ones that are consistent with its "liberalizing vocation" and that draw on the kinds of expert knowledge incorporated into OECD policy research and analysis.

The OECD Secretariat plays a crucial role in the process of determining appropriate policies, though one should not exaggerate its autonomy from member governments and social forces. It does not work in isolation. Representatives of national governments meeting in the Ministerial Council -- the OECD's top decision-making body -- identify priority areas for OECD study, and national representatives on the Economic and Development Review Committee (EDRC) (usually Paris-based economic counsellors from member states' permanent delegations to the OECD) provide guidance and oversight on a more regular basis (Marcussen, 2004: 95, 99). Furthermore, the influence that national governments exert over the OECD's work clearly reflects the country's general power position in international politics. For example, there are cases in which the US has used its ability to withhold financial support to achieve particular specific changes (Martens and Balzer, 2004: 12; Marcussen, 2001: 9. We return to the issue of national power and OECD norms in the section below on peer review).

Even with this political oversight, Secretariat officials have considerable influence on deliberations about appropriate policy. The OECD secretariat is heavily populated by professional economists, because western societies accord such a high value to this kind of expertise and because economic liberalization is central to the OECD's mission. The professional orientation of the secretariat in turn shapes the policy analysis it produces and the guidance it provides to meetings of national officials (on the general importance of professional training in the construction of norms, see Finnemore and Sikkink, 1998: 899, 905). Thus, OECD advice often takes the form of applying liberal economic theory to policy problems. This can lead to a contestation within the OECD between economic models that prioritize growth and other approaches that, for instance, put more emphasis on childcare as related to child development and equal opportunities for women (Mahon, 2005 and in this volume), environmental sustainability (Bernstein, 2002; Lehtonen, 2004), or high quality jobs and personal security (Noaksson and Jacobsson, 2003). However, the Economic and Development Review Committee and the Economic Surveys carry more weight than the committees and processes associated with social issues.[1] Ultimately, what the OECD identifies as good policy or "best practice" becomes part of the identity of the ideal modern state — an identity to which western governments aspire, as do many non-western governments. And the OECD engages deliberately in this identity-defining process by, for example, calling attention to "leaders" and "laggards" among countries in their adoption of OECD norms (March and Olsen, 1998: 961). Within the OECD, there appears to be a clear sense of hierarchy among member states in terms of this ideal identity. Marcussen identified two streams of ideas that reflect this hierarchy: "one going from North to South within the OECD area; and a second going from the Anglo-Saxon group of the OECD member countries to all the rest" (Marcussen, 2001: 22).

This identity-shaping role is quite explicit in the OECD's mechanism of peer review, which is central to the work of virtually all OECD committees: "mutual examination by governments, multilateral surveillance and peer pressure to conform or reform are at the heart of

OECD effectiveness" (OECD, 2004c: 4). The socialization effect is heightened by the fact that national government officials are so closely involved in the OECD's work. It also means that national officials can use the support of their peers in other member states to try to sway opinion in their own bureaucratic battles.

The international organizational effects of knowledge production

In the previous section the identity-shaping role of the OECD was mainly examined at a cognitive level, but the importance of knowledge production in the OECD also operates at a deeper level—that of the transformation of knowledge into social facts that appear to exist beyond the conscious influence of policy makers. Our approach here differs sharply from rational choice or epistemic communities approaches to the impact of knowledge. In rational choice approaches technical knowledge is usually treated as a costly good, and states collaborate to reduce these costs through economies of scale. In most epistemic communities approaches experts produce technical knowledge that leads rational state actors to redefine their interests, looking at problems in a new way (Haas, 1992). Our approach draws on ideas developed by Foucault. While Hansen et al (2002) have fruitfully used Foucault's concepts in analyzing the impact of the OECD's program on the reform of public administration, there is more that can be done to show its applicability to the OECD's knowledge production processes. Foucault argued that bodies of organized knowledge have a profound significance in their ability to produce and reproduce relations of power and that power's most important characteristic was not its ability to influence subordinate actors by external threats and inducements, but rather the way that bodies of organized knowledge produce both a field of action, such as the physical and social structures within which actors act, and the actors themselves, such as psychiatry's capacity to constitute the asylum, the inmate defined as insane and the psychiatrist authorized to carry out treatments.

Relations of power are constituted by the process through which problems are identified and technologies are mobilized to address those problems: "The techne of government—like all other aspects of governing—is necessary, somewhat autonomous, and irreducible" Dean (1999: 31). The process of measuring, data production and standard setting, even without peer review, can make certain activities visible and legitimate and obscure other possibilities, conferring a self-propelling momentum on trends that may have been more consciously initiated through the processes discussed in the previous section.

Part of the effect of the OECD's technical knowledge is also to provide easily operationalizable routines that, in being followed, enact into being the type of actors that the OECD has defined as proper, while obscuring the external role of power in this. Existing research indicates that something other than convincing scientific proof is involved in the influence of the knowledge produced by the OECD. For instance Sahlin-Andersson (2000) notes that it is the models rather than their effects that are most often communicated and key aspects of the national experiences that the models purport to represent, and that are important in evaluating the models, are left out when the models circulate internationally. Noaksson and Jacobsson (2003: 29) point to the difficulties of evaluating the OECD's Jobs Strategy when countries were not consistent in implementing it and improved employment performance could be the result of the implementation of recommendations from elsewhere (such as the EU) or cyclical economic upswings. With such uncertainties it is unlikely that countries choosing to follow the jobs strategy did so because they were convinced by demonstrated effectiveness of the OECD's recommendations in addressing employment problems. In our case study of corporate governance below we shall further explore this issue.

The knowledge that the OECD produces has a certain autonomous momentum and logical coherence that initiates ways of doing things that are followed because, once visible, they are easier to follow than alternative practices that have not yet been imagined or articulated. The effect is reinforced by the diffuse sense that the OECD's knowledge is an expression of the best states' best practices—the national identity effect discussed earlier. The technical knowledge that the OECD produces and the routines that it recommends provide a way that individual officials and the state as a whole can display that identity, much as a religious congregation can ritually affirm its identity by echoing the gestures and incantations of priests. The more deliberate and conscious processes of identity formation, in which powerful wealthy states may be more actively involved in recognizing some standards as appropriate and others as inappropriate, are reinforced by the more technical and less conscious processes.

Peer Review in the Economic and Development Review Committee

Peer review backed by expert analysis from the Secretariat is the most common mechanism by which the OECD shapes policy in member states (Henderson, 1993: 30). Peer review relies on expert knowledge and identity dynamics to shape policy despite few binding commitments.[2] We focus on peer review of macroeconomic and structural policies in the Economic and Development Review Committee (EDRC), since these issues and this department are at the core of the OECD's mandate.

In the OECD's own words, "peer review can be described as the systematic examination and assessment of the performance of a state by other states, with the ultimate goal of helping the reviewed state improve its policy making, adopt best practices, and comply with established standards and principles" (Pagani, 2002: 4-5). Identity dynamics matter here in the sense that a shared sense of identity — a "homogenous membership [accompanied by a] high degree of trust shared among member states" — has enabled the OECD to develop the practice of peer review more extensively than any other intergovernmental organization (Pagani, 2002: 7).

Peer review requires standards and criteria against which a member state's policies can be reviewed. In some policy areas, these criteria are stated explicitly (eg, the Code of Liberalization of Capital Movements), but in the case of core macroeconomic and structural policies there are no explicit agreed criteria. This reflects the political sensitivity of these issues, which are at the core of national economic policy and for which the domestic political stakes often are high. Nevertheless, "strong implicit guidelines have developed" (Pagani, 2002: 15). In the EDRC, "country performance is assessed in relation to broad economic policy principles and best practices that have been developed over the years, the policy orientations of the OECD Growth Project, as well as specific guidelines such as those contained in the OECD Jobs Strategy" (Pagani, 2002: 8). In the absence of explicit criteria, the most important guidelines take the form of shared understandings about appropriate policy, and are codified only in the OECD's institutional memory. That memory resides in the Secretariat, and OECD officials take the lead in drafting the initial country report that serves as the basis for peer review (Pagani, 2002: 10-11). The initial list of topics to be discussed in a country study is drawn up by the senior economist assigned to lead the effort, with that list reflecting the official's "immediate institutional environment" (Marcussen, 2004: 96), which includes institutional norms as well as any relevant political guidance from the Ministerial Council and the EDRC. Not surprisingly, the implicit criteria and guidelines are heavily shaped by the OECD's "liberalizing vocation" —

the core belief in the desirability of liberal, market-oriented economic policies (Henderson, 1993). But the specific content of liberal economic prescriptions has changed over the years, and the Secretariat believes that it is important to be "open to new academic ideas and not to bend with the prevailing view of governments" (Niels Thygesen, Chairman, EDRC, quoted in OECD, 2002: 13; see also Marcussen, 2004: 92, 98).

A key example can be seen in the OECD's mid-1970s shift away from Keynesian demand management to a neo-classical emphasis on monetary stabilization and supply-side reforms that reduce government intervention in the economy. In 1975 the OECD appointed eight prominent economists to review the causes of economic stagflation. The so-called McCracken Report (named after its lead author) followed the shift then underway in the field of macroeconomics and argued strongly for refocusing policies on fighting inflation and reducing government regulation (McCracken, 1977). Yet as Robert Keohane demonstrated in a contemporary review, even though the central causes of inflation were seen to be political, social and psychological rather than economic, the report drew exclusively on economists' and economic elites' implicit notions about these phenomena rather than on scholarly research from other disciplines like political science, sociology and social psychology. "As policy science, [the McCracken Report] contains a large dose of ideology, which is neither explicitly defended nor critically examined. This pervasive ideology facilitates the many transitions in the report from empirical to normative propositions" (Keohane, 1978: 124-5). Nevertheless, the McCracken Report was seen as an authoritative analysis of the problem of stagflation, and helped shift shared understandings of appropriate policy norms in the OECD in favour of more market-friendly policies (on the shift in OECD orientation, see Henderson, 1993: 28; Wolfe, 1993: 35; Bayne, 1987: 29).

The process of peer review in the EDRC context begins with a report prepared by the Secretariat that provides the basis for discussions between national government officials, OECD officials, and senior officials from two other member states. These so-called "examiners" are peers in the traditional sense of the term. The examiners and Secretariat officials "are also free to consult with interest groups, civil society and academics" (Pagani, 2002: 11), but the published country surveys do not identify those consulted. Consultations with non-government actors involve primarily economists and liberal economic think tanks like the C.D. Howe Institute. The Secretariat then prepares a draft of the final report, which is discussed by the full EDRC. Following normal OECD practice, the final report must be adopted by consensus. This effectively gives the government of the country in question a veto over publication of the report, and politically sensitive recommendations occasionally are deleted (Thysgesen in OECD, 2002: 3).

Nevertheless, published reports do contain criticism of the government in question. For example, the 2003 report on Canada explicitly criticized the Employment Insurance system because it had "moved well beyond providing income support during unexpected spells of unemployment and has become a major vehicle for delivering family, social and regional assistance" (OECD, 2003a: 11). This critique reveals a clear — yet implicit and unargued — assumption about the appropriate function of this kind of policy, one that is consistent with an orthodox liberal perspective but not (for example) with social democratic understandings of appropriate policy. Also noteworthy is the fact that the policies in question have no spill-over consequences for other states, suggesting that the advice cannot be understood from a rationalist perspective focused on inter-state bargaining.

Why would a government permit such criticism from an international organization, particularly when the government could veto the publication of those criticisms and when the policies in question have few implications for other states? From a rationalist perspective, this is difficult to understand -- especially if, as Nicholas Bayne argued, one of the main things governments want from IGOs is their endorsement for current government policies (Bayne, 1998: 219). One possible motive (OECD, 2002: 10) might be to use the OECD's imprimatur of authority to shift domestic public opinion in favour of policies preferred by the government (or by some agencies within government), but that is not the case for most of the policies criticized in the country survey of Canada. Even if governments do sometimes use OECD reports to influence public opinion among their own constituents, such a strategy reveals something important about the OECD; public and elite opinion pays attention to the OECD because it is viewed as an authoritative source of expert policy advice. The OECD's identity-defining function also helps to explain why member states do not use their power to veto power to eliminate critical recommendations from EDRC reviews, since this would be widely viewed as inappropriate by their peers and, in many cases, domestic public opinion.

Of course, states sometimes do insist that critical comments be removed from published reports, and states experience peer pressure differently depending on their power in the OECD. The largest member states — the United States, European countries like Germany, Britain and France, and Japan — have the greatest impact on the implicit criteria used as the basis for peer review of national policies. The OECD's liberalizing vocation corresponds most closely with the ideological orientations of the American and British governments. OECD officials acknowledge that in the peer review process, "size matters very much — political and military importance are substantial elements in determining which countries can lead or block the process" (Mr. Visco, Head of the Economics Department, OECD, cited in OECD, 2002: 5). Marcussen has argued that the US government has become more assertive in the post-Cold War era, to the extent of seeking to use the OECD secretariat as an "ideational agent" for the US itself (2004: 101).

Nevertheless, even the government of the United States comes under criticism when its policies deviate from OECD norms. A good example concerns American fiscal policy. OECD reports criticized the Bush administration for cutting taxes at a time when spending was increasing rapidly and the costs of Social Security and Medicare threaten to explode as baby boomers begin to retire. The April 2004 *Economic Survey of the United States* challenged many of the assumptions the Bush administration used to defend its fiscal policies, and explicitly called for tax increases rejected by the administration. For example, the OECD recommended phasing out the deductibility of mortgage interest payments and charitable donations, and suggested that there "is significant scope to improve revenue yield by better enforcement" of corporate income taxes (OECD, 2004b: 13). It is difficult to understand, from a rationalist perspective why a powerful government would allow an international institution to criticize it in this fashion, especially when the institution in question depends on the government for 25 percent of its funding (OECD, 2004a).

This raises the issue of the community (or communities) that judges the appropriateness of national government policy. OECD documents identify two key audiences for the output of peer review. The first is senior national policy makers responsible for the policies being reviewed in the OECD. According to one senior official, the "aim is to have intellectual influence on policy makers" (OECD, 2002: 7), while another "regarded the senior policy environment in the individual countries as the key audience of the OECD process" (Thygesen, cited in OECD, 2002: 12). The second audience is public opinion in member states. The reports are intended to put public pressure on governments and to shift the balance in domestic policy debates in favour of policies endorsed by the OECD (OECD, 2002; Pagani, 2002: 5-6, 12-13). That said, in many cases OECD reviews do not attract as much attention in domestic politics as the OECD might like, and this can reduce their influence on national policy (Armingeon, 2004: 236-7).

Influence in both communities depends critically on the OECD's identity as an unbiased expert source of knowledge and advice. Officials responsible for peer review stress the need to maintain the integrity and credibility of the process by maintaining independence from the governments of the country under review and from its peers, and by grounding the assessments in widely accepted analytical methods (OECD, 2002; Pagani, 2002). In OECD practice, those methods are the methods of liberal economics, and OECD recommendations draw authority and credibility from their grounding in a mode of policy analysis that has a privileged status in OECD countries (Hansen et al, 2002, p. 118). Credibility also requires that the OECD not give in to member state pressure to endorse policies that are considered inappropriate by relevant experts and policy makers in other countries, as in the case of current American fiscal policies.

The process of peer review therefore corresponds closely to social processes of knowledge and identity construction through persuasion and arguing rather than to conventional processes of inter-state bargaining: "the peer review process is also a cultural phenomenon ... that ... leads to the development of a new frame of mind" (Mr. da Costa e Silva, cited in OECD, 2002: 11).

Corporate Governance

"Corporate governance" refers to the rules and practices associated with the relations of control within the firm and involves shareholders, managers, boards of directors, employees, suppliers, and customers. While the focal point of corporate governance is the private-sector relationships that define the firm, the public sector also plays a crucial role in corporate governance by legislating and enforcing corporation law—the legal rules within which corporate governance functions—and by a vast array of other laws and regulations that shape aspects of corporate governance such as laws governing employment conditions, employer liability, human rights codes, and accounting and reporting practices.

Before the 1990s, the OECD's forays into corporate governance dealt mainly with relations between multinational corporations and governments (Williams, 2007).

In the late 1990s the OECD began to play a much higher profile role in the private-sector dimension of corporate governance in response to the perceived link between problems in corporate governance and the financial crises in East Asia and Russia in 1997 and 1998. The OECD published its Principles of Corporate Governance in 1999, revised in 2004, and it launched, jointly with the World Bank, the Global Corporate Governance Forum, a wide ranging global networking initiative which has held consultations in various regions. Implicitly, work in the OECD was premised on the idea that capitalist institutions were more advanced in OECD member states than in the so-called "emerging market economies". Consistent with the OECD's identity-defining role, this meant it was appropriate for aspiring market economies to adopt the "best practices" developed in the OECD.

There is no evidence of significant inter-state bargaining in connection with the Principles. Nor is there a strong scientific consensus about best practices in corporate governance that rational states simply endorse. Instead the OECD's role is to reinforce a particular set of market and investor-friendly practices that are consistent with its enthusiasm for liberalized markets by conferring its authority on these practices. The effects of this are political since some interests (shareholders and investors) are privileged over others (stakeholders such as workers) but this is achieved in a way that differs greatly from the type of inter-state bargaining that characterizes many international issue areas and that is more consistent with rationalist approaches. Instead this effect involves an assemblage of practices in which knowledge claims and expert judgments amplify particular routine market practices that empower firms and investors, and which in turn then empower the OECD member states. This is a trans-national process that cuts across conventional state and public/private boundaries.

The lack of inter-state bargaining over the Principles is evident in the results of a search conducted of two major databases of full-text newspaper and other articles that covered both the formulation and implementation stages of the OECD Principles. The search revealed 57 articles about the OECD Principles between 1998 and 2006, with a total of 56,101 words.[2] Of these 57 articles only three mentioned anything that could be construed as involving bargaining among state actors.

Similarly in a report summarizing the key points to come out of 25 Regional Corporate Governance Roundtables in 18 countries between 1999 and 2003, involving 38 non-member countries, various international organizations, business and other non-governmental actors, there is no mention of inter-state negotiations or conflicts.[3] In a 182 page compilation of comments on the revisions of the Principles received from approximately 70 respondants, all of which are non-governmental, none are framed with reference to inter-state negotiations.[4] A number of respondents call for the Principles to better recognize the distinctive qualities of corporate governance in their home countries, yet these comments involve non-governmental actors engaging with a supra-national drafting process rather than seeking to convince negotiators from their home states to strike advantageous bargains with other states.

There are other indications that the Principles' creation and effectiveness have come from their interaction with existing market practices rather than inter-state negotiation. Millstein (2000) who chaired the OECD's informal Business Sector Advisory Group on Corporate governance, has noted that the Principles "grew out" of his group's report, which "was based on a series of discussions with international business leaders and institutional investors" (see also OECD, 1999: 9; Gregory, 2000: 13-14). The referencing, building on, and further elaboration of the Principles by private sector actors constitute a key component of their effectiveness. These actors include the International Corporate Governance Network (www.icgn.org), an association of institutional investors, which jointly are estimated to hold more than $10 trillion in assets, which endorsed and supplemented the principles, the Institute of International Finance, the main association of internationally active banks, which published *Policies for Corporate Governance and Transparency in Emerging Markets* in February 2002, and Standard and Poors, which incorporated the Principles into its ratings (Nestor, 2001, Woodward 2007). Public sector actors also have been engaged in endorsing and promoting the Principles, most notably the Financial Stability Forum, but this complements a more private-sector process that is relatively

---

[2] The databases were ABI Inform, with 1800 worldwide business periodicals, and LexisNexis, with 52 major newspapers from around the world. The search terms used were OECD Corporate Governance Principles. The search was conducted on December 14, 2006. The LexisNexis search was in the general news category. Duplicates and records with abstracts but not full text were not counted.

[3] "Experiences from the Regional Corporate Governance Roundtables," OECD 2003, available at www.oecd.org.

[4] "Comments received from Web consultations," OECD, no date.

independent of states.

Despite their portrayal as technical statements of best practice that should be routinely adopted, the OECD Principles on Corporate Governance and the process by which they are implemented involve crucially important ethical and political judgments that are made not with reference to the specific text of the Principles, but rather on the basis of the authority that the Principles confer on particular individuals, especially those conducting peer reviews. In other words, the Principles are more important for the relations of transnational authority and power they constitute than for the way they express negotiated interests of the states that sponsored them.

This is most evident in the "Methodology for Assessing the Implementation of the OECD Principles on Corporate Governance" (OECD, 2006) designed to encourage international public and private sector monitoring of compliance. The document notes that "a number of individual principles are by themselves unobservable to a reviewer…perhaps the best approach to assessing implementation therefore is to rely on 'a reasonable assessor' or 'reasonable observer' type procedure" (p. 5). The word "judgement" appears 122 times in the 99 page document. In other words, the Principles and the Methodology do not routinely and scientifically compare particular national and corporate practices to a model that is self-evidently superior due to its empirical validation but instead confer authority on the exercise of judgment by assessors.

Despite the effort in this document to portray the type of judgment being exercised as purely professional and technical, there are numerous indications that there are political and social issues at stake. In the news coverage and the comments on the revisions of the Principles that were discussed above there are many references to debates over the role of stakeholders, especially employees. Labour organizations called for the role of employees in corporate governance to be increased. For instance the International Metalworkers Federation stated "The revised text does not reflect the need to ensure that employees and other relevant stakeholders can play an effective role against corporate abuses." (OECD, n.d., p. 36).

The implicit effect of the Principles is to promote an Anglo-American approach to governance that emphasizes the primacy of shareholder rights (Iu and Batten, 2001: 4, 53). However this is not primarily and in the first instance an expression of the interests of the US and British states, but rather expresses the interests of investors. An estimated 76 percent of the $US 24 trillion of financial assets in the world's top five markets are held by US and UK investors (Conference Board data cited in Gregory, 2000: 6). However Euroshareholders, an organization of shareholder associations from eight European countries, "all agreed that the corporate objective is to maximize long-range shareholder value (notwithstanding the continental tradition of emphasizing employee interests)" (Gregory, 2000: 14).

The degree to which the Principles are not an expression of a scholarly evidence-based consensus is evident not just in the prominent role of judgment in the Methodology, nor in the political conflicts that are managed and suppressed by not acknowledging them in the formulation and implementation of the Principles, but also in the lack of scientific evidence supporting the model that the Principles promote. Two leading authorities on variations in financial structures, which most importantly include the variation between the Anglo-American capital markets/shareholder model and more bank or state-oriented models conclude: "Overall financial development matters for economic success, but financial structure per se does not seem to matter much" (Demirgüç-Kunt and Levine, 2001: 12). As the Japan Business Federation noted in their comments on the revisions to the Principles (OECD, n.d., 58), claims that particular corporate governance practices produce positive economic outcomes "have yet to pass the test of conclusive empirical analysis."

On closer examination, then, the OECD's role has been to reinforce trends that were already present in global markets and to use its authority to frame a potentially politicized and conflictual problem as a best practice. Since the "real" elements of corporate governance themselves do not involve the disposition of material resources but rather involve norms or knowledge, such as the rights of shareholders, the role of stakeholders, the responsibilities of the board, and the role of accountability and transparency, then the OECD's initiative primarily strengthens a set of market-based norms that it chooses to support because they are consistent with the liberal economic models and philosophy of the OECD, rather than because they represent convergent expectations among states. In this respect the OECD's knowledge production capacity is significant for the way it feeds directly into the constitution of the "reality" of global markets, more than because it directly alters the preferences of the leaders of member-states. To the extent that the OECD's guidelines on corporate governance are incorporated into private sector practice and national government oversight, the ideas incorporated in those guidelines are transformed into social facts (in the form of the structure and orientation of private corporations) that appear to exist beyond the conscious influence of policy makers. This is where the OECD's power is revealed, rather than in the conscious conformity of states and private actors to bargains negotiated at the OECD.

Conclusion

In our theoretical and empirical discussion above we have focused on the degree to which the OECD involves two types of processes that are best understood from a constructivist perspective. The first process concerns the identity of the states that are members or aspire to be members of the OECD. The OECD provides a mechanism for selected states to engage in a process of mutual recognition of the superiority of the social and economic policies that are central to their identities. We focused especially on peer review in the Economic and Development Review Committee as an example of this process. The second process involves a relationship between the OECD as an international organization and market-oriented practices that are quite independent of inter-state bargaining or rational calculation but instead involve an incremental reinforcement of particular practices though the OECD's ability to confer authority on them by portraying those practices as unproblematic, apolitical, and relatively routine ways of doing things that are known to be best due to the appearance of consensus that the OECD creates. We focused especially on corporate governance as an example of this process.

Contrary to state-centric realists who might dismiss the OECD because it is not focused on military security or the negotiation of hard binding international law there are good reasons to see the OECD's work as very significant. Certainly the level of financial support provided by states to the OECD suggests that states see it as important. Our case studies provide further confirmation of this. In the case of the Economic and Development Review Committee states devote a great deal of time and risk damaging their reputations by engaging in the peer review process. In the case of corporate governance the OECD's Principles have had a significant global effect in the policy field of international financial governance that after the financial crises of the past decade is widely recognized as crucial to the health of the world economy, a policy field that the leaders of the most powerful states, for instance through the G7, have often characterized as a top priority for them. Similar points could be made about the other activities of the.

Our chapter offers insights into the contribution of the OECD and similar international institutions to global governance that rationalist approaches cannot. It shows that processes that produce and reinforce identity and knowledge can be located in supranational and transnational spaces that are obscured by rationalist analysis. These relatively autonomous processes interact with other processes, including with more traditional processes of inter-state diplomacy, but also with evolving market practices that themselves may play a key role in stabilizing or destabilizing the global system. Identity and knowledge can to some degree be treated as comparable to the material resources that traditional rationalist approaches to statecraft see states as wielding. *Reputation* and *intellectual property* are concepts that have been used by rationalist theories to suggest that actors can buy, sell and invest in identity and knowledge just as they can with material resources. Identity and knowledge are much more than these passive controllable possessions. Their complexity, autonomy, and ability to structure actors' conduct make it imperative to employ constructivism in understanding them. This is important not just for understanding what is occurring in international institutions such as the OECD, but also in designing or influencing the multiple new complex processes that constitute our developing institutions of global governance and which in turn can determine success or failure in bringing about the solutions to global problems that are so desperately needed.

Bibliography

Armingeon, Klaus (2004) "OECD and National Welfare State Development", in Armingeon and Beyeler (eds) *The OECD and European Welfare States*: 226-41, Cheltenham: Edward Elgar.

Bayne, Nicholas (1987) "Making Sense of Western Economic Policies: The Role of the OECD", *The World Today* 43(2): 27-30.

Bayne, Nicholas (1998) "International economic organizations: More policy making, less autonomy", in Bob Reinalda and Bertjan Verbeek(eds) *Autonomous Policy Making by International Organizations*. London and NY: Routledge.

Bernstein, Steven (2001) *The Compromise of Liberal Environmentalism*. NY: Columbia University Press.

Cox, Robert W. (1992) "Global Perestroika", in Ralph Miliband and Leo Panitch (eds) *The Socialist Register 1992*. London: The Merlin Press.

Dean, Mitchell M. (1999) *Governmentality : Power and Rule in Modern Society*. Thousand Oaks: Sage.

Finnemore, Martha, and Kathryn Sikkink (1998) "International Norm Dynamics and Political Change", *International Organization* 52(4): 887-917.

Gill, Stephen (2003) *Power and Resistance in the New World Order*. NY: Palgrave Macmillan).

Gregory, Holly J. (2000) "The Globalization of Corporate Governance", originally published in *Global Counsel* September and October, reprinted by Weil, Gotshal & Manges.

Haas, Peter (1992) "Epistemic Communities and International Policy Coordination", special issue of *International Organization* 46(1).

Hansen, Hans Krause, Dorte Salskov-Iversen, and Sven Bisley (2002) "Discursive Globalization: Transnational Discourse Communities and New Public Management", in Morten Ougaard and Richard Higgott, eds. *Towards a Global Polity*. London: Routledge.

Henderson, David (1993) "International Economic Cooperation Revisited", *Government and Opposition* 28(1): 11-35.

Henderson, David (1996) "The Role of the OECD in Liberalising International Trade and Capital Flows", *The World Economy* (January): 11-27.

Institute of International Finance (2002) *Policies for Corporate Governance and Transparency in Emerging Markets*, at www.iif.com/data/public/NEWEAG_Report.pdf (accessed June 24, 2005).

Iu, Justin and Jonathan Batten (2001) "The Implementation of OECD Corporate Governance Principles in Post-Crisis Asia", *Journal of Corporate Citizenship* 4: 47-62.

Keohane, Robert O. (1978) "Economics, Inflation and the Role of the State: Political Implications of the McCraken Report", *World Politics* 31(1): 108-28.

Kristensen, Thorkil [Secretary-General of the OECD] (1967) "Five Years of O.E.C.D." *European Yearbook 1965*, Volume 13, 100-109. The Hague: Martinus Nijhoff.

Lehtonen, Markku (2004) "Environmental Policy Integration through the OECD Peer Reviews: Integrating Economy to the Environment or Environment to the Economy?" Paper presented at the IHDC Conference, Berlin, December.

Mahon, Rianne (2005) "The OECD and the Reconciliation Agenda: Competing Blueprints", revision of a paper prepared for "Challenges and Opportunities Faced by European Welfare States: The Changing Context for Child Welfare", University of Oxford, January 7-8.

March, James G., and Johan P. Olsen (1998) "The Institutional Dynamics of International Political Orders", *International Organization* 52(4): 943-69.

Marcussen, Martin (2001) "The OECD in Search of a Role: Playing the Idea Game", paper prepared for presentation at the European Consortium for Political Research, Grenoble, France, April 6-11.

Marcussen, Martin (2004) "The Organization for Economic Cooperation and Development as ideational artist and arbitrator: Reality or dream?", in Bob Reinalda and Bertjan Verbeek (eds) *Decision making Within International Organizations*, 90-105. London and NY: Routledge.

Martens, Kerstin and Carolin Balzer (2004) "Comparing Governance of International Organisations—The EU, the OECD and Educational Policy", paper presented to the European

Consortium for Political Research, April 13-18, Uppsala, Sweden.

McCracken, Paul, et al (1977) *Towards Full Employment and Price Stability*. Paris: OECD.

Millstein, Ira M. (2000) "Corporate Governance: The Role of Market Forces" *OECD Observer* #221/222, p. 27.

Nestor, Stilpon (2001) "Corporate Governance Trends and Developments in the OECD Area: Where do we go from here?" *International Financial Law Review*, Supplement: The IFLR Guide to Corporate Governance, p. 11.

Noaksson, Niklas and Kerstin Jacobsson (2003) "The Production of Ideas and Expert Knowledge in OECD: The OECD Jobs Strategy in contrast with the EU employment strategy", Stockholm Center for Organizational Research (SCORE) Rapportserie 2003:7.

OECD (1999) *Principles of Corporate Governance*. Paris:Author.

OECD (2002) "Peer Pressure as Part of Surveillance by International Institutions", record of discussion led by Niels Thygesen, Chairman, Economic Development Review Committee, Tuesday 4 June. Paris: Author (available at *www.oecd.org*).

OECD (2003a) *OECD Economic Surveys: Canada 2003*. Paris: Author.

OECD (2003b) *Experiences from the Regional Corporate Governance Roundtables* (Paris: Author), available at www.oecd.org.

OECD (2004a) "Getting to Grips with Globalisation: The OECD in a Changing World". Paris: Author (available at www.oecd.org).

OECD (2004b) *OECD Economic Surveys: United States 2004*. Paris: Author.

OECD (2004c) "Overview of the OECD: What is it? History? Who does What? Structure of the Organisation?" Paris: Author (available at *www.oecd.org*).

OECD (2006) "Methodology for Assessing the Implementation of the OECD Principles on Corporate Governance", December, (Paris: Author) available at www.oecd.org.

OECD (n.d.) "Comments Received from Web Consultations" at www.oecd.org.

Pagani, Fabrizio (2002) "Peer Review: A Tool for Co-operation and Change", Directorate for Legal Affairs. OECD. SG/LEG(2002)1 (available at *www.oecd.org*)

Pease, Kelly-Kate S. (2003) *International Organizations: Perspectives on Governance in the Twenty-First Century*. Upper Saddle River, NJ: Prentice Hall.

Risse, Thomas (2000) "'Let's Argue!': Communicative Action in World Politics", *International*

Organization 54(1): 1-39.

Sahlin-Andersson, Kerstin (2000) “National, International and Transnational Constructions of New Public Management”, Stockholm Center for Organizational Research (SCORE) Rapportserie 2000:4.

Smythe, Elizabeth (1998) “The Multilateral Agreement on Investment: A Charter of Rights for Global Investors or Just Another Agreement?”, in F.O. Hampson and M.A. Molot (eds) *Canada Among Nations 1998: Leadership and Dialogue*. Toronto: Oxford University Press.

Wolfe, Robert (1993) "The Making of the Peace, 1993: A Review of Canadian Economic Diplomacy at the OECD," Department of Foreign Affairs and International Trade: Economic and Trade Policy Branch Working Paper, October (available at http://qsilver.queensu.ca/~wolfer/General/publications.html).

Woodward, Richard (2004) "Global Monitor: The Organisation for Economic Cooperation and Development", *New Political Economy* 9(1): 113-27.

[1] Lehtonen (2004: 14) notes “the ‘environmentalist community’ often perceive the review team responsible for sustainable development analysis in the Economic Surveys as biased in its views stressing the efficiency of environmental policies, or simply incompetent because of being incapable of seeing the broader picture of environmental policies”.

[2] For an account of the roots of contemporary peer review at the OECD in its adoption of practices of surveillance, see Wolfe (1993: 21-3). For other accounts of contemporary peer review processes see Marcussen, 2004 (on the EDRC), Noaksson and Jacobsson, 2003 (on the Jobs Strategy), and Lehtonen, 2004 (on environmental policy).