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**Uneven Power and the Pursuit of Peace:
How Regional Power Transitions Motivate Integration***

by

Dr. Mette Eilstrup-Sangiovanni

Centre of International Studies

University of Cambridge

17 Mill Lane

UK - Camb. CB2 1RX

Mer29@cam.ac.uk

Abstract

This paper addresses two related puzzles confronting students of regional and international integration: Why do states willingly pool and delegate sovereignty within international institutions? What accounts for the timing and content of regional integration agreements? Most theories of integration suggest that states integrate in order to solve problems of incomplete information and reduce transaction costs and other barriers to economic growth. In contrast I argue that integration can serve to establish a credible commitment that rules out the risk of future conflict among states of unequal power. Specifically, I suggest that integration presents an alternative to preventive war as a means to preclude a rising revisionist power from establishing a regional hegemony. The implication is that it is not countries enjoying stable and peaceful relations that are most likely to pursue integration, but rather countries that find themselves caught in a regional security dilemma, which they hope to break out of by means of institutionalized cooperation. I evaluate this

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proposition against evidence from two historical cases of regional integration: the German *Zollverein* and the European Communities.

Uneven Power and the Pursuit of Peace: How Regional Power Transitions Motivate Integration

“Peace is not the end of struggle, but the finer organization of it” (Charles E. Merriam, 1945)

This paper addresses two related puzzles confronting students of regional and international integration: why do states willingly surrender sovereign prerogatives within international institutions? what accounts for the timing and institutional form of specific integration schemes? Three schools of thought dominate the theoretical literature: realists portray integration as a means of reinforcing regional alliances against outside threats; liberals hold that states integrate in order to reduce the transaction costs of recurring cooperation and eliminate negative externalities from economic interdependence; constructivists depict integration as revealed convergence towards a shared regional identity. Drawing on rationalist theories of war and delegation, I develop an alternative view, which points to changing power differentials among integrating states as a key explanatory variable. My main argument is that integration can serve as a *credible commitment mechanism* that rules out future violent conflict among states of unequal strength. Specifically, I argue, integration presents an alternative to preventive war as a means to preclude a rising power from establishing regional dominance. According to standard International Relations (IR) theory, states that face a threat of domination from a rising challenger can adopt one of two strategies: they can either balance power—by forming defensive alliances or by attacking a rising state preventively before it grows too powerful—or they can bandwagon with a stronger state in the hope that it will exercise its preponderant power benignly. Balancing and bandwagoning are not, however, the only solutions to strategic dilemmas generated by uneven growth rates. Another option is to create an institution that eliminates the discretion to use force arbitrarily. I call this strategy “institutional binding.” The logic of “institutional binding” suggests that integration is motivated by a desire to remove the risks of conflict associated with regional power transitions. This leads to the seemingly counter-intuitive conclusion that countries that enjoy stable and peaceful relations or exhibit high degrees of shared identity are not the most likely candidates for integration. Rather, integration is most probable among countries that find themselves caught in a regional security dilemma, which they hope to escape by means of institutionalized cooperation. I evaluate the argument against evidence from two cases of integration: the European Communities and the German *Zollverein*.

The paper is organized as follows. Part 1 gives a brief review of extant integration theories. Part 2 introduces “institutional binding” as a solution to the power transition dilemma. Part 3 presents evidence from two historical cases in which integration was pursued by a group of declining states as a way to bind a rising challenger. While this section does not provide a full test of the institutional binding thesis, the applicability of the argument in both historical cases strengthens confidence in the framework. Part 4 considers further implications of the argument.

I. THE LITERATURE

Broadly speaking, existing theories of integration focus on three categories of state motivation: geopolitical or power-based interests, economic interests, and ideation-

al interests. Respectively, these define distinctive “realist,” “liberal” and “constructivist” explanations for integration. With a few notable exceptions (e.g. Nye, 1968; Haas and Schmitter 1964; Mattli 1999) theorists working within each of these approaches have focused primarily on explaining integration among West European states after World War II. However, the core insights of these studies, if correct, should hold for other instances of integration. If they do not, then they should be either revised (e.g., by more carefully delimiting scope conditions) or rejected.

Power-based theories. The essence of power-based integration theories is in the link between regional cooperation and underlying national security interests (Gowa 1994; Grieco 1990). There are three power-based explanations that one encounters most often. The first builds on classic balance-of-power theory. In this view, regional integration serves to reinforce balancing against external enemies. One frequently comes across this argument in the literature on political leagues and confederations, where integration is historically portrayed as a way for smaller states to boost their military and economic power vis-à-vis larger, threatening neighbors (see Wheare 1943; Lister 1999; Forsyth 1981). The same logic is commonly applied to postwar Europe, where integration is depicted as a way to balance the Soviet threat and improve Europe’s influence and standing in a world dominated by superpowers (Waltz 1986: 58-9; Mearsheimer 1990: 47; Joffe 1984).¹ The upshot of this version of realism is that European integration is ephemeral; in the absence of a powerful external threat and a bipolar international structure, integration is destined eventually to collapse.

Compelling in many ways, realist balance-of-power logic fails to explain why political or economic integration is required to counter external threats. While exogenous military threats may provide incentives to strengthen regional cooperation, it is not clear why balancing against such threats would dictate the creation of comprehensive politico-economic unions in which sovereign prerogatives are delegated or pooled as opposed to, say, a conventional military alliance that would place fewer constraints on sovereignty. Unless it can be shown that effective military balancing necessitates politico-economic integration, the causal link between external threat and regional integration remains tenuous at best.²

A second power-based explanation is derived from hegemonic stability theory. The theory of hegemonic stability links the creation of international regimes to the presence of a dominant state that supplies the rules and sanctioning mechanisms necessary to sustain cooperation (Kindleberger 1973). Along similar lines, Mattli (1999: 51-6) ar-

¹A related argument views integration as a way to strengthen the position of integrating states in a world of fierce economic competition. This version gained popularity at the end of the Cold War as realists, challenged by the simultaneous collapse of bipolarity and the deepening of European integration manifest in the move to EMU, argued that the persistence of integration reflected a desire to balance the growing economic and political might of the U.S. and Japan (see Sandholtz & Zysman 1989; Garrett 1992). The problem with this explanation is that competition from the U.S. and Japan was fierce also in the 1970s—a period during which European integration stagnated (see Keohane & Hoffmann 1991: 22-3).

²There is little indication that economic integration serves to strengthen military alliances. Evidence suggests that, whereas states show a greater propensity to trade with allies than with rivals, trade only nominally increases the cohesion of existing alliances (Gowa 1994).

gues that regional integration requires the presence of a dominant state that assumes the role of “regional paymaster” and acts as focal point in the coordination of rules and policies. Efird, Kugler and Genna (2003: 300) contend that domination of a hierarchy by a single country imposes higher costs for any conflict within that hierarchy and lower costs for integration. The higher costs of conflict are associated with the dominant power’s desire to maintain a peaceful status quo, which is consistent with stable economic growth; the lower costs of integration reflect the dominant power’s ability to absorb the costs of integration. Other scholars have portrayed integration as an instance of “soft hegemony” (Pedersen 1998) or “benign unipolarity” (Kupchan 1998) whereby a dominant power seeks to assert its influence through cooperation rather than domination, thereby hoping to persuade other states to accept its preferred order.

Hegemonic stability theory at first sight appears to offer a persuasive explanation for integration. As Deutsch *et al.* (1957) observe, “contrary to the balance-of-power theory, [integration] seem[s] to develop most frequently around cores of strength.” Historical evidence appears to bolster this observation. Many regional communities have been headed by regional great powers, for example, Germany in the European Community, Prussia in the German *Zollverein* and Holland in the United Dutch Provinces. Closer scrutiny of the empirical evidence reveals, however, that while regional great powers play a central role in integration schemes, they are seldom uniquely favored by integration. Not only do they tend to shoulder the bulk of the costs associated with integration, but strong states are often heavily underrepresented in regional decision-making bodies. The proportion of German votes in the European Council of Ministers has historically been small compared to Germany’s share of population and GDP (author 2001). The same has been true for great powers in other regional unions. Holland comprised more than half the population of the United Dutch Provinces but possessed only a single vote in the central decision-making assembly. Prussia represented fifty percent of population in the German *Zollverein* and accounted for most of the union’s material wealth but controlled only a quarter of the votes in the legislative Customs Congress. While the hegemonic stability theory points to incentives for strong states to sponsor cooperation as a way to promote economic growth and stability, it fails to explain why a would-be dominant state would accept a position of relative inferiority within regional institutions, thus limiting its influence over policy.

A third power-based explanation focuses on balancing of power *within* a region. This explanation views integration as a way to anchor and bind a powerful state through ties of economic interest and shared rules and norms (Grieco 1995; Baun 1996). A prominent example is Grieco’s analysis of European Monetary Union (EMU) in terms of what he labels a “neo-realist inspired voice-opportunity thesis” (1995a, 1995b). Building on Hirshman’s classic theory on “voice and exit,” Grieco (1995b: 34-6) suggests that weaker states may favor institutional ties with a stronger partner as a way to influence its policies and avoid political subordination. He argues that the decision to adopt EMU was driven by a desire to introduce greater symmetry in influence over monetary matters than existed within the European Monetary System where the Bundesbank played a hegemonic role. This logic is consistent with the institutional binding theory set forth in this article. But the problem with the argument is that it is under-theorized. While we may accept that weaker states are keen, as a rule, to impose institutional constraints on

stronger powers, we lack a convincing explanation for why Germany—a monetary hegemon—would agree to be bound within the EMU and for how the same logic might be extended to explain other instances of integration.³

Liberal Approaches. Whereas power-based theories focus on security externalities from integration, liberals depict integration as a way for states to reduce transaction costs, reap economies of scale and manage negative policy externalities in conditions of growing economic interdependence (Milward 1984: 1992; Moravcsik 1998; Mattli 1999; Martin 1993; Milner 1997). Two main features distinguish liberal from power-based approaches. First, liberals explain integration, not by reference to geopolitical concerns, but as a function of structural changes in the global economy, which increase the benefits to cross-border economic exchange. Second, liberals emphasize the importance of domestic politics in shaping state preferences. Demand for integration is not dictated solely by shifts in the global economy but reflects the impact of such shifts on the preferences of key domestic interest groups (see Milner 1997; Moravcsik 1998).

A prominent liberal explanation for postwar European integration is given by historian Alan Milward (1984, 1992). He observes that most West European states were so weakened by their experiences over the period of 1929-45 that they essentially had to recreate themselves as functioning units in the immediate postwar period. To reassert their capacity to rule effectively, governments had to show themselves responsive to a broad range of societal demands. However, growing interdependence meant that the political and economic reforms needed to satisfy social welfare demands could only be advanced through cooperation at the regional level. Integration therefore constituted a way to “rescue” the European nation-state by creating economic conditions that would ensure the continued allegiance of its citizens (Milward 1992: 27; Milward & Sørensen 1993: 5).

Walter Mattli advances a second version of the liberal argument. To Mattli the starting point for integration is the advent of new technologies or political changes that increase the scope of markets beyond the boundaries of a single state. When such changes occur, actors who stand to gain from wider markets—usually large producer groups—demand a change in existing governance structures to realize these gains (ibid.: 46, 58). For example, Mattli explains integration in nineteenth-century Germany as a result of the building of the railway, which expanded the distance across which individuals and firms could profitably trade with one another (ibid.: 115). These new trading opportunities coincided with general economic hardship that led politicians to look favorably upon integration as a way to boost economic efficiency and improve reelection

³Grieco offers two explanations for why Germany agreed to grant its smaller partners “voice opportunities” in monetary affairs. First, he argues, despite a belief that EMU would reduce German influence in monetary affairs, German officials might have had reason to believe they could still defend key German monetary objectives, including price stability. Second, he suggests, Germany at the end of the 1980s had come to believe that it needed to accept some limitations on its influence on European monetary affairs as the price for fostering a more effective European coalition against Japan (Grieco 1995a). The first explanation suggests that German monetary policy is not significantly constrained by EMU. The second explanation suggests that balancing against an external threat, rather than a desire to constrain German monetary power, was the impetus behind EMU.

prospects (ibid.: 44-50. For similar arguments see Grossman & Helpman 1994; and Milner 1997: 87). Similarly, Moravcsik claims with respect to postwar West European integration that, “at its core, European integration has been dictated by the need to adopt through policy coordination to [global] trends in technology and in economic policy.” He further asserts that demand for integration originated chiefly among powerful organized domestic producer groups that reacted to rising opportunities for lucrative regional trade (1998, 39, 87).

Evidence from postwar integration in Europe would appear to support liberal theory. In the 1950s West European countries faced strong pressures to cooperate on rebuilding their war-devastated economies. This combined with an exogenous increase in opportunities for international trade and capital movement to create incentives for removing barriers to cross-border trade and investment, including tariffs, detailed regulation and fluctuating exchange rates – all of which have been core targets in the European integration process. A predominantly economic analysis of the benefits from market deregulation and monetary alignment fails, however, to account for key aspects of the European integration process. First, while there were clear benefits to liberalizing trade and investment in postwar Europe, it is not clear why this would necessitate the creation of a comprehensive and exclusive politico-economic union such as the EEC, as opposed to a broader free trade area (FTA) among all the OEEC countries – an option that was, for example, favored by Britain and supported by many European business groups.⁴ It seems likely that an FTA embracing all the OEEC countries would have offered better opportunities for European producers to expand their exports than the geographically narrower and politically more constraining ESCE/EEC. Second, interdependence is not a reliable predictor of integration. By many accounts, economic interdependence among West European countries was lower in the 1950s and 1960s (when integration was initiated) than at the end of the nineteenth century or the beginning of the twentieth.

Identity-based Perspectives. Whereas liberal and power-based accounts emphasize material incentives to integrate, constructivists since Karl Deutsch have focused on the role of communication in fostering shared identities among peoples. The Deutschian theory of “security communities” holds that communicative action, (frequently but not necessarily linked to the exchange of goods and services) triggers processes of social learning, which lead to mutual identification and trust among populations in different countries. Over time, such identification causes people to reorient their loyalties away

⁴Many national business groups and economists opposed the creation of a customs union. The estimated net gain from removing tariffs was generally calculated to be small and “certainly not worth the political effort required to create a customs union – much less one which involved a promise to proceed towards political unification” (see Viner 1950; Milward 1992: 122-23). British leaders in particular were vehemently opposed to a system that implied a substantial surrender of national sovereignty merely for the sake of free trade. As one British official commented, if Europe wanted freer trade, the remedy lay in simply obeying the liberalization procedures of the OEEC. No new institutions were needed! (Nutting 1966: 83-4). In an attempt to sidestep the Benelux plan for a European Economic Community, the British Government proposed in July 1956 to create an industrial FTA embracing all the OEEC countries (see Griffith 1990: 6-7, Macmillan 1969: 69; Charlton 1983: 183, 195). This so-called “Plan G” was rejected by France.

from the nation-state towards larger regional communities.⁵ It is important to note that in a Deutschian framework social assimilation is not assumed to lead to the adoption of shared legal or institutional frameworks. To Deutsch, integration was not associated with specific institutions but was synonymous with the emergence of a shared regional identity. This raises the prospect that communication and social assimilation do not *cause* political or economic integration but may instead be *caused* by the prior institutionalization of politico-economic exchange.

The possibility of an inverse causality between socialization and integration also looms large in present constructivist studies. The basic thrust of constructivism is that integration has a socializing effect on actors (which may or may not lead them to deepen their institutional cooperation), not that social assimilation can *per se* explain the initiation of economic or political cooperation. The focus is on how institutions transform or “constitute” actors’ interests and identities through processes of socialization and social learning (Risse and Wiener 2001; Checkel 1999c; March and Olson 1998; Aspinwall and Schneider 2000), not how institutions come into place in the first place. While constructivism may provide a good guide to understanding social and political interaction within a densely institutionalized region such as Europe, it is thus limited in its ability to account for the onset of integration. After all, European sentiment was low among general publics after the Second World War, and although there were significant pro-European inclinations among political elites, their Europeanism can hardly be explained as a result of prior socialization.

In the remainder of this paper, I discuss the role of regional power transitions in determining the onset and form of integration. A focus on regional power transition should not, however, be read as a wholesale rejection of the explanatory factors identified by existing theories. External threats and economic interdependence may matter on the margin and may help to shape both the geographic scope and functional content of regional integration schemes. Yet, neither factor can by itself explain the onset of integration. If integration were primarily driven by a desire to reduce economic transaction costs or to balance against external security threats, both the timing and form of integration would differ from what we observe empirically. For example, I shall argue below, had West European integration been mainly motivated by a desire to boost regional trade as liberal scholars claim, integration would most likely have taken the form of a loose FTA, rather than a comprehensive politico-economic union.

II. THE LOGIC OF INSTITUTIONAL BINDING

The central argument of this paper is that integration is favored by declining states as a means of controlling and constraining a rising partner. Specifically, integration can substitute for preventive war as a way to preclude a rising regional power from establishing local hegemony. My aim in this section is to specify the theoretical conditions in which declining states may have incentives and opportunities to “bind” a rising

⁵In the Deutschian framework integration is defined as a process of cultural assimilation, leading to the formation of “pluralistic security communities” in which states retain legal independence but where their interactions are guided by feelings of “we-ness” and by “dependable expectations of peaceful change” (Deutsch 1969: 122).

challenger and to discuss how integration can enable them to do so. The following section examines two historical examples in which states have solved a strategic dilemma associated with a regional power transition by integrating with a rising state rather than balancing against it.

At the root of the power transition dilemma is a commitment problem. Imagine two states; one whose power is declining and which favors the status quo, another whose power is growing and which is revisionist.⁶ Standard IR-theory tells us that the declining state has an incentive to attack the rising challenger before it grows too powerful. In an anarchical world, a significant increase in the capabilities of any state must be met by countervailing power to safeguard the independence of other states.⁷ It is plausible that a rising state, while still relatively weak, would wish to promise not to take advantage of its future strength if it believed it could thereby escape a preventive attack; yet, since it would have no incentive *ex post* to abide by this agreement, the promise would not be credible. War therefore results although, in theory, a negotiated settlement may exist that both sides would prefer over fighting (Fearon 1995). While it has long been recognized that power transitions are associated with a high likelihood of war,⁸ there is an emerging consensus among formal theorists of war that the fundamental reason uneven growth rates lead to violent conflict is this basic commitment problem.⁹

⁶The distinction between “status quo” and “revisionist” states is a staple of classical balance of power and power transition theory. Status quo states are usually those states which won the last major war and created a new international order to serve their interests. Revisionist states are often those that have increased their material power after the existing international order was established and privileges and entitlements divided. See, e.g., Organski and Kugler 1980. Defensive realists hold that preventive motivation applies whether or not a growing state is believed to be revisionist. See Levy 1987.

⁷Gulick 1955; Waltz 1979; Morgenthau 1948. To Morgenthau (1948: 202-3) preventive war is a necessary means of balancing the system. To historian A.P. Taylor, “every war between the Great Powers [in the 1848-1918 period] started as a preventive war, not a war of conquest.” On preventive war, see also Levy 1987.

⁸The “power transition” problem associated with the rise and decline of states is theorized by Organski 1968; Organski and Kugler 1980; Modelski 1978; Gilpin 1981. Power transition theorists view history as a succession of hegemonies, in which one great power after another tries—and eventually fails—to dominate the system. While they are at the top, hegemons create a set of political and economic structures that enhance the stability of the system and advance their own economic and security interests. Differential growth and the cost of imperial overextension eventually lead to the demise of reigning hegemons and the rise of new challengers. Power transitions are seen as dangerous moments in the international system and are often accompanied by conflict, instability, security competition, and, frequently, major war.

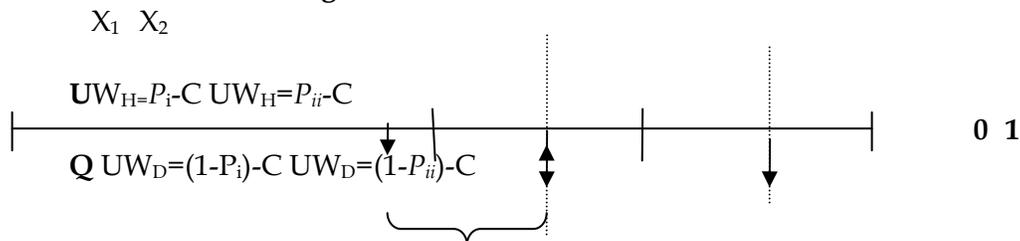
⁹Rationalist models of war start from the premise that, since war is costly and risky and since most contests eventually end in some form of settlement that terminates hostilities, rational states should have incentives to locate negotiated settlements that they all would prefer to the gamble of war. Commitment problems arise because, in conditions of anarchy, even though there may be allocations that both sides would prefer to fighting, states cannot credibly promise to follow through on agreements. The inability to commit to abiding by agreements is a fundamental cause of war (Fearon 1995: 380; Powell 2002, 2006: 169; Gartzke 1991, 2001). For a survey of the formal approach to explaining war, see Powell 2006.

Rationalist IR-scholars are generally pessimistic about finding solutions to the commitment problem in the absence of third party enforcement (Fearon 1995; Levy 1987; Powell 1999). In an anarchical world, they contend, the only lasting solution to the preventive war dilemma is war. This is too pessimistic. Another possibility is to create an institution that enables credible commitment by disabling states' discretion to renegotiate dispute-ending agreements by force. This section shows three mechanisms – periodic power transfers, exchange of hostages and contingent efficiency gains – through which such an institution can be configured.

To illustrate the logic of institutional binding, I depict the power transition/preventive dilemma as a simple two-period game with complete information.¹⁰ Two states, a rising potential hegemon (H) and a declining state (D) are bargaining about revising the status quo. The bargaining can be about any issue – control over territory, access to raw materials, possession of nuclear weapons – but is most simply represented in terms of a dispute over territory. D may represent a single state or, more realistically, a coalition of states, which for simplicity we assume behaves as a unitary actor. At time $t1$, H is not yet dominant. Since H's power is growing in relative terms, however, at some point in the future, tx , its strength will surpass that of D, meaning that it will be able to prevail in all future distributive conflicts. The players' preferences are represented by the interval $[0,1]$. H prefers outcomes closer to 1, D closer to 0. The status quo is that H controls all territory to the left of q whereas D controls all territory to the right of q . (see Fig. 1 below).

Imagine that, at both points in time t , H makes a claim X that revises the status quo in its favor.¹¹ D can either accept the revision, in which case the game proceeds peacefully to the next period, or fight at a cost C . If war ensues, H is expected to win (and D to lose) with probability P . Thus, H's expected payoff from fighting is the expected value of prevailing in war minus the one-time cost of fighting: $P_t(1) + (1-P_t)(0) - C = P_t - C$ and D's expected payoff is $(1-P_t)(0) + P_t(1) - C = (1-P_t) - C$. Following Powell (2002b), we may interpret P as the distribution of power between H and D. Note that D's probability of victory $(1-P_t)$ decreases in time as a function of its diminishing relative power. The pay-offs can be illustrated on a simple horizontal spectrum.

Fig. 1 The Preventive War Dilemma



¹⁰The model presented here provides a simple spatial illustration of the preventive war dilemma and the possibilities for negotiated solutions to this dilemma. For a more sophisticated model, see author and co-author 2005. For similar depictions of war as a bargaining game, see also Powell 2002, 2006.

¹¹We use a “take-it-or-leave-it” bargaining game, which grants all the bargaining advantage to the side that makes the initial offer. While this is not a realistic assumption, it involves limited loss of generality.

At t_i D prefers fighting to accepting any point to the right of $(1-P_i)-C$. It follows that the maximum demand H can make at t_i without triggering war is X_i . If H claims X_i , a risk-neutral D will be indifferent between waging war and accepting the residual $1-X_i$.¹² The catch is that if D accepts $1-X_i$ in the first period and allows the game to proceed peacefully to t_{ii} , then sufficient time elapses to allow the power balance to change further in favour of H (either as a result of exogenous factors or endogenously as a result of the concessions made by D) and spur it to make a second claim (X_{ii}), whose value to D is less than its reservation payoff at t_i . A D that does not heavily discount the future will fight a preventive war at t_i to preclude this outcome.¹³

The Binding Option: In the simple illustration above, preventive war is the best strategy for D. But imagine instead that H could agree at t_i to a mechanism (hereafter the “Institution”) that would allow it to credibly commit not to demand additional concessions in the future. In this case, war would be redundant. We can assume that D would refrain from war if it were forever guaranteed its t_i reservation payoff. This is the minimum value that the Institution should enable H to guarantee to C in order for C to refrain from preventive action. What is needed to secure a peaceful outcome, therefore, is an Institution that locks in agreement on X_i by restraining H’s power at t_{ii} by the amount it has grown since t_i , thus forcing it to behave as if the balance had never changed.

The section below explains how institutional binding is possible in practice. But before I turn to this question I discuss the specific conditions in which “binding” is likely to be preferred to “balancing” (i.e., either alliance-building or armament with a view to fighting a preventive war) as a way to counter a rising threat. Given the possibility of credible commitment one might believe that, as long as states incur any cost for fighting, a negotiated solution at t_i will always be preferred to settling the dispute through war (see e.g. Fearon 1995; Powell 2006). Yet, this presupposes that a negotiated settlement can be obtained at low cost. As we shall see below, institutional binding entails significant sovereignty costs. For low generic costs of war, states may therefore prefer to try their luck on the battlefield. By contrast, the higher the generic cost of war, the greater the incentive to invest in binding institutions facilitating peaceful agreement.¹⁴

¹²Decision makers who are risk-averse will tend to choose the certainty of a negotiated settlement that offers them the same value as their average expected utility from war but without the risk of fighting. A risk-acceptant decision maker, however, may prefer the gamble of war to the certainty of a negotiated settlement. (A risk-acceptant person is defined as a person who prefers playing a gamble to receiving its average face value as a certainty. E.g., the person prefers a 50/50 gamble for £0 vs. £200 to receiving £100 for sure. A risk-neutral person is indifferent between playing a gamble and receiving the gamble’s average face value, while risk-averse player prefers the face value to the gamble. See O’Neill 2001: 4-5). The present model assumes that decision makers are either risk-averse or risk-neutral.

¹³One way of interpreting this condition is that even if H tried to appease D by equating x_1 to zero, D would still wage a preventive war. This is consistent with some versions of power transition and preventive war theory. See Levy 1987.

¹⁴One might use a standard measure of offensive/defensive balance as a proxy for this variable, so that defensive advantage is associated with high costs of war (from the point of view of the initiator) and offensive advantage with lower costs. The implication, namely that D is more likely to reject H’s claim and go to war when offense is dominant is consistent with the findings of Offense-Defense Theory. ODT posits that factors that increase the ease or reduce the costs of offen-

A second factor that may impact on the choice of binding vs. balancing is the availability of external allies. States often enlist external military support to counter a regional threat. If such support is forthcoming and reliable in the long term, balancing against a would-be regional hegemon may appear feasible. By contrast, if outside help is uncertain or unreliable binding may be more attractive.

A final factor is exogenous threat. Local regional conflicts divert scarce resources from other security goals. Since states will usually avoid weakening themselves on several fronts simultaneously, a third-party threat to a region would increase the appeal of binding. Note, however, that according to our model, external threat is not a necessary or sufficient condition for binding. The incentive to integrate arises in response to a regional security dilemma. Exogenous threat merely facilitates integration by increasing the opportunity cost of solving a regional power transition dilemma through war; it does not by itself justify integration. (For simplicity, exogenous threat can be thought of simply as increasing the expected cost of war.)

To summarize: we expect binding to be preferred to preventive war when one or more of the following conditions hold: a) the expected generic costs of war are high; b) external allies are unavailable or unreliable, c) there is an external threat to the region, which raises the opportunity costs of war.

The Binding Mechanism: Committing to Peace

The above argument should be uncontroversial. If it were possible for states to commit to obey dispute-ending agreements then this would remove an important source of war. But how is credible commitment possible in practice? To solve the preventive dilemma an Institution must perform two tasks: 1) the Institution must resolve future disputes in conformity with the *ex ante* (i.e. pre-binding) distribution of power, thus preventing future dominant states from using their preponderant resources to prevail in distributive conflicts; 2) the Institution must be compulsory. The first condition can be met by a contractual decision-rule that apportions formal decision-power among states in a way that adjusts for power discrepancies. The second condition requires specific exchanges to lock in this contract.

The Decision-Rule

Formally, what is needed to solve a preventive dilemma is an Institution that settles future disputes in accordance with the present power balance. One way to achieve this would be to institute a joint decision-making framework that reflects the military and economic balance at t_i but remains fixed in the face of subsequent fluctuations in the underlying distribution of resources. The distribution of “decision-power” within the Institution (defined by a set of voting rules) is set to reflect the power balance at the time the Institution becomes effective. Thereafter, all decisions that impact the future decision-power of members—such as institutional reform, acceptance of new members, etc.—are

sive operations relative to defensive ones generate incentives for preemptive strikes and preventive wars and are also believed to be associated with other war-causing phenomena, such as reduced incentives for negotiated conflict resolution (see van Evera 1998; Gortzak, Haftel and Sweeney 2002: 67-8).

subjected to unanimity. Day-to-day decisions which do not influence relative power may be taken by qualified majority voting with each state disposing of a vote weighted to reflect its power at the time of binding (author 2001; author and co-author 2005).

Ensuring Compliance

To achieve credibility is not sufficient for an Institution to limit the formal decision-power of stronger states, the Institution must also be *binding*—i.e., something must prevent a rising state from exiting if it no longer wishes to comply. The question of how to ensure compliance with international agreements has been the object of extensive study. Scholars have proposed two basic answers—one constructivist, one rationalist (Checkel 2001). To constructivists, the key to compliance is learning, norm-development and trust (e.g. Wendt 1987: 369; Hasenclever *et al.* 1997: 160; Kupchan 1998). In this view, integration among states of uneven strength could be seen to promote peace simply by virtue of socializing effects. For example, Kupchan (1998: 42) suggests that conflicts between a core and periphery can be resolved if the core agrees to subject its power to multilateral rules and norms. The trust, shared interests and identities built in this way mean that peripheral states come to equate their interests and identity with those of the core. The problem with this strategy as a solution to power transition conflict is, first, timing. The building of shared identities and interests is likely to be a slow task. While a rising state may signal its benign intentions by agreeing to exercise its power in accordance with multilateral rules and norms, such a gesture is unlikely to subdue the immediate fears of declining states. Second, the strategy lacks credibility. In fact, Kupchan acknowledges that cores are likely to “break out” and destroy the regional community through “revolution.”

While constructivists stress socialization, rationalists emphasize material incentives to comply. A staple argument of functional regime theory is that international institutions induce states to cooperate by lowering transaction costs and by supplying sanctioning and reputation mechanisms that heighten the cost of renegeing on agreements (Keohane 1984; Snyder 1997: 169). Formal, legalized institutions also enable states to identify credible types. Because explicit legal commitments are expensive to make and implement, and because violation imposes reputation costs on violators, willingness to make such commitments identifies one as having a low propensity to defect. Hence, signing up to formal agreements serves as a costly signal of intent to comply.

The problem with these rationalist commitment mechanisms is that they are not ultimately *credible*. Repeat play and reputation is often enough to prevent renegeing on low-stake economic issues but may be insufficient to ensure cooperation on sensitive issues of national security. When survival is at stake, states heavily discount the future, making the one-time gain of renegeing more attractive relative to the future opportunities of cooperation foregone. Or to put it differently, for a state that perceives its independence to be under threat from a rising challenger, the long-term benefits of cooperation are unlikely to exceed the immediate benefit of a preventive war. Similarly, a would-be hegemon that believes it can reign supreme though war may not be dissuaded by fear of sanctions or considerations of lost opportunities for cooperation. To solve a preventive dilemma, therefore, an Institution cannot simply rely on sanctions, repeat play and reputation mechanisms. Instead, it must enable states to *pre-commit* to actions that may be time-

inconsistent by removing their discretion to act otherwise. Below, I show three general paths to credible commitment.

i. **Real Power Adjustment:** One way to prevent a rising state from taking advantage of its future military superiority is to make sure that it never acquires superiority. To ensure this, states could delegate to an Institution the task of maintaining the *ex ante* balance of power by means of control over the allocation of basic resources. Assuming that military power is a rough function of economic power and a few strategic resources, an Institution could keep power in check simply by transferring asymmetric growth in economic and strategic resources between H and D. H would agree, since failing to comply would presumably trigger a preventive war before it could translate any additional resources into usable military power.

Resource transfers are an effective way to “freeze” power but entail high sovereignty costs. Since what creates the commitment problem is the possibility of future war, another solution would be to pool the means of violence. A single army in which national forces serve under supranational command would limit the ability of individual states to resort to violence.¹⁵ A similar result could be achieved by engineering military interdependence. Cross-country integration of armament industries (with one country manufacturing steel, another building tanks, a third planes, etc.) would make national militaries functionally dependent on one another. Sharing of equipment and transportation, coordination of command and control systems, etc. would also make unilateral action difficult.

ii. **Exit Penalties:** A second way to create a self-enforcing bargain is through an exit cost that states would have to pay were they to leave the Institution. Exit costs can be created through exchanges of “hostages” or through irreversible strategic investments. For example, a hostage could be created through an exchange of military forces or other valuable assets that would be trapped behind enemy lines if conflict broke out. Hostages might also take the form of “relation-specific” investments, which were designed to support exchange with a specific partner and would be either lost or greatly devalued if cooperation terminated.¹⁶ A less radical method would be to pool national currencies, thereby increasing the cost of exit by the amount it would cost to print and circulate a new currency.

iii. **Contingent Efficiency Gains:** A third way to achieve binding is to generate efficiency gains that are contingent on the survival of an Institution. H would agree to be bound by an Institution if it generated efficiency gains of the same order as H could hope to gain through war *and* if these gains were strictly contingent on the continuation of the Institution. Such gains may result from increased factor productivity. It is well known that a reduction in the risk of war favors commerce and foreign investment. Power transfers and pooling of military assets, along with creation of a single domestic

¹⁵In fact, a common feature of past regional unions has been reliance on common armies not mainly to guard against outside threats but also to enforce a union’s treaty base. See author 2001.

¹⁶On the use of “economic hostages” and relation-specific investments to cement cooperation, see Williamson 1985; Schelling 1960: 22; North and Weingast 1989. On FDI as a commitment mechanism, see Aizenman 1992.

market, would likely raise productivity.¹⁷ Note, however, that efficiency gains of this type can only operate as an *auxiliary* commitment mechanism, since, to materialize, these gains presume a prior diminution in the risk of war. That is, contingent efficiency gains as a binding mechanism only become available once other factors (power transfers and exit penalties) are in place.

The Relation between Military and Economic Binding

This section has described three general paths through which binding can be achieved.¹⁸ These rely on both military and economic measures. It may seem that military binding mechanisms (such as pooling of armed forces) present the most tangible commitment to peaceful cooperation. If states surrender control of their independent militaries, the ability to settle disputes by force is clearly curtailed. Yet, national power depends on economic as well as military resources. To build military establishments capable of defending vital national interests states must draw resources out of the national economy and employ them in the security sector. Economic and military binding therefore reinforce each other. The purpose of military binding is to ensure that force cannot be used in pursuit of political objectives. Economic binding reinforces military binding by balancing growth and increasing costs of exit. However, economic and military binding may also substitute for one another. The failure to achieve firm military binding through a pooling of armed forces increases the strategic importance of economic binding since the potential for translating economic into military resources will appear more dangerous.

Observable Implications

The institutional binding theory generates distinct observable implications with respect both to the timing and form of integration. First, if the theory is correct we expect integration to coincide with a regional power transition rather than a) an exogenous increase in opportunities for regional trade and investment (as liberals predict) or b) an instance of regional hegemony in which a dominant state funds and enforces cooperation (as the hegemonic stability theory predicts). The theory predicts that integration is most likely as a response to an impending power transition when: a) the generic costs of war are high, b) external allies are unavailable or undependable, c) there is an external threat to a region, which raises the opportunity costs of war.

¹⁷The idea that an anticipated loss of gains from trade or other forms of economic cooperation has a pacifying effect on states is closely aligned with the predictions of liberal institutionalism. A vast literature explores the theme that economic interdependence reduces the likelihood of militarized conflict. Yet, empirical evidence for the “commercial-peace” thesis is ambiguous. While some scholars find that trade is associated with peace, others find it induces conflict. An explanation might be that productivity gains *per se* have a limited pacifying effect, but work only in conjunction with other factors that also lower risk of war.

¹⁸The three “paths” to binding explored in this section represent ideal-types. The specific mechanisms that deliver binding will differ from case to case, depending on historical context. E.g. practicable arrangements for constraining military force may vary according to technological development and geography. Similarly, what constitutes an effective economic hostage may differ from one state to another depending on opportunity costs.

Second, the theory predicts that regional institutions will establish a political balance of influence among members that roughly reflects the military balance at the time of binding. This political balance is reinforced by redistributive transfers and pooling of strategic resources, exit-penalties, and contingent efficiency gains.

In general, the binding theory predicts that security concerns will be a main concern for integrating states. Although integration is expected to involve economic and functional cooperation, the theory posits that security concerns will engender and shape economic cooperation, not vice-versa.

Below I evaluate these predictions against evidence from two cases of integration. But first, let me briefly discuss the reliability of the findings. Given the theoretical premise, the universe of relevant cases in principle includes all instances of regional power transition. Yet, since not all power transitions are expected to result in integration, a random selection of cases from the universe of power transitions would not be feasible in a study of this length.¹⁹ I have therefore selected two cases in which integration has in fact occurred in order to examine whether the decision to integrate can be causally linked to the presence of the independent and intervening factors identified above. To what extent should the reader be persuaded by evidence drawn from two cases that are admittedly selected on the dependent variable? The case analysis presented below does not constitute a complete test²⁰ of the institutional binding theory. However, the analysis adheres to three methodological principles, which ought to strengthen confidence in the findings. First, rather than simply record correlation between independent and dependent factors, each case study presents a detailed narrative that reveals the mechanisms through which independent and intervening factors caused the dependent outcome. Second, the hypotheses are evaluated against competing explanations rather than the null-hypothesis. Third, to increase confidence in the findings, case narratives are based on a broad array of sources, including “hard” primary sources (internal government reports and diary entries), “soft” primary sources (newspaper reports, public statements, political memoirs), and secondary material.

III. CASES OF INSTITUTIONAL BINDING

3.i The European Communities as “Institutional Binding”

Introduction

On May 9, 1950, less than five years after France’s liberation from German occupation, French Foreign Minister, Robert Schuman, proposed to place the entire Franco-

¹⁹One could, of course, narrow the universe of cases to instances of power transition in which states are judged to be risk-averse and in which the generic costs of war are judged to be high in order to check whether integration follows. However, since a coding of all such cases would be associated with some difficulty, I have chosen the more straightforward (and less reliable) method of looking at known cases of integration to see whether a causal link can be established between our hypothesized independent and intervening variables and the dependent outcome.

²⁰A reliable test would either rely on a random case selection from a universe of cases of power transitions or include one or more “control cases” in which a regional power transition was not associated with integration in order to confirm the absence of our hypothesized intervening variables.

German production of coal and steel under the authority of a supranational institution. Pooling French and German heavy industry interests, he argued, would be the first step towards a fully integrated Europe that would make war between the two former antagonists “not merely unthinkable, but materially impossible.” The Schuman Plan was the first in a series of constitutive bargains among West European governments that resulted, first, in the creation of the European Coal and Steel Community (ECSC) in 1952 and culminated, some forty years later, in the signing of a Treaty on European Union.

What were the underlying motivations for the steps taken after 1950 towards “ever closer union” among West European governments? While the process of European integration has been handmaiden to numerous and complex interests – including promoting economic growth, balancing against the Soviet threat and yielding to pressure by the American hegemon – I submit that integration can be principally explained by a desire to forestall German domination in Europe. World War II, like World War I, failed to solve the problem of German ascendancy. In the wake of the war, France and its allies, having fought two large-scale wars to fend off German hegemony, found themselves temporarily more powerful than their vanquished enemy. Yet, they knew this advantage was unlikely to last. The new West German state that emerged out of the ruins of the Third Reich in 1949 had only half the area of Germany of 1937 but possessed three quarters of its population and the bulk of its industrial strength. While militarily defeated, Germany still had the potential to become the strongest European state economically, demographically and militarily. The problem afforded two possible solutions: either prevent Germany from ever growing militarily powerful again by curbing its potential for growth; or devise an institution that would allow Germany to commit not to bully its neighbors in the future.

The French first tried a punitive strategy. The goal was to neutralize German warmaking potential by curbing its heavy industry output (Dinan 1994: 21; Milward 1984: 492). The so-called Monnet Plan of 1946 called on the Allied powers to limit German steel output and to allocate a share (about twenty million tons a year for twenty years) of coal output from the Ruhr to France, thereby boosting French recovery while at the same time stunting the development of a fuel-starved German steel industry.²¹ Yet, French decision makers gradually came to favor the second solution. The reasons were twofold. First, to revive its sluggish economy, France depended on supplies of coal and coke from the Ruhr. This dependence raised doubts about the long-term feasibility of curtailing German industrial output (Gillingham 1991: 207-8; Willis 1968: 90; Pounds & Parker 1957: 339; Lynch 1984: 235). Second, the onset of the Cold War meant that punitive measures collided with the confrontation between the superpowers. As the Cold War took hold, France’s principal external allies, Britain and the U.S., insisted on lifting economic and military constraints on West Germany in order to enlist her help in the allied defense against the Soviet threat. Realizing that balancing would be both costly and unlikely to succeed, France and her neighbors abandoned punitive designs in favor of a policy of institutional binding designed to impose institutional constraints on German power while she was still relatively weak. The regional organizations that were created in the early postwar years – ECSC, WEU, EEC, and Euratom – all bear mark of this goal.

²¹A.N. F60/902: Note from Ministry of Finance, March 10, 1946. See also Lynch 1984: 236-9.

The Schuman Plan

The first step towards binding German power was the Schuman Plan of 1950. By 1949 it stood clear that the French Monnet Plan was inconsistent with American conceptions of West Germany's role in an allied defense. Washington had demanded already in May 1947 that German coal and steel output be increased to match the French level,²² and by 1949 German steel output crept above France's for the first time since the war (Stirk and Weigall 1992: 63). It was clear that a preventive policy aiming at crippling German power potential was no more realistic now than it had been in 1919. As Schuman observed,

In 1945 there was still a strong effort to stick to the former policy of force: Germany was without a government due to the total collapse of its cadres and institutions and therefore powerless. Should one, must one not under such circumstances seize the opportunity to create a new Germany, to give it a structure that would afford protection against the re-emergence of such a big and dangerous power? Let us not forget that the imposed constitution and institutions, which were introduced in hostile ammunition wagons have no prospects of lasting... I have already referred to the failure of the laws of 1871 and 1919. A policy imposed by the victor can only create fragile and deceptive solutions; it is a source for new conflicts. *A peace whose single basis is mutual concessions cannot for long withstand a new shift of power between the opponents* (1964: 124-5 – my emphasis).

Schuman distrusted standard balance-of-power logic. If two victorious wars could not prevent Germany from threatening its neighbors again, no war or punitive restrictions in the future would. The French Government thus reversed tactics and set to work on a plan for industrial cooperation that would allow the restoration of German power "within limits and according to a rhythm which will put aside any threat of hegemony dangerous to the peace of Europe" (Schuman 1949). The motivation behind this shift in strategy is illustrated by the memo sent by Jean Monnet to Robert Schuman and George Bidault in early May 1950:

The German situation is rapidly becoming a dangerous cancer for peace in the near future, and for France at once...Germany is already asking to increase its steel production from 11 to 14 million tonnes. We will refuse, but the Americans will insist. In the end we will, with some reservations, give way...If France does not speak and act now, what will happen? A group will form around the United States, but in order to wage the Cold War with greater force. The obvious reason is that the countries of Europe are afraid and are seeking help. Britain will draw closer to the United States; Germany

²²See Mowat 1973. The French desire to permanently fix Germany's productive capacity was now described in Washington as "suffering from a time lag." See Statements of Douglas, May 1918 (FRUS 1948/II:155; FRUS 1948/II:230-1) and statement of military Governor for Germany, General Clay (FRUS 1948/II:110). See also Poidevin 1991: 333-4; Gillingham 1991: 149, 162; Archer 1990: 20.

will develop rapidly, and we shall not be able to prevent her being re-armed.²³

A few days later, on May 9, Schuman announced his Government's plan for merging French and German coal and steel production under a common institution that would be open to participation by other European countries. The stated goal was to "prevent Germany from once again using the Ruhr district's industrial strength to support aggression" but "to employ the areas resources for the benefit of Europe as a whole."

Some might accuse Schuman of using clever rhetoric to reconcile the French need for German raw materials with lofty appeals to European peace. Yet, when we examine the details surrounding the launch and reception of the Schuman Plan we find clear evidence that the plan was intended to improve French security by constraining German military potential. Coal and steel were the sinews of any war machine, and it was widely believed that no country could wage war without an independent coal and steel industry (Archer 1990: 54; Dell 1995: 15; Milward 1984: 392-195; Gillingham 1991: 45-6).²⁴ The majority in the Parliament thus readily accepted the view of Alfred Coste-Fleuret,

Germany is in full growth, but this is a growth, which has never stopped. It is precisely at the moment when we could conceive some fears about this development, that the Schuman Plan intervenes opportunely to stabilize the situation and to take from the German state, as it does from the French, the disposition over their heavy industry for war-purposes.²⁵

The Schuman Plan arose from a unique combination of weakness and strength. While their belated victory in World War II had temporarily granted the French an upper hand vis-à-vis Germany, Germany still posed a potential threat to French security. French dependence on German industrial output, combined with the apparent willingness on the part of the U.S.A and Britain to lift constraints on German steel production and, ultimately, on rearmament, reinforced this threat and underscored the inadequacies of traditionally conceived alliances to tackle the post-1945 situation. The French, of course, were not alone in this predicament. Economic ruin and acute awareness of incapacity in the event of renewed German aggression were common to many European countries, except for the few small states that had escaped the wrath of the war. At the 1948 conference on "German Problems" held in London, the Benelux had jointly stressed the need to prevent a future German threat while keeping the German economy strong. This, they argued, could best be secured through "de-concentrating" German economic and political power and incorporating it into a framework for European integration.²⁶ The Dutch Foreign Ministry now argued that: "[F]rom the political point of view, [the Schuman Plan] must be ac-

²³Cited in Salmon and Nicoll 1997: 41-3.

²⁴Some have questioned the pacifying effects of the ECSC by pointing out that, in 1952, changing technology had already begun to consign heavy industry struggles to irrelevance in war. Yet, as Gillingham (1991: 360) notes, "there were too few atomic bombs after 1945 to have transformed the nature of warfare overnight; military planning in both East and West assumed that the next war in Europe...would be fought ...with ground forces as the decisive element of battle."

²⁵Quoted in Grosser 195: 65.

²⁶FRUS 1948/II, 26 Feb:155; and FRUS 1948/II, 29 Feb.

claimed vociferously, because it creates the capability for Europe to profit by Germany's strength without being threatened by it."²⁷

The German reaction was also positive. Keenly aware of the depth of international fear and mistrust toward the Federal Republic, Adenauer understood that shared sovereignty pointed the only way to international rehabilitation (Adenauer 1965: 328). In November 1949 Adenauer had himself suggested that France be allowed to invest in German steel production in order to relieve fears of German war-making potential.²⁸ From a German perspective the attraction of the Schuman Plan was that it promised to lift Allied restrictions on German steel production and to abolish the International Ruhr Authority.²⁹ While critics protested that by agreeing to ECSC, Germany would irrevocably surrender control of its economy (Diebold 1959: 99; Baade 1951: 22), Adenauer welcomed the treaty as a way to regain political autonomy at the price of relinquishing the Ruhr's role as the epicenter of European heavy industry.

In the end, only Britain remained sceptical. Prime Minister Ernst Bevin categorically refused participation in a coal and steel pool that entailed a principled commitment to supranationalism. In the event of war with the Soviet Union, he contended, London would have to assume that West Europe would be quickly overrun and that Britain, alone among European states, would be fighting alongside America. No arrangement could therefore be made that could undermine an independent British defense effort (Bullen 1989: 202). London also feared that ECSC would weaken Atlantic ties (Charlton 1983: 162; Nutting 1966: 4; Dinan 1994: 25). Both Labour and the Conservatives believed that without help from the United States it would be impossible to contain Germany and set Europe on its feet economically. For this reason, Germany had to be integrated into a larger Atlantic Community rather than embedded in exclusively European structures.³⁰ It is important to note that the British objection was rooted not in economic concerns, but rather in hostility to the geopolitical vision underlying the Schuman Plan. British coal and steel production was highly efficient and stood to gain from liberalization of European coal and steel markets. It is unlikely that the British government would have opposed the ECSC had it merely aimed to liberalize trade in coal and steel. In fact, in August 1950, British Conservatives proposed a looser, intergovernmental framework for coordinating coal and steel production under the aegis of the Council of Europe, thus underscoring Britain's commitment to freeing industrial trade. This plan, however, was rejected by France on the grounds that what Europe needed was not merely economic cooperation but "a fusion of political interests" (see Macmillan 1969: 204).

²⁷Kersten, 286-7 and FRUS 1948/II, Feb. 26; FRUS 1948/II, Feb. 29. See also U.S. Senate, Foreign Relations Committee, June 1953: 37.

²⁸This proposal was made in an interview to the *Baltimore Sun*. See Schmidt 1997: 81; Adenauer 1965: 254-60, 311-5. In March 1950 in an interview with American journalist, Kingsbury-Smith, Adenauer proposed uniting France, Germany and the Benelux states in a customs union as a way to end their rivalry.

²⁹The Bundesrat's approval of the ECSC was made conditional on assurances from the occupying powers that when the ECSC became operative, the IAR would be eliminated and restrictions on steel production lifted. See Spierenburg and Poidevin 1994: 21.

³⁰Bullen 1989: 201-3; "Documents of British policy Overseas," s. II, vol. 1, 1986; FRUS/1948/II:12, 61; Fursdon 1980: 61.

ECSC as a Case of Binding

Was ECSC a case of “institutional binding”? The institutional binding theory predicts that integration will serve to “freeze” the balance of power among members at the point of binding. Arguably, West Germany had no army and was under occupation; hence there was no “balance” to freeze. However, as the Cold War took hold, it became increasingly clear that the Americans and British would eventually favor lifting constraints on Germany as a means to reinforce balancing against the USSR, thus unleashing Germany’s potential for growth. This led to a perception on the part of France and her continental allies that one must act to bind Germany now, while she was still in a relatively weak position.

The ECSC took several steps to constrain German power. The treaty institutionalized three groups of powers: large (France, Germany, Italy); medium (Belgium and Holland); and small (Luxembourg) and established a principle of equal vote allocations for states within each group regardless of variations in underlying power. This principle has been a cornerstone of European institutions ever since.³¹ Because of this principle, Germany’s “institutional power” has continued to move further away from its “real” power as measured in GDP and population. In 1952, German decision-power was 9 percent below its actual power (calculated in GDP); by 1995, the gap had widened to 16 percent.³²

As the binding theory predicts, the equalization of political power within the ECSC was made binding through a series of specific bargains. The Paris treaty tasked the High Authority (HA) with maintaining a rough balance between members’ industrial growth through reallocating industrial resources (Hogan 1991, 169). The HA ordered Germany to decartelize the Ruhr³³ and designed transfer-mechanisms through which “efficient producers” (i.e., Germany) would compensate less efficient ones (France, Italy and Belgium).³⁴ In addition, the treaty granted the HA a veto over all industrial mergers as well as new investment programs as a way to prevent concentration of industrial power in one country.³⁵ These measures, which effectively led to a redistribution of industrial power from Germany to other states, amounted to a system of “real power adjustment” whereby Germany surrendered the fruits of her natural advantage in raw materials. This bargain was reinforced through contingent efficiency gains stemming from

³¹Successive enlargements have created new groups, but relative votes in the group of large powers have remained unchanged. The 2000 Nice Summit, which raised the issue of readjusting voting weights, did not chance this reality. See author and co-author 2001.

³²See author and co-author 2005.

³³The treaty called upon the FRG to eliminate the Deutsche Kohlen Verkauf. See Blondeel 1953: 10-1; Diebold 1959: 96-7; Gillingham 1991: 424-5.

³⁴The so-called Hirsch-Vinck Plan called upon the FRG to pay 3,000 million Belgian Francs over five years to subsidize wages and new investments in Belgium. Italy secured extensive German subsidies for its new steel mills, and France was allowed to reduce its output at a slower rate than Germany (Bondeel 1952: 70; Diebold 1959: 96-7; Lutches 1951: 70; Mason 1955: 55-6; Gillingham 1991: 248, 400-1).

³⁵Paris Treaty, Section 66. See Bondell 1953, 13. The HA’s powers to veto financing gave it strong leverage over German industry since the largely demobilized German mines and mills required considerable outside investment, which was subject to approval by the HA. See Mason 1955: 56.

rationalization of production and removal of customs and duties related to trade in industrial products.

To be sure, the ECSC also tackled a pressing economic problem. To rebuild their devastated economies, European countries demanded a steady stream of inexpensive coal and steel. An international market for coal and steel would heighten competition and rationalize production. It is clear, however, that the principal value of the plan was political rather than industrial. In drafting the plan, Schuman acted with great discretion to sidestep objections from French industry (Spierenburg & Poidevin 1991: 5; JM MAG 18/4/2, Aubrun to Monnet, 05-08-1950). None of the major industrial groups were consulted at the drafting stage or represented at the negotiations. When the proposal was made public, French industrialists overwhelmingly opposed it (Eillis 1968: 94). Beginning in July 1950, the Steel syndicate and the steel industry's employer organization, the *Conseil National du Patronat Français*, whipped up opposition to the Schuman Plan and "by the end of the year, protests of were registered by nearly every chamber of commerce in France" (see Mason 1955: 3; Gillingham 1991: 237).

That purely economic interests were not the driving force for the ECSC is also demonstrated by the rejection of the British proposal for an intergovernmental framework coal and steel union. Like the ECSC this proposal would have lifted constraints on imports and exports but would not have had the same restraining effect on war-making capacity, since it would not grant a supranational body powers to supervise and limit excess production.

EDC

The next proposal for integration was the French Pleven Plan for a European Defense Community (EDC), which was launched in October 1950 and led to four years of intense negotiations before it was definitively buried by the French National Assembly's rejection of the treaty in August 1954. Given its failure, the EDC has received less attention from students of European integration, who see the unsuccessful project as confirmation that security concerns have played a secondary role in the integration process. Yet, this conclusion ignores the fact that intense negotiations over a common army went on for four years, and that four countries—Holland, Belgium, Luxembourg and Germany—ratified the EDC, while a fifth, Italy, seemed willing to do so as well. How do we explain the readiness of these countries to pool control over their national armies? And why, in the end, did the project fail?

The concrete occasion for the Pleven Plan was the American demand in September 1950 that West Germany be allowed to contribute ten divisions to an integrated Allied defense within NATO. The consensus among the Allies until 1950 had been that restitution of German political and military sovereignty should happen gradually. The Korean War, however, challenged this consensus. Dean Acheson recalls in his memoirs,

the idea that Germany's place in the defence of Europe would be worked out by a process of evolution was outmoded. Korea had speeded up evolution...The real question was not whether Germany should be brought into a general European defence system but whether this could be

done without disrupting everything else we were doing and giving Germany the key position in the balancing of power in Europe (1969: 437).

According to George Ball, who was with Monnet on the day of the North Korean invasion, Monnet realized immediately that Washington would now demand German rearmament (Ball 1982: 90-1, Monnet 1978: 401). To prevent the reemergence of an independent German army, Monnet and his colleagues set to work on a proposal for a European Defense Community, which would facilitate the “complete merger of men and equipment under a single European political and military authority” with a common defence budget. The EDC would be governed by a central authority, which would command the common army as well as coordinate foreign, economic and monetary policy (Fursdon 1980: 340-1). German troops would serve in small contingents and be integrated “at the level of the *smallest* possible unit” (a battalion). Coste-Fleuret in his appeal to the French Assembly to accept the treaty, argued: “We know that the two sources of power of modern Germany in recent times are the Ruhr arsenal (to neutralize it we have constructed the CECA [ECSC]) and the national Germany army, which we also want to neutralize by integrating German soldiers into the discipline of a supranational army” (Grosser 1957: 66).

EDC as a Case of Binding?

The French vision of a European army was never realized. The parties spent four years drafting a treaty only to see it rejected by the French Assembly in August 1954. If EDC was devised to constrain German military power, why did Paris reject it? The French rebuff was rooted in several grievances about the final treaty, which made it a less capable of containing German power. As proposed by Pleven, the EDC would have provided for a sweeping surrender of military sovereignty to a supranational authority; German troops were to be recruited and armed not by the Bonn government but by a supranational European authority. They would be welded into a highly integrated European army. During the negotiations, in accordance with the expectations of the binding theory, France also succeeded in “freezing” the scales of political power by demanding that French voting power in the Council would be matched at all times with Germany, regardless of how many troops either country contributed to the EDC (Fursdon 1980: 206-8; Nutting 1966: 48, 60; Dockril 1991: 115). This all amounted to an intricate system for binding German military power. As the negotiations proceeded, however, safeguards against German revisionism were watered down. In his original plan (which passed the French Assembly with 343 to 225 votes) Pleven had opposed the creation of national “divisions” – the smallest military unit capable of independent manoeuvre – and proposed “batallions” of 5000 men, which would be “fused” into the common army. In the final treaty the basic national unit would be the “groupement” consisting of 13,000 men. This meant that there would be independent German divisions.³⁶ Another weakness was the lack of British participation, which sparked fear in Paris that a rearmed Germany would dominate the Community (Fursdon 1980: 261; Dockril 1991: 107; Nutting 1966; Charlton 1983: 162; Kolodziej 1974: 259). During the negotiations, France and the Benelux countries repeatedly called on Britain to join EDC. They also sought to obtain a guarantee that Britain would intervene militarily should Germany try to withdraw

³⁶EDC, Treaty, 27 May 1952, Kolodziej 1974: 259.

from EDC.³⁷ London categorically refused: “We cannot afford to allow the European federal concept to gain a foothold within NATO and thus weaken instead of strengthening the ties between the countries on the two sides of the Atlantic,” said Bevin, “we must nip it in the bud” (cited in Trachtenberg 1999: 117). Macmillan went further calling EDC a “cancer in the Atlantic body.”³⁸ To Britain EDC blatantly failed to satisfy its priority of fighting the Cold War. As Macmillan (1969: 220) rightly observed, “it was apparent that this scheme [EDC] was more calculated to alleviate the fear of the French than to strike terror into the Russians.” This view was confirmed by Fursdon (1980: 255-7), who observed that “the real issue which would determine ratification, was whether, in French eyes [the EDC] marked any advance in political guarantees against German hegemony rather than military guarantees against Soviet aggression.”³⁹

The final debate in the French Assembly on August 29 confirms that EDC failed, not because it entailed a too far-reaching surrender of sovereignty, but rather because it was not far-reaching enough. Both proponents and opponents based their arguments on security against Germany. EDC partisans stressed the dangers of independent German rearmament; “EDC or the Wehrmacht” was their slogan. Opponents countered by arguing against German rearmament under any form (Aron & Lerner 1957: 13; Willis 1968: 98).

The lack of British participation was also held up as a weakness (see Charlton 1983: 162; Dockrill 1991: 107). Mr. Herriot argued before the Assembly, “... I have read the texts with anguish. There is nothing in them to show that Britain would be at our side to resist the strength and any eventual maneuvers of Germany. Britain must be at the side of France in this matter to act with equal responsibility in the face of a new German threat, should it arise. “

When the final vote was taken on August 30, 1954, EDC was defeated by a vote of 319 to 264. In rejecting the treaty, however, France operated with a safety net. Premier Mendes-France knew that alternative plans were being made in London for incorporating Germany into NATO via an intermediary European framework (see Dockrill 1991: 110; Fursdon 1980: 292-93; Charlton 1983: 163). In September 1954, Eden announced a “British package,” which would let West Germany enter NATO by signing a strengthened Brussels Treaty Organization of 1948. The new scheme – the Western European Union – would not be supranational, but would nonetheless institute safeguards against a re-armed Germany, including a cap on the total number of German troops, which could not be exceeded without unanimous approval by the WEU Council (i.e., a French veto). Allied forces would remain stationed in Germany not only as protection against the Soviet Union, but also as a reassurance against future German aggression.⁴⁰ According to Trachtenberg (1999: 127-8),

³⁷Trachtenberg 1999: 118; FRUS 1952-54, 5:10, 12-3, 41-3, 46-7, 78-9, 682, 687; Acheson 1969: 615.

³⁸DO(50)100, PREM 8/1429 and speech to the House of Commons, 29-11-1950.

³⁹Adenauer (1965: 345) wrote in his memoirs: “the Western Allies, especially France, had to find an answer to the question of which was the greater danger, the threat from the Soviet Union or a German contribution to a EDC.”

⁴⁰Declaration by the FRG and the three western powers, 3 Oct. 1954, FRUS 1952-54, 5: 1352-1354.

all this—the strengthened NATO structure, the western military presence on German soil, the reserved rights, the limits on German military power—added up to a system. Germany was to be tied to the West... but her freedom of action was to be curtailed and she was not to have the same sovereign rights as the other western powers.”

EEC

The vision of European integration as an instrument to pacify Germany did not die with the rejection of EDC but underpinned successive attempts at integration. The Benelux plan for a European Economic Community explicitly aimed to tie down German economic power and to bind Germany to the Community via efficiency gains. By 1953, West German national income was more than double that of France and made up 48.6 percent of the ECSC total (Gillingham 1991: 357). What seemed unavoidable in the future, in a way that military preponderance no longer did, was the economic primacy of Germany in Europe—a primacy that might lessen Bonn’s dependence on Europe and lead to a more independent foreign policy (see Milward 1992: 119-20; Mowat 1973: 129-35; Mayne 1973: 231). To the Benelux governments what was needed was a binding, step-by-step approach to economic union that would pull the FRG into a European community and grant other states influence over its economic policies (Milward 1992: 119-20). Referring to the EEC, Belgian Foreign Minister, Paul-Henri Spaak, wrote to Eden in February 1956:

...this I believe is the real way to solve the German problem. A Germany which is integrated in European entities, and through them, in the Atlantic Pact, will have defended herself against an individualism that too rapidly takes the form of nationalism, whose effects we know, and at the same time against the temptation to approach the Russians by herself ...To this political conception are added some economic considerations... It seems clear to me that in this field the future belongs to the large communities of mankind. Automation, the progress of technology, the increase of production and productivity—all...require large markets (Quoted in Mayne 1973: 251).

The creation of the EEC led to significant economic gains for its members. Yet, as with other integration initiatives, the Common Market cannot be explained solely as a result of pressure from economic interests. Both the French and German Foreign Ministries avoided any general consultation of economic interest groups (Milward 1992: 198, 208). In France, organized industry was generally ill disposed towards the EEC (Milward 1992: 208; Charlton 1983: 205). In July 1956, in response to a British proposal to create an industrial FTA embracing all the OEEC countries,⁴¹ business representatives in the French Economic and Social Council voted unanimously to relocate the EEC talks to the OEEC (Parsons 2001: 8). German opinion was also divided. On one hand, the large competitive German industries stood to gain from regional trade liberalization. On the other hand, Germany’s dependence on markets outside Europe meant that an exclusive European customs union might be harmful to the German economy (see Kolodziej 1974: 277; Moravcsik 1998: 95-7; Calleo 1978: 162-66). The German preference was thus for multilateral

⁴¹ PRO, T234/182, European Integration, MAC(56)6(Clarke) 16.1.1956.

as well as regional trade liberalization (Moravcsik 1998, 88-9). German Minister of Economics, Ludwig Erhard, virulently attacked EEC for “constraining German industry within a continental dimension” (Ludlow 1997: 27). He was supported by the most influential of German economic interest groups, the *Bundesverband der Deutschen Industrie*.⁴² Yet, when Erhard tried in October 1956 to persuade the German Cabinet to suspend the EEC negotiations in favor of the British OEEC scheme, he was overruled by Adenauer and Hallstein, who insisted EEC had to be privileged for political reasons.⁴³

The EEC reinforced the security bargain that was reached with the ECSC through both exit costs and efficiency gains. During the first four years of its existence (1958-62), Franco-German trade tripled. The freeing of capital flows within the EEC also brought about an extraordinary acceleration of FDI and opening of subsidiaries abroad. The Common Market thus helped to bring about the tight interlocking of economic interests that both Schuman and Adenauer had envisaged in 1950 but that the ECSC had not succeeded in creating through spill-over effects (Willis 1968: 100). As such EEC completed the binding process that was begun six years early with the signing of the ECSC treaty.

Objections and Further Observations

I have suggested that integration in postwar Europe was motivated by a regional power transition dilemma. Yet, one might object by asking: if integration in Europe was designed to constrain German power with a view to preventing another intra-European war, then why was it not tried at the turn of the century or during the interwar period? After all, France in the wake of World War I faced a security dilemma similar to the one it faced after World War II. It is well known that—alongside hopes of using coercion to enforce the Versailles treaty—the French government after World War I also explored strategies for economic integration with Germany (see Trachtenberg 1979: 26-9; McDougall 1989: 9-11). Briand’s proposal for economic union in 1929 is indicative of this effort. Briand’s proposal, however, came just as the rise of the Nazis made such a visionary scheme seem impossible. Schuman’s proposal, by contrast, was realized because of a favorable constellation of circumstances: first, Soviet threat made European cooperation imperative as other countries felt a need to involve Germany in the defence of Europe. This increased the opportunity cost to internal conflict. Second, the American presence in Europe made binding appear less risky to Germany’s neighbors.⁴⁴ Germany, for its part, faced an immediate threat from the East and was eager to obtain the trust and cooperation of its neighbors to allow it to rebuild its strength more quickly. Thus, the expected cost of intra-regional conflict was high to all involved, whereas binding appeared more attractive. While favorable, however, this was not a “unique constellation” of circumstances, as many scholars have claimed. As we shall see below, similar circumstances ob-

⁴²At the same time, the EEC was also attacked by protectionist groups like the *Deutsche Bauernverband* who feared agreement on a common agricultural policy would be harmful to them.

⁴³Ludlow 1997: 27. Adenauer’s policy directions to the German Ministers on January 19, 1956, read: “the Messina initiative must be seen as a step towards the creation of a community that will secure the right direction of political will and action—in the interest of a future reunification.” Adenauer 1985 (vol. II): 253-35.

⁴⁴While I have not included any objective measure of this, I think it is reasonable to argue that European political elites after the war were generally risk-averse. Certainly the war had amply demonstrated the pitfalls and unpredictability of armed conflict.

tained in nineteenth-century Germany, where Austria provided a temporary, but ultimately unreliable, external check on Prussian power, thereby allowing other German states to bind it as it rose.

A second possible objection concerns preferences for centralization. Germany at various points has pushed for a more federal Europe, whereas France has insisted on a Europe without federal institutions and without strong political legitimacy. How do we reconcile this with a French wish to bind German power? Here we need to recall that the aim of binding is to safeguard state sovereignty, not to replace it with central government. It is not surprising to see a demographically dominant country push for greater centralization of institutions; substituting majoritarian elections for the intergovernmental system of veto points would increase German influence on policymaking. However, from the perspective of other European states, such an outcome would put them at an obvious disadvantage. Institutional binding accounts for exactly this outcome.⁴⁵

Postwar European integration has instituted a political balance of power among Member States, which has been rendered credible through pooling and redistribution of power as well as exit penalties and efficiency gains. As such it has provided a credible assurance against the hegemony of Germany. The question is: why has Germany agreed to this series of binding designs? One answer is “timing.” The rudimentary steps towards integration were launched at a time when Germany, although economically recuperating, was still politically and militarily fragile. Divided and occupied, and subject to a significant threat from the East, the principal goal of the FRG was to reclaim political sovereignty and gain the right to rebuild a national defense. Bonn realized, however, that political and military equality could be acquired only at the expense of institutional restraints on German power. When Germany after 1945 agreed to let the elements of sovereignty that were being restored to it be immediately “frozen” in the international organizations it joined—as in the case of the ECSC, WEU, EEC, OEEC, and NATO—the primary payoff to Germany was in terms of equality rather than of independence (Hanrieder 1980: 17).

A second answer lies in changing German preferences. Postwar Germany—like other European states—has drawn lessons from history that have served to change its perception of war as a feasible means of obtaining either security or wealth. As the strongest and most dynamic of the West European economies, and as the country with the greatest export potential, Germany has benefited significantly from integration—its growing trade surpluses far outweighing the cost of its large direct budgetary contribution.⁴⁶ European integration has given Germany a home market with sufficient scales to foster industries that are competitive in the world economy. Thus, in purely economic terms it may well be true that Germany has gained more from being immured in the EC than it might have won by attempting to coerce its neighbours under its exclusive leadership (Hanrieder 1980: 11).

Yet, while the desire to garner commercial advantages has been an important force in shaping integration and in sustaining support for the European project, econom-

⁴⁵I.e. the Bavarian government had more influence under the German confederation than under the German Empire when they were relegated to the status of a local government.

⁴⁶In 1996, Germany’s financial contribution to the EU amounted to about two-thirds of the net income of the Union, double the relative size of the German GDP in the EU. Mattli 1998: 104.

ic concerns have not, as we have seen, provided a primary impetus for integration. Indeed, had European policymakers been concerned exclusively with economic advantages (and not with the “security externalities” of such advantages) they would likely have engaged in less extensive cooperation within weaker and geographically broader international institutions along the lines suggested by Britain. Today’s Europe would be radically different.

3.ii The *Zollverein* (1834-1866)

Introduction

The German *Zollverein* was a comprehensive economic union, created in 1834 alongside the existing German Confederation (“*Deutsche Bund*”). At its inception, the *Zollverein* united eighteen states within a single customs and administrative barrier. During the more than three decades of its existence, the union expanded to include a majority of the German states. The *Zollverein* has often been described as the first *non-political* union among independent states (Price 1912; Viner 1950). Yet the *Zollverein* did not emerge in a political vacuum. Rather, it can be seen as a complement—an economic reinforcement, so to speak—to the existing German Bund, which focused mainly on military matters (Forsyth 1981: 160-1, 174-5; Huber 1957: 289). Together, I argue, these two institutional structures amounted to a system for constraining the hegemonic potential of the strongest German state, Prussia.

Existing scholarship has advanced two main explanations for the economic integration of Germany. The first holds that integration sprang from a desire to reduce economic transaction costs. Interstate commerce in early nineteenth-century Germany was thwarted by antiquated restrictions, poor communications and high tariffs, all of which created pressure for market reform.⁴⁷ Yet this explanation fails to convince. While there were certainly liberal forces pushing to abolish trade barriers, integration cannot be explained purely by a desire to promote economic exchange. After the collapse of the Continental System in 1815 most German states reverted to narrow economic protectionism and isolationism (Benaerts 1933: 63-72; Price 1949: 253; Kiesewetter 1987: 94).⁴⁸ The lack of shared economic interests is also illustrated by the fact that the several conferences convened to discuss cooperation among the German states as a way to reduce the economic distress that followed the Napoleonic Wars all came to naught (see Price 1912: 97).

The second explanation suggests that integration was driven by nationalist sentiment. For example, Price depicts economic integration as a means consciously employed by German nationalists to achieve national unification (1949: 253). Most observers agree, however, that German nationalist sentiment was neither widespread nor strong enough to

⁴⁷See Mattli 1999: 114-5. Mattli also stresses the integrating effect of the railroad: “the railway served not only to reduce transaction costs and widen markets, but also provided the single most powerful stimulus to Germany’s industrial development...the integrating effect of the railway is beyond doubt,” he claims. Yet the economic effects of the railway, which was mainly constructed after 1835, could hardly have been felt at the time of the founding of the *Zollverein* in 1834. See Roussakis 1968: 81.

⁴⁸Whereas the agrarian states and free cities of northern Germany favored free trade, southern states were generally protectionist.

prompt integration. Indeed, scholars report divergent economic interests, political “*klein-staaterei*” and religious tension among Catholic states in the South and Protestant states in the North (Benaerts 1933: 63-72; Henderson 1984: 95).

Below, I seek to demonstrate that the main impetus for integration in Germany came from a hegemonic conflict in which a local great power, Prussia, threatened the economic and political independence of other German states. To understand how this conflict prompted integration, it is necessary to appreciate that, at the time of integration, Prussia, while rapidly rising, was still in a relatively weak position within greater Germany, where she was balanced by the preponderant military power of Austria. Prussian leaders knew their ambition of leadership in Germany depended on averting a “total balance” of German states against Berlin (Liska 1964: 76). In particular, the tendency of major secondary states like Bavaria and Württemberg to ally with Austria as well as the presence of external threats from Russia and France meant that Prussia could hardly afford direct conflict with her smaller neighbors. Hence, the potential arose for other German states to bind her as she rose.

The Rise of Prussia and the German Bund

The Germany that emerged in 1815 after the Congress of Vienna included thirty-eight states ranging in size from “great powers” (Prussia), middle-sized kingdoms (Bavaria, Württemberg, Saxony, Hanover) and duchies (Baden, Nassau, Oldenburg, Hesse-Darmstadt) to independent cities like Hamburg, Bremen and Frankfurt-am-Main. Although many German states were strengthened territorially by the Vienna settlement, the champion of the new German order was undoubtedly the kingdom of Prussia. Of 208,780 square miles of German territory, 134,616, more than half, was Prussian. The second largest German state was Bavaria, whose territories comprised a large chunk of southeast Germany. Next in line by order of territory and population were Württemberg, Saxony and Baden (Kiesewetter 1987: 82).

Despite territorial gains at Vienna, Prussia after 1815 is best described as revisionist. Sprawled across Central Europe with her territories divided by the intersecting lands of Hesse-Cassel and Hannover, Prussian leaders perceived a strong need to expand in order to increase security. The expansionist potential of Prussia was explicitly acknowledged at the Congress of Vienna, where it was decided to combine the many German states into a loose confederation with Austrian participation. This confederation would serve the dual aim of strengthening Germany against Russian and French revanchism and of preventing Prussia from gaining dominance within Germany (Carr 1979: 1-3). Yet, the divergent political and economic interests of the German states limited the potential of the Bund as a means to constrain Prussian power. When delegates from Austria, Prussia, Bavaria, Württemberg and Hanover met in 1814 to draft a confederate constitution there was little they could agree on. Prussia favored a centralized structure that would allow it, by virtue of its preponderant size, to dominate the Bund. Austria wanted a loose political union that would leave it free to pursue its non-German objectives (Forsyth 1981: 45). The larger secondary states opposed any arrangement that might limit their sovereignty and sided with Austria. When a Confederate Act was signed on June 8, 1815, the result was therefore a weak constitution, relating mainly to external security and defense (Price 1949: 18-9; Forsyth 1981: 48). The Bund had no central executive or judiciary powers. The only tangible brake

on the abuse of power by leading states was the distribution of votes in the Federal Diet (the “Bundestag”), which met in Frankfurt-am-Main to consider common legislation: Votes were here allocated in a complicated manner such that the eleven larger states, including Austria and Prussia, possessed one vote each, while the remaining states shared six votes among them. This system aimed to neutralize the power of Austria and Prussia by making it impossible for them, even if acting together with the four large kingdoms, to outvote and dominate the rest (Forsyth 1981: 48; Carr 1979: 4).

The Bundestag initially had no executive machinery to secure implementation of its decrees (Roussakis 1968: 15). However, the *Wiener Schlussakte* of 1820 established a federal army raised and financed by member states on a quota basis⁴⁹ and empowered the Union to take measures to preserve or restore peace, security and order within a member state, whether this was requested by the government in question or not, and to force members to comply with the *Bundesakt* (Werner 1977: 7). Despite limiting the formal institutional power of larger states and providing for a common army, however, the Bund constituted at best a weak form of binding. Military integration was imperfect and, more importantly, the Bund lacked any form of economic integration to substantiate and consolidate the political agreement. This, it would soon be clear, was a crucial weakness since the expansionist potential of Prussia lay as much in its growing economic power as in its military might.

The Zollverein

The economic struggle that led to the formation of the *Zollverein* began with the Prussian Tax Law in 1818. This law unified Prussia’s territories by abolishing all internal duties and instituting a uniform external tariff. High transit dues were introduced in the eastern and western parts of Prussia, which lay on important trade routes (Kohr 1960: 442; Hahn 1984: 20; Kiesewetter 1987: 92). The economic effects on Prussia’s neighbors were immediate and devastating. Industries in central and southern Germany—in Saxony, Baden, Württemberg and Bavaria—had their chief outlets to the north, where their products reached the North Sea ports after travelling along the Rhine or Elbe rivers, the bulk of which were controlled by Prussia. The main roads to Poland and Russia also cut across Prussian territory.⁵⁰ Transit dues thus constituted a formidable obstacle to trade in neighboring states and posed a direct and imminent threat to their economic survival⁵¹ (see Roussakis 1968: 51-2; Forsyth 1981: 166; Zechlin 1967: 83).

⁴⁹Austria and Prussia provided each three corps, Bavaria one, and three additional corps were made up of troops from the remaining states. The usual strength of the army was 300,000 men. See Forsyth 1981: 49.

⁵⁰Roussakis 1968: 52. While official Prussian import duties ranged from 10-30 percent, in reality they were higher, since they were calculated by weight, mass or pieces rather than value. Since Germany experienced a general fall in prices after 1818, this meant that import duties calculated by value were in fact steadily rising. By one estimate the effective duty on many articles were in fact ranging from 60-100 percent. Hahn 1984: 21.

⁵¹To appreciate the negative effects on other states, it is necessary to recall that, in the early nineteenth century, customs policy was largely synonymous with fiscal policy. In the absence of income taxes, tariffs and duties were indispensable means for collecting state revenue and in many places accounted for up to 70 percent of government income (Hahn 1984: 34). The loss of receipts from tolls and customs thus constituted a serious threat to economic survival.

Initially, other states sought to counter Prussia's aggressive policies through balancing. In 1828, Bavaria and Württemberg set up a rival customs union in south Germany and later in the same year the central German states established the Middle-German Commercial Union. By 1834, no less than four separate tariff unions existed in Germany.⁵² These unions bear witness to both the limited degree of shared economic interest among the German states as a whole and to the depth of resentment toward Prussia's policies. The anti-Prussian spirit of the new customs schemes was especially evident in the Commercial Union, which united the territories lying between Prussia and the Bavaria-Württemberg union (Mattli 1999: 118; Hahn 1984: 57). The Commercial Union did not erect a common external tariff, nor did it abolish internal trade barriers. The economic interests of the members were so divergent that agreement was reached only on two points: to prevent the existing customs unions from expanding into central Germany; and to divert transit trade away from Prussia by maintaining as many open north-south trade routes as possible (Roussakis 1968: 60-1). To meet these goals, the treaty introduced a series of discriminating transit dues aimed at hampering commerce between the eastern and western parts of Prussia, and prohibited its members from concluding trade agreements with members of other unions. About this arrangement historian Heinrich Treischke remarks, ". . . never before had particularism brought forth so monstrous, so unnatural an abortion. In the form of a huge barbed hood the area of the Union extended . . . across a motley collection of territories which, vis-à-vis Prussia, were only held together by a single common bond – fear and envy."⁵³

Neither the South German nor the Commercial Union succeeded in halting Prussia's economic expansion. The secondary German states were generally too small to enjoy any real advantage from a common external tariff. During its short lifetime the South German union collected less than half the revenue per capita of the Prussian customs scheme.⁵⁴ The Commercial Union fared even worse (Mattli, 1999, 119). Realizing their fiasco and fearing their economic position would continue to deteriorate, Bavaria and Württemberg therefore decided to seek accommodation with Prussia through a treaty of economic union. On March 22, 1833, a treaty was drafted uniting the Prussian and Bavarian customs unions.⁵⁵ Simultaneous with this merger, a number of members of the Commercial Union negotiated to join the new German *Zollverein*. In this way, argues Forsyth, "Prussia's modernizing, expansionist and hegemonial policy provided the impetus towards the . . . creation of the *Zollverein*" (Forsyth 1981: 166).

⁵²The Prusso-Hessian customs union (1828), the South German *Zollverein* (1828), the Middle German Commercial Union (1828) and the *Steuerverein* (1834).

⁵³Quoted in Roussakis 1968: 62.

⁵⁴Hahn 1984: 35. The yearly net income of the South German Union was 9.5 silbergroschen per capita compared to 24 silbergroschen in Prussia. Low revenues were mainly due to administrative costs, which absorbed 44 percent of the unions' receipts compared to between 14-20 percent in Prussia. According to *Zollvereins*-pioneer Ludwig Kuhne high costs were due to the greater ratio of border-length to territorial size in these smaller states.

⁵⁵Treaty of Customs Union between Prussia, Hesse-Cassel and Hesse-Darmstadt, and Bavaria and Württemberg (March 22, 1833): Annual Register, 1838, 323-35, in Kertesz 1970: 73-4.

The Zollverein as an Instance of Binding

To what extent was the *Zollverein* a case of institutional binding? Economic integration in Germany cannot be explained by reference to nationalist sentiment: As Henderson (1984: 95) notes

the notion that the Zollverein was set up as the result of the rise of a German national consciousness and was a touching example of brotherly cooperation on the part of the various states will not bear for a moment. The states concerned fought for their own narrow interests and many of them joined the Zollverein only when economic depression made further resistance to Prussia impossible.

A purely economic explanation also fails. While integration stimulated trade and economic growth, the divergent economic interests of the various German states, illustrated by the creation of several competing customs schemes, and the repeated failure to reach agreement on economic cooperation within the German Bund suggests that incentives to liberalize trade were not by themselves sufficient to spur large-scale integration.

Instead, the evidence suggests that integration in Germany was motivated by a desire to constrain the power of a rising Prussia. Prussia was clearly ascendant, her growing economic strength far outstripping that of neighboring states. While Prussia was balanced militarily by Austria within the German Bund, an economically protectionist and backward Austria offered little help in balancing against Prussia in the economic sphere. Hence, the secondary German states sought instead to bind Prussia before it grew too strong. By doing so, they gained highly favorable terms.

To what extent did the *Zollverein* bind Prussian economic power? When it took effect on January 1, 1834, the *Zollverein* comprised eighteen states with a total area of 162,870 square miles. Its population was 23.5 million—15 million were Prussians (Rousakis 1968: 70). Yet Prussia did not enjoy a hegemonic status. The union was based on a strict principle of legal equality. Each state had one vote in the central legislative body, the Customs Congress, where decisions were subject to unanimity and were directly binding on member states, “breaking” state law (Kohr 1960: 448; Forsyth 1981: 168). The execution of legislative decisions was monitored by a system of reciprocal surveillance by which members sent delegates to each other’s administrative offices. The treaty thus gave other states significant control and influence over Prussia’s policies.

Several concrete bargains served to cement power sharing among Prussia and other German states. The *Zollverein* treaty instituted a common external tariff—equivalent to the Prussian Tariff of 1818—but instituted free trade among members. Revenue from the common tariff system was pooled and distributed equally among member states in strict proportion to their population. This principle was highly favorable to secondary states because their per capita consumption was considerably smaller than Prus-

sia's (Mattli, 1999, 123). Thus the treaty in effect provided for economic redistribution from Prussia to other states.⁵⁶

In addition to economic redistribution, institutional binding was reinforced by high exit penalties—brought about by a highly centralized system for customs collection and, later, the adoption of a common currency—as well as efficiency gains. After the formation of the *Zollverein* revenues everywhere increased dramatically. Tax revenues grew by 71 percent between 1834 and 1843 while population increased by only 22 percent (Henderson 1983: 141). This growth saved the smaller states from immediate economic ruin and led to a marked improvement in Prussia's international bargaining position (Mattli 1999: 124-5).

It's easy to see why smaller states would opt for binding Prussia through integration. As Albrecht-Carrie (1958: 62) observes, "the lesser German states were compelled to rally lastingly and organically around Prussia, as the sole alternative to disintegration of the German states system being followed upon by Prussian coercion." But why did Prussia consent? Why not simply coerce other states into cooperating with it on its own terms? Several factors are important. First, although Prussia was economically superior it did not reach military dominance until decades after the creation of the *Zollverein*. Although Prussia had the upper hand economically, secondary states could credibly threaten to ally with a military stronger Austria. For this reason they were prepared to "appease" declining states with economic concessions. Another motivation for Prussia to pursue integration was to exclude Austria economically from the German sphere—a goal directly advanced by the *Zollverein* (Marriot 1915: 32; Price 1949: 298; Hamerow 1958; Albrecht-Carrie 1970: 53). Finally, there were significant efficiency gains to cooperation—gains which made Prussia indifferent between conquering other states and cooperating with them on equal terms.

The Dissolution of the Bund and German Unification

The *Zollverein* institutionalized a balance of political and economic power that allowed smaller German states to influence Prussian policy and saved them from economic exploitation. In terms of the theoretical framework set out above, however, the *Zollverein* provided only a halfway mechanism for binding Prussian power. Although significant constraints were placed on Prussia's economic power, the integration of military resources remained limited to the sphere of German Bund, where pooling of military forces was moderate and central command structures weak. Hence, the only immediate guarantee against Prussian military expansion was the countervailing power of Austria. This arrangement was sound in 1834 but would not withstand the test of time.

In May 1866 Prussian troops entered Schleswig-Holstein to expel Austrian forces there. In response Austria asked the German Bund to mobilize the federal army against Prussia. Despite warnings from Prussia that a vote in favor of the Austrian motion would be regarded as a declaration of war, most members of the Bund voted approved the motion. On the same day the vote was taken (June 14), Prussia announced its withdrawal

⁵⁶E.g., Bavaria, which had collected two million florins in revenue per year from its customs union with Württemberg, obtained almost 4 million florins as a member of the *Zollverein*, See Henderson 1983: 141; Roussakis 1968: 76; Mattli 1999: 122, 148.

from the Bund and on the following day delivered ultimatums to Saxony, Hanover, and Hesse-Cassel, ordering them to stop mobilization. When they refused, Prussian forces invaded on June 16, 1866. This was followed by a declaration of war on Austria on June 18. Within three days, Saxony, Hanover and Hesse-Cassel were occupied and a week later Prussia defeated the Austrian army at Königgratz. Next, Prussia annexed Hanover, Hesse-Cassel, Nassau, Schleswig-Holstein and Frankfurt-am-Main and imposed a treaty of union on the seventeen German states north of the Main under Prussian leadership.⁵⁷

The *Zollverein* failed ultimately in binding Prussia's growing power. As such we may ask whether the case does not in fact disconfirm the binding thesis. Yet, cases need not be successful to reveal information about the motivation behind a policy. Although the military and economic binding undertaken in the Bund and *Zollverein* did not prevent German unification under Prussian leadership, the order of events and the form integration took suggests that the desire to constrain Prussian power was a key motivation behind integration. By integrating with Prussia at a time when she was still relatively weak, the secondary German states gained significant privileges and influence on Prussian policy. When German unification was finally forced by Prussia the process thus took the form of a compromise as much as an act of conquest. The structure of the North German Bund and even the subsequent German Empire fell far short of a centralized state but granted important rights to individual member states. Bavaria and Württemberg obtained a permanent seat on the military committee of the *Bundesrat*, separate representation at peace negotiations and the chair of the committee on foreign affairs. They were also allowed to keep control of their armed forces (Craig 1978). The minor German states also retained significant autonomy. The executive body of the Federation was the *Bundesrat*, in which Prussia had seventeen of fifty-eight votes, Bavaria six, and the smaller states each one vote, meaning that Prussia could in principle be outvoted on constitutional and military questions (Carr, 1991, 126). Despite the centralizing efforts of Prussia, Germany thus remained a highly decentralized state in which the various "Länder" maintained a high degree of autonomy and privilege.

IV. CONCLUSION

Regional integration historically has often followed in the wake of sustained hostility and even outright aggression among integrating partners. This was the case in nineteenth-century Germany where the various German states were engaged in a fierce customs battle, each trying to starve others of fiscal revenue, and in twentieth-century Western Europe where integration followed on the heels of major war. Yet, the notion that states pursue integration following, or in some cases during, periods of great instability and conflict runs directly counter to the predictions of existing integration theories, which view integration as contingent on a stable geo-political environment, shared economic interests and shared identities. Conceiving of integration as a solution to a regional power transition dilemma, as I have done here, explains why integration often occurs during periods of conflict and upheaval rather than in times of peace and growing economic interdependence. Moreover, by showing how integration can serve to con-

⁵⁷As a result of these annexations, Prussia after 1866 comprised 80 percent of population north of the Main. Bavaria, Baden, Württemberg, and Hesse-Darmstadt remained outside the North German Confederation. Craig 1978: 12.

strain the power of would-be dominant states, the institutional binding theory advanced in this paper explains a significant but rarely discussed feature of many existing integration schemes, namely a systematic asymmetry between the “real” and “institutional” power of leading member states.

The analysis also has implications for general IR-theory. Rationalist theories of bargaining and war have generally concluded that, although states may have *ex ante* interests in credibly committing not to fight, they are rarely if ever able to secure such commitments in the absence of third-party enforcement. I have demonstrated that sovereign states have in fact been able, via economic and military integration, to form credible commitments strong enough to avert war—even during volatile power transitions. Second, the approach sheds new light on the relationship between integration and peace. IR-theorists have long stressed a positive link between regional integration and a reduction in militarized inter-state conflict. Yet, the causal relationship between integration and peace continues to divide scholars. Constructivists suggest that high levels of interaction associated with integration socialize leaders and populaces so that they come to regard resorting to violence as illegitimate. Liberals hold that an anticipated loss of gains from trade and other forms of economic cooperation associated with integration has a deterrent effect on states. Yet neither explanation generalizes. While some scholars find international trade is associated with peace (e.g. Polacheck 1980; Oneal and Russett 1997), others find that it may induce conflict. Similarly, there are examples of communities with a long history of interaction and, presumably, high levels of socialization, which have broken apart in violent conflict—witness the former Yugoslavia. I have argued instead that the positive link between certain forms of regional integration and peace derives from a deliberate manipulation of regional power balances, which renders violent conflict redundant, whereas socialization and trade volumes play a secondary role.

I have shown institutional binding at work in two historical cases. However, there are a number of other cases that may fit the theory. I have explored elsewhere how integration among the United Dutch Provinces was driven by a conflict between a rising Holland and a group of smaller declining Dutch states.⁵⁸ There is also reason to believe that the United Provinces of the Río de la Plata, 1816 (the so-called Argentine Confederation) was motivated by fear of the hegemony of one of its members, namely Buenos Aires.⁵⁹ Whether or not these cases fit the binding theory is a subject for future research.

⁵⁸See author 2001.

⁵⁹According to Ames (1999: 231), “the greater growth of the province of Buenos Aires was viewed by other provinces as a clear threat, and the federation considered itself a brake on the hegemony of Buenos Aires.”

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