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EUROPEAN INTEGRATION AS A SOLUTION TO WAR

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ABSTRACT

We seek to establish the conditions in which binding international institutions can serve as a solution to preventive war. Scholars of international and regional integration portray institutions as a response to problems of incomplete information, transaction costs and other barriers to welfare improvement for their members. By contrast, we show that international institutions can have binding properties that solve credible commitment problems among member states—even in the case of volatile preventive war dilemmas. Our primary case is post-war Europe. We show that European integration since the early 1950s was conceived as a means of committing a temporarily weakened West Germany not to use its future power to pursue military ends in Europe, thereby obviating a preventive war against it. The various institutions that form part of the European Communities, now the European Union, still bear the mark of this goal. In this paper, we establish the game theoretic conditions for the existence of binding international institutions as a solution to preventive war. We also provide evidence that the model is a good approximation of what political elites had in mind in the wake of World War II.

European Integration as a Solution to War

In this paper we seek to establish the conditions in which binding international institutions can serve as a solution to preventive war. Our primary case is post-war Europe. We show that European integration since the early 1950s was conceived as a means of committing a war-weakened West Germany to not use its renewed power in the future to pursue domination in Europe, thereby obviating a costly preventive war against it.

In the wake of World War II, France and its allies, having fought two large-scale wars to fend off German hegemony in Europe, found themselves temporarily more powerful than their vanquished enemy. Yet, they knew this advantage was unlikely to last and that Germany would eventually re-emerge as a potential threat. How might they ward off this danger? The allies could have tried to extract a promise from Germany not to take advantage of its military superiority once the balance of power tipped in its favour. Such a promise—however sincere at the time—would not have been credible. A similar covenant, along with the advent of democracy in 1918, had proven insufficient in averting World War II; Germany had reneged on the Versailles bargain once it gained the power to do so. A second option was to prevent Germany from renewing its bid for hegemony by confiscating its resources or otherwise curbing its potential for growth. Germany and its neighbours thus faced a classic commitment problem, known in the security literature as a “preventive war dilemma”. In this dilemma, declining status quo states have an incentive to remove the threat presented by a rising challenger by attacking it before it grows too powerful.¹

Preventive war is considered by the standard international relations literature to be a unique solution to commitment problems generated by uneven growth rates. From this perspective, the peacefulness of the power transition that began in Europe in the early 1950s therefore presents a puzzle. Why did France and its allies choose to co-operate with West Germany instead of adopting a punitive strategy similar to after World War I? And why have the same countries continued to deepen co-operation with Germany, despite the fact that

¹ Levy 1987, Fearon 1995, Powell 1999.

German relative power has kept on growing since the early 1950s? We argue that war is not the only possible solution to a preventive dilemma. Another option is for states to create an institution that enables credible commitment by disabling future discretion to use force arbitrarily. We call this “institutional binding”. Rationalist theories of bargaining and war generally rule out such an option on *a-priori* grounds in the absence of third-party enforcement. We take exception with this prevalent view.

In presenting integration as a solution to preventive war we build on the idea, which is common in the fields of institutional economics and international political economy, that international institutions are created or modified as a response to a failure in co-operation. It has long been recognised that co-operation failures in international relations are diverse and that different types of co-operation failures—moral hazard, distribution, adverse selection, and uncertainty about future payoffs and bargaining power—call for different institutional responses.² We merely add the credible commitment problem to the list, arguing that, like other co-operation problems, it may be liable to an institutional solution. We point to institutional features that, we believe, derive directly from the credible commitment problem. These include, first, a decision-making process that freezes the distribution of voting power among members, contingent efficiency gains and exit penalties that deter defection, as well as, in some instances, a system of transfer of strategic resources which redistributes material power among members. We show that many of these features prevail in the European Communities (EC).³ The distribution of voting power among EC members has been frozen since the 1950s, thereby effecting a growing institutional under-representation of German power. Germany today represents 22% of total EU population but controls only 11% of the vote in the Council of Ministers when that body rules by majority vote. This discrepancy between Germany’s “real”

² See Stein 1982 and Snidal 1985. For a recent contribution, see Koremenos, Snidal and Lipson 2001. On solutions to moral hazard, see e.g. McCall Smith 2000. On solutions to severe distribution problems, see Mitchell and Keilbach 2001 on common pool resources problems and Reinhardt 2001 on the WTO. On adverse selection problems, see Kydd 2001 on NATO enlargement and Thompson 2001 on UN sanctions. On uncertainty in future payoffs and in bargaining power, see Koremenos 2001a and 2001b respectively.

³ Since the ratification of the Maastricht Treaty, the organization has been referred to as the *European Union* (EU). When dealing with events up to and including Maastricht, however, we shall use the older term *European Communities* (EC).

and “institutional” power is not a contingent result of German re-unification but dates to the birth of the Communities. A second institutional feature of the EC is exit penalties that make it costly for states to suspend membership of the institution. The EC deliberately induces high levels of interdependence which increases the cost to members of unilaterally freeing themselves from the institutional binding. Finally, the EC “binds” members through contingent efficiency gains that are dependent upon the continuation of integration. Because these gains rely on continued peaceful co-operation, individual member states need not fear that the greater gains of one state will be translated into military force to be used against others. The spur for this meticulous system of equilibrating voting rules, exit penalties and positive inducements in the form of contingent efficiency gains has been the fear of German hegemony. The effect has been to constrain the power of individual EC member states and to rule out the suspension of membership, thereby instituting a credible commitment to long-term peaceful co-operation.

This credible commitment explanation clashes with (at least) two competing explanations of European integration. First, it contradicts the claim by political economists that integration is chiefly motivated by commercial interest. While we recognise that European integration entails significant economic benefits, these benefits do not suffice to explain either the timing or the concrete form of integration. The argument also challenges standard realist accounts which depict integration as a means of strengthening co-operation among regional allies against external threats. We argue that the paramount threat from the Soviet Union has not been a driving motivation for European integration. Instead we champion an alternative power-based explanation according to which integration is not invoked to balance against outside enemies but is used by weaker states to control a would-be dominant partner. This explanation not only lends theoretical force to the popular—but largely unsubstantiated—wisdom that post-war European integration has been prompted by a desire to contain German power but, as we will see, it accounts for the concrete institutional form that integration has taken as well.

The paper proceeds as follows. After a brief review of extant theory, we present “institutional binding” as a solution to preventive war. To demonstrate the empirical plausibility of our model, we begin by providing historical evidence that regional integration was framed by European leaders after World War II and even later as a solution to the

commitment problem generated by uneven national growth rates (Section II). We then present a game-theoretic model of institutional binding, specifying the institutional format that a confederation must meet to solve the commitment problem. In Sections IV and V, we assess the extent to which this format is met by the European integration process. In the final section we consider the model's robustness and draw some implications with respect to issues of enlargement, free riding and the timing of integration.

I. Extant Theories of Regional Integration

Broadly speaking, existing scholarship focuses on three broad categories of motivation to account for underlying national preference in favour of regional integration: economic interests, geo-political interests and ideational interests. Respectively, these define distinctive liberal, realist and cognitive explanations of integration.

Liberal scholars explain integration as a function of changes in the economic domain—chiefly increased capital mobility, growing trade volumes and technical change in the production process—that compel governments to co-operate through political institutions designed to ‘capture’ and ‘control’ these economic processes. It follows that integration is expected to reflect shifts in economic circumstances which raise opportunities for improving welfare by managing externalities, reducing transaction costs and realising economies of scale while bearing little relation to underlying geopolitical trends. This claim has been most convincingly asserted by Andrew Moravcsik. He argues that “at its core, European integration has been dictated by the need to adapt through policy co-ordination to [global] trends in technology and in economic policy”—in particular, the event of a fifty-year boom in trade and investment among Western industrialised countries.⁴ He further claims that demand for

⁴ Moravcsik 1998. See also Mattli 1999.

European integration has originated chiefly among organised domestic producer groups that stood to reap substantial gains from regional economic co-operation.⁵

Levels of economic interdependence, however, are a poor predictor of integration. By most accounts interdependence among West European countries was much lower in the 1950s and 1960s than at the end of the nineteenth century or the beginning of the twentieth.⁶ Furthermore, a strictly economic analysis of the benefits of common markets and free trade areas (FTAs) fails to explain *political* integration. Although there were clear benefits to liberalising trade and cross-border investment in post-war Europe, it is not clear why such benefits would require the creation of a restrictive politico-economic union such as the EC as opposed to a broader FTA among all the OEEC countries—an option that was, for example, favoured by Britain and to some extent by Germany. To explain the emergence of a geographically more limited, functionally more inclusive and institutionally more developed institution requires attention to geopolitical concerns.

Realist or ‘power-based’ theories explain regional integration as a function of underlying security interests.⁷ There are three power-based explanations that one encounters most often. The first explanation, essentially neo-realist, relies on classic balance-of-power theory. On this view, states pool sovereignty to boost their strength vis-à-vis outside threats. In post-war Europe, the paramount Soviet threat is said to have facilitated integration by muting concerns about relative gains and by giving each member state a vested interest in strengthening its partners.⁸ Compelling in many ways, this argument leaves unanswered the question of why the

⁵ According to Moravcsik 1998, p. 3, European integration has primarily been driven by the commercial interest of powerful economic producers and only secondarily by the economic preferences of ruling government coalitions.

⁶ Rosecrance (1977) argues that 1890 to 1914 was probably the time of greatest economic interdependence in Europe’s history. See also Buzan 1984.

⁷ Gowa 1994 has coined the term “security externalities” to describe the indirect security benefits from political and economic cooperation.

⁸ Mearsheimer 1990, p. 47, Waltz 1986, pp. 58-59 and 1979, pp. 70-1, Joffe 1984. The upshot of this version of Realism is that, in the absence of both a powerful external threat and a bipolar international system, European integration is expected to relapse.

French have been consistently critical of NATO. Further, the disappearance of the Soviet threat and the weakening of NATO did not weaken regional integration. We should also note that history offers several examples of successful integration in the absence of a significant external threat to a region.⁹

The second power-based explanation also draws on balance-of-power theory. According to this view, integration aims to bolster the overall economic and political power of a group of states vis-à-vis other global actors rather than to withstand a direct external security threat. This account gained acceptance at the end of the Cold War as Realist scholars, challenged by the simultaneous collapse of bipolarity and deepening of European integration, argued that the persistence of European integration reflected a desire to balance the growing economic and political might of the US and Japan and thereby prevent a decline in Europe's global position.¹⁰ Yet, the problem with this explanation is that competition from the US and Japan was fierce also in the early 1970s—a period during which European integration stagnated.¹¹

A third power-based explanation focuses on the desire to anchor an increasingly powerful Germany into Western Europe so as to preclude German interest in unilateral aggression or, at the very least, permit Germany to signal its benign intents and thereby reassure its neighbours.¹² This account has been highly popular with historians of diplomacy and journalistic commentators.¹³ However, political scientists have tended to dismiss integration as a solution to the 'German problem' for two reasons. First, there seem to be no good theoretical reasons for why Germany in 1950—a country with clear prospects for expanding its power in the future—would agree to accept constraints on its future power. Second, many observers

⁹ See Eilstrup Sangiovanni 2001.

¹⁰ See e.g. Sandholtz and Zysman 1989, Grieco 1995b, Kahler 1995.

¹¹ See Keohane and Hoffmann 1991, pp. 22-3. For a good summary of Liberal vs. Realist explanations of European integration, see Moravcsik 1998, p. 34.

¹² Moravcsik 1998, p. 18.

¹³ See e.g. Archer 1990, Dinan 1994, Gillingham 1991 and Milward 1984, Cole 1993, Haglund 1991, Yost 1990.

dispute that European integration has in fact succeeded in ‘binding’ Germany.¹⁴ We address these objections by showing not only how integration can bind would-be dominant states but also why such states agree to be bound via integration.

Last, ideational accounts depict integration as a revealed convergence towards a common regional identity. While rationalist accounts emphasize material incentives for cooperation, cognitivists view integration as resulting from processes of social, political, cultural and ideational assimilation that lead social actors to re-orient their loyalties towards a new supranational community.¹⁵ To most cognitivists war in Europe is a moot issue. Greater economic interdependence, social equality, broader political participation of the citizenry, and the emergence of a pan-European view of political identity, they believe, make the analysis of European security in terms of geo-strategic concepts outdated. The fact that another Franco-German war is implausible, however, makes the study of its contingency all the more relevant. For this implausibility is not the unintended effect of developments that took place in economic, social, political, cultural, and other non-security-related areas of social life. Instead, it was deliberately engineered through the building of institutions that were largely, though certainly not uniquely, designed to that effect.

II. European Integration as Solution to Preventive War

In this section, we show that post-war European officials conceived the problem of German power in the terms of a preventive war dilemma, which they hoped to solve by means of integration. World War II—like World War I—failed to solve the problem of Germany’s position in Europe. Although militarily defeated post-war West Germany still had the potential to become the dominant European state economically and demographically, thereby threatening its neighbours’ security. The problem afforded two possible solutions: either prevent Germany

¹⁴ E.g. Risse 1998, p. 6, Moravcsik 1998.

¹⁵ See e.g. Deutsch 1957, Wæver 1998, 46-7, Kupchan 1998.

from growing militarily powerful again by curbing its potential for growth; or devise an institution that would enable Germany to credibly commit not to bully its neighbours in the future.

French leaders first tried the punitive strategy. The goal was to neutralise German power by curbing its heavy industry output. During the 1950s, it was widely believed among foreign policy officials that no country could wage war without a strong, independent coal and steel industry. Hervé Alphand, an official of the Quai d'Orsay, declared in 1947 that, 'the surest guarantee for the maintenance of peace will always consist in the limitation of the German steel potential'.¹⁶ However, American resistance to mangling German industrial output and the French economy's dependence on coal supplies from the Ruhr meant that France could not accomplish a dismantling of German heavy industry. Instead of demanding the destruction of German plants, Paris therefore persuaded the Allies to allocate a share of the coal and coke output of the Ruhr to the French steel industry—a share sufficient to insure economic recovery in France and at the same time stunt the development of a fuel-starved German steel industry. The so-called Monnet Plan, published in March 1946, entailed an agreement under which the Allies would limit German steel output and increase German coal shipments to France by 20 million tons per year.¹⁷ The Plan was financed through a credit to be administered by the U.S. Eximbank and the World Bank (at the time, a creature of Wall Street) for the years 1946-1949.

The Monnet Plan failed to rein in German steel output because, in 1947, the Americans demanded that German output be increased to the French level to bolster Europe's defences. Provision of Marshall Aid to France was made conditional on Paris' acquiescence. It was clear to the French that preventive action aimed at crippling German power potential was no more realistic in 1947 than it had been in the wake of World War I. Some other solution would have to be found to the problem of insecurity vis-à-vis Germany. As Foreign Minister, Robert Schuman observed,

¹⁶ Cited in Lynch 1984, p. 239.

¹⁷ Op. Cit. pp. 236-39. On French dependence on German coal, see also Gillingham 1991, p. 95, Willis 1968, p. 90.

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... *A peace whose single basis is mutual concessions cannot for long withstand a new shift of power between the opponents.*¹⁸

Schuman distrusted standard Realist logic. If two victorious wars against Germany could not be used to prevent Germany from threatening its neighbours again, no war in the future would. War today was no prevention against war tomorrow. Most Frenchmen, he argued, realised that 'without a federal Europe no amount of guarantees as regards Germany will prove sufficient for keeping peace'.¹⁹ The French government therefore abandoned its punitive designs and commissioned a plan for co-operation in the area of coal and steel that would allow the necessary restoration of German industrial power 'within limits and according to a rhythm which will put aside any threat of hegemony dangerous to the peace of Europe'.²⁰ On 9 May 1950, Schuman announced his government's plan to place the entire Franco-German output of coal and steel under control of a common supranational organisation. Such an organisation would 'prevent Germany from once again using the Ruhr district's industrial strength to support aggression' but instead 'employ the areas resources for the benefit of Europe as a whole.' As such, it would be the first step towards an integrated Europe that would make war between France and Germany 'not merely unthinkable, but materially impossible'.²¹

The rhetoric of Franco-German reconciliation surrounding the launch of the Schuman Plan is well known. But can this rhetoric be trusted? Some have accused post-war European leaders of using lofty appeals to peace as a lure to make industrial and general economic reform

¹⁸ Schuman 1964, pp. 124-5 (our emphasis and translation).

¹⁹ Ibid, pp. 93-4.

²⁰ Schuman, *The Problem of Western European Competitive Position in the World Economy and its Remedy*, ECA staff paper, July 1949. See also Monnet 1978, p. 300, Gillingham 1991, pp. 149, 169.

²¹ Schuman Plan 1952, preamble.

palatable to the broad public.²² Yet, when we examine the intentions of the authors of the plan—as revealed through political diaries and private correspondence—we find clear evidence that the Coal and Steel Community was intended to provide security against German growth. At the time, coal and steel were the sinews of any potential war machine and the key to security thus lay in controlling the German coal and steel industry.²³ A great majority in the French Parliament readily accepted the view of its rapporteur 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 stabilise the situation and to take from the German state, as it does from the French, the disposition over their heavy industry for war-purposes.²⁴

Security concerns are also confirmed by the fact that when Schuman unveiled his plan he appealed to German Chancellor Konrad Adenauer in a personal letter to show sympathy for the dilemma of French security. In France, he explained, there was still fear that Germany when it recovered would attack France. Since ‘any form of armament would manifest itself first in increased production of coal, iron and steel’, pooling control over coal and steel production would have ‘a very calming effect in France’.²⁵

Germany’s response the Schuman Plan was overwhelmingly positive. The Plan promised to end allied restrictions on German coal and steel production for industrial use, and thus was of economic value. More importantly, it enabled Germany to demonstrate its peaceful intentions to its neighbours. To Adenauer

there existed no better opportunity for removing French doubts about the peace-lovingness of the German people, than to merge production of coal, iron and steel, the basis for re-armament.²⁶

²² E.g. Moravcsik 1998.

²³ On the central importance of coal and steel to military operation, see Archer 1990, p. 54, Dell 1995, p. 15, Milward, 1984, pp. 14, 392-5, Poidevin 1991, p. 333-4.

²⁴ Grosser 1957, p. 65.

²⁵ Adenauer 1965, pp. 326-8.

²⁶ Adenauer 1965, p. 338.

Schuman's arguments were also welcomed by France's allies. A Dutch Foreign Ministry memorandum stated that

from the political point of view, [the Schuman Plan] must be acclaimed vociferously, because it creates the capability for Europe to profit by Germany's strength without being threatened by it.²⁷

The Coal and Steel Community was thus embraced by all invited countries except for Britain. The British rejection was in part economically motivated. British steel industries had far lower production costs than the continental steelmakers and an extensive investment and modernisation program had recently been completed, reducing the attraction of entering a community build on solidarity in production and investment.²⁸ However, security concern also played a role. Prime Minister Bevin insisted that control of coal and steel was crucial to national defence. In the event of war with the Soviet Union, London assumed that West Europe would be quickly overrun and that Britain, alone of European states, would be fighting alongside America. No arrangement could therefore be made with other European states that could undermine an independent British defence effort.²⁹

The next proposal for integration was the French plan for a European Defence Community (EDC) in October 1950. The trigger for this initiative was the American call in September 1950 for a revision of the occupation status to allow Germany to contribute ten divisions to an integrated Allied defence within NATO. This demand caused great consternation in France. Monnet recalls,

²⁷ Dirk Spierenburg, the Dutch's first representative in the HA later explained at a Hearing before the US Senate; "Certainly one of the main reasons why...we adhere to this treaty has been a political one. We saw in it the only possibility of getting over the existing rivalries and getting a lasting peace in Europe". US Senate, Foreign Relations Committee, June 1953, p. 37. The Americans similar praised the Schuman Plan for its ability to secure peace. See e.g. 'Foreign Relations of the US 1950', vol. 3, pp. 695, 722. See also Stirk and Weigall 1999, p. 80.

²⁸ Haas 1968, p. 209.

²⁹ Bullen 1989, p. 202.

Since May 9, 1950, we had been grappling with history, halting the drift of events by an act of will. By joining forces with Germany, by pledging ourselves to face the future together, and by pooling the industries that fed the military arsenals we thought we had removed all possibility of armed conflict in Europe and defused the detonator of world war.”...and yet now, here we were, facing it again from a different angle. Once again there was talk of an arms race, and above all of returning to the former aggressor the weapons he had seemed glad to lay down.³⁰

But France was not going to simply stand by and accept German re-armament. To forestall the reconstruction of a German national army, French Premier René Pleven proposed the creation of a European defence community that would facilitate the “complete merger of men and equipment under a single European political and military authority”.³¹ EDC was coupled with a proposal for a European Political Community—a governing system modelled on the institutions for coal and steel, but with jurisdiction over defence, military procurement, coal, steel and any other segment of West European public life that might later be ceded to it. Again the motivation of binding German power was clear. Coste-Fleuret in an appeal to the French Parliament to approve EDC argued,

we know that the two sources of power of modern Germany in recent times are the Ruhr arsenal (to neutralise it we have constructed the ECSC) and the national German army, which we also want to neutralise by integrating German soldiers into the discipline of a supranational army.³²

As previously, Bonn was receptive to French proposals. Adenauer welcomed the Pleven Plan by expressing his hope that,

when a European army was created, French anxieties about a future war with Germany would be laid to rest and France would consent to strengthening of the German defence.³³

Given its ultimate failure, the EDC has been all but ignored in most theoretical accounts of European integration. Yet, the fact that a treaty which surrendered authority over national

³⁰ Monnet 1978, 336, 340.

³¹ Pleven Plan for EDC, 1950.

³² Grosser 1957, p. 66.

³³ Adenauer 1965, p. 352.

defence to a supranational military authority with no chance of a veto for 50 years was signed by all six foreign ministers and approved by four national parliaments demands an explanation. Many observers have portrayed EDC as an effort to better counterbalance Soviet threat. This motivation was certainly a principal rationale behind Germany's bid to re-arm through the EDC. France, Italy and the Benelux countries, however, were far less fixated on the threat from the East than on the danger of German militarism. Had Communist threat been a chief concern there would have been no objection to allowing Germany to contribute ten divisions to an integrated defence within NATO. Yet, EDC was broached precisely to forestall this solution. Both London and Washington warned that EDC, as conceived by France, was ill-suited to counter Soviet threat.³⁴ As Macmillan quipped, 'it was apparent that this scheme [EDC] was more calculated to alleviate the fear of the French than to strike terror into the Russians'.³⁵ Yet, the French ignored such warnings along with British objections that EDC would dilute the American security guarantee³⁶ and pushed on with the defence solution that would afford optimal security against future German aggression.

The French vision of a European army was never realised. Eventually, EDC was rejected by a divided French Assembly. It is important to note, however, that both proponents and opponents of EDC based their arguments on security against Germany. EDC partisans stressed the dangers of German rearmament; 'EDC or the Wehrmacht' was one of their slogans. Opponents pointed to the 'inadequate guarantees afforded by the treaty' as a reason for rejecting it.³⁷ In the long run, they argued, the treaty would not suffice to prevent a re-armed Germany from once again posing a threat to its neighbours.³⁸

³⁴ See Acheson 1969, p. 459.

³⁵ Macmillan 1969, p. 220. This interpretation is seconded by Adenauer who embittered said that "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. Adenauer 1965, p. 345.

³⁶ See Dinan 1994, p. 25; Bullen 12989, 316; Dockrill 1991, p. 49.

³⁷ Aron and Lerner 1957, p. 13.

³⁸ See Willis 1968, p. 98, Fursdon 1980, p. 208. The lack of British participation was also seen as a weakness in the Treaty. See e.g. Dockrill 1991, p. 107.

In the end, the opponents won the day. EDC was rejected and Germany instead joined NATO via the WEU, subject to a limit on the total number German troops, which could not be exceeded without unanimous approval by the WEU Council. Yet, the vision of European integration as an instrument to control German power did not die with the defeat of EDC, but underpinned successive attempts at integration. As soon as Germany gained the right to develop nuclear energy for non-military purposes, France proposed a European Atomic Energy Community (EURATOM). EURATOM would vest monopoly over the procurement and ownership of fissionable materials in a supranational authority and provide control and inspection to prevent any diversion of atomic facilities into production for military purposes. Meanwhile, France would continue its own nuclear weapons programme under national auspices.³⁹ Adenauer's response to EURATOM demonstrated anew his understanding that if Germany was to recover its strength without resistance, it must prove its trustworthiness: 'A German attempt at a national nuclear production would be met with the greatest mistrust abroad', he reasoned. However, by entering an atomic energy community, Germany 'might thereby gain access to nuclear material in areas not central to security'.⁴⁰

The joint Benelux plan for a European Economic Community (EEC), which was proposed at the same time as EURATOM also aimed to bind German power—this time by reorienting German economic interests toward the Community and by securing balanced economic growth. The average growth rate of West European countries in 1954-55 was 6.7% annually. However, West German trade and national income were growing at a quicker rate than other states.⁴¹ In the eyes of the Benelux governments what was needed was a binding, step-by-step approach to economic union that would pull Germany into a European community and give other states influence on its economic policies.⁴² With respect to the EEC, Belgian

³⁹ At the time, Mendes-France's government had already committed France to a secret atomic weapons programme. See Aybyet 1997, p.88.

⁴⁰ Adenauer 1965 pp. 253-5.

⁴¹ Milward 1992, p. 119, Gillingham 1991, p. 357.

⁴² Gillingham Op. Cit.

Foreign Minister, Paul-Henri Spaak wrote to British Prime Minister Anthony Eden in February 1956:

this 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.⁴³

Predictably, this argument fell on fertile ground in France. The French government's spokesman on Europe, Maurice Faure, urged Parliament to accept the treaty, arguing that EEC would "bind Germany to the West with 'a thousand small linkages' thereby minimising the possibility of Franco-German conflict or German-Soviet rapprochement".⁴⁴ The point was reinforced by Premier Bourges-Maunoury who reminded French EEC opponents of the importance of creating "a democratic and stable framework firm enough to guide the expansion of German industrial power in the direction of the common interest." He warned that

those who fear the weight of Germany at our side should think about the weight of a Germany not linked with us, or even ranged against us.⁴⁵

Of course there were also important economic motives for creating a general common market. In the 1950s European countries faced strong incentives to co-operate on rebuilding their devastated economies. This combined with an exogenous increase in opportunities for cross-border trade and capital movement in the wider international economy. Nonetheless, a strictly economic analysis fails to make sense of the EEC. Although there were obvious benefits to trade liberalisation, it is not clear why such benefits necessitated the creation of a geographically narrow and institutionally exacting politico-economic union rather than an FTA embracing all the OEEC countries—an option put forward by Britain in 1956 as an alternative to the Benelux Plan.⁴⁶ From an economic viewpoint, the British FTA proposal was highly

⁴³ Quoted in Mayne 1973, p. 251.

⁴⁴ Moravsik 1998, p. 104.

⁴⁵ Stirk and Weigall 1992.

⁴⁶ Nutting 1966, pp. 83-4. For a good review of the British proposal and the French reasons for rejecting it, see Lindberg 1963.

attractive to Germany. Whereas French exports mainly went to regions covered by the EEC, a full 70% of German exports went to countries outside the Six.⁴⁷ This dependence on markets outside Europe meant that an exclusive European customs union, based on a high external tariff, might suppress German trade.⁴⁸ Economics Minister Ludwig Erhard criticized the EEC for ‘constraining German industry within a continental dimension’.⁴⁹ We cannot, he said, be satisfied with even the most extensive regionalism... ‘Unconditional most-favoured-nation treatment, full convertibility, abolition of quantitative restrictions and distorted exchange rates, these are the intellectual and practical fundamentals of a global commercial policy necessitated by a highly specialised industrial and export-oriented country like Germany’.⁵⁰ Thus, from an economic viewpoint, the GATT and OEEC were the obvious institutional centres of German attachment. Support for the EEC can be justified only by reference to political interest. Adenauer acknowledged this explicitly when pressed by de Gaulle to rebuff the British FTA proposal: ‘Whatever the cost to Germany’s economic interests’, he declared, ‘the British free trade proposal would not be allowed to interfere with the Franco-German rapprochement’.⁵¹

Another point militating against a strictly economic explanation of integration is the patent lack of support from dominant producer groups for major integration initiatives. Industrial groups in Germany, France, Italy and Belgium overwhelmingly opposed the Coal and Steel Community.⁵² In France, the National Steel Association (*Chambre Syndicale de la Sidérurgie*) manufactured and disseminated the very arguments that were used by rightist

⁴⁷ Lindberg 1963, p. 113.

⁴⁸ The common external tariff based on averaging tariff levels among the Six was significantly higher than the tariff set by Germany unilaterally. See Kolodziej 1974, p. 277, Calleo 1978, pp. 162-66.

⁴⁹ Ludlow 1997, p. 27, Haas 1968.

⁵⁰ Quoted in Haas 1968, p. 276.

⁵¹ Quoted in Kolodziej 1974, p. 282. On the German willingness to put France-German relations and integration above economic interests, see also Lindberg 1963, p. 126.

⁵² Haas 1968, pp. 134, 163, 194-99. See also ‘Akten zur Auswärtigen Politik der Bundesrepublik Deutschland: Adenauer und die Hohen Kommissare 1949-1951’, Vol. 1 (Munich Oldenbourg, 1989), pp. 309-11.

opponents of ECSC and went so far as to subsidise Communist mass propaganda against the Treaty.⁵³ Organised industry was equally hostile to the Common Market. Whereas many officials favoured the supranational EEC for political reasons, business-interests in both France and Germany preferred liberalisation within OEEC to a “community” solution. In July 1956, business representatives in the French Economic and Social Council voted unanimously to relocate EEC talks to the OEEC.⁵⁴ And in Germany, Erhard’s virulent attacks on EEC were supported by the most influential of German economic interest groups, the *Bundesverband der Deutschen Industrie*. Faced with such domestic opposition, both the French and German governments avoided general consultation with economic interest-groups and kept the EEC issue out of cabinet discussions and inter-ministerial decision-making.⁵⁵ When Erhard tried in October 1956 to persuade the German Cabinet to suspend the EEC negotiations in favour of the British OEEC scheme he was promptly overruled by Adenauer and Hallstein.⁵⁶ This tight controlling of the issue by foreign policy officials suggests that EEC, like ECSC before it, was first and foremost a political project.

With German economic and military capacity securely integrated into European and transatlantic structures the need for additional constraints on German policy faded. By the early 1960s, with the consolidation of the ECSC, EURATOM and the Common Market, the prospect of war in Europe had all but vanished. Yet, institutional binding concerns did not disappear. During the 1970s and 1980s, a proactive German Ostpolitik triggered several proposals for closer integration in the area of foreign policy. A decade later, the end of the Cold War and German re-unification triggered widespread speculations about the future solidity of European institutional binding and provided a convenient opportunity to take the Germans in oath and wrest from them consent to monetary union in exchange for re-unification. At this point, however, it is safe to say that few took seriously the threat of another war in Europe. Although monetary and political union have important binding properties geared towards

⁵³ Haas O.p Cit., pp. 176-77.

⁵⁴ Parsons 2001, p. 8.

⁵⁵ Milward 1992, pp. 198-208; Haas 1968.

⁵⁶ Ludlow 1997, p. 27.

controlling and subsuming German monetary power, these properties are circumstantial to the argument that integration poses a solution to war. The hegemony that was feared by the early 1990s was the hegemony of the German Bundesbank, not the military hegemony of an expansionist re-unified Germany.

III. The Institutional Binding Game

We have shown that post-war European officials conceived the problem of German power in the terms of a preventive dilemma, which they hoped to solve by means of integration. We have thus argued that, more than a mere symbol of Franco-German rapprochement, integration was conceived as a practical mechanism to prevent another intra-European war. But how has integration served to bind Germany? And why has Germany agreed so willingly? In this section, we address the question of an institutional solution to the preventive war dilemma. Our approach is similar to the mechanism design approach in economics, in which the mechanism implements the efficient equilibrium of a game. Due to the anarchic nature of international relations, such a mechanism must be self-enforcing. Given this request, we show that there exists an institutional solution to the preventive war dilemma provided that this institution meets three conditions: (i) the institution generates a gain (or loss); (ii) this gain (or loss) has no incidence on the relative power and bargaining leverage of either side; (iii) the negotiating power among members must be frozen to its initial—‘pre-binding’—value. In this section, we present the model, from which we derive the first and second conditions. The third condition is addressed in a subsequent section.

We start from a credible commitment problem game on which we graft a binding option. We model the dilemma in the simple form of a two-period game with complete information and payoffs calculated over an infinite time horizon. A rising potential hegemon H faces a coalition C of status-quo states, which we shall assume to act like a unitary actor.⁵⁷ Both H and

⁵⁷This is admittedly a strong assumption, abstracting away problems of free riding and rivalry internal to the coalition. We justify the assumption in the penultimate section.

C seek to maximise control over an economic resource—say territory. Each side has preferences over the territory represented by the interval $X=(0,1)$. H, the would-be hegemon, prefers outcomes closer to 1, while C, the coalition, prefers outcomes closer to 0.⁵⁸ For the sake of convenience, we assume that states are risk neutral; that is, for a given distribution \hat{x} , $u_H(\hat{x}) = \hat{x}$, and $u_C(\hat{x}) = 1 - \hat{x}$.

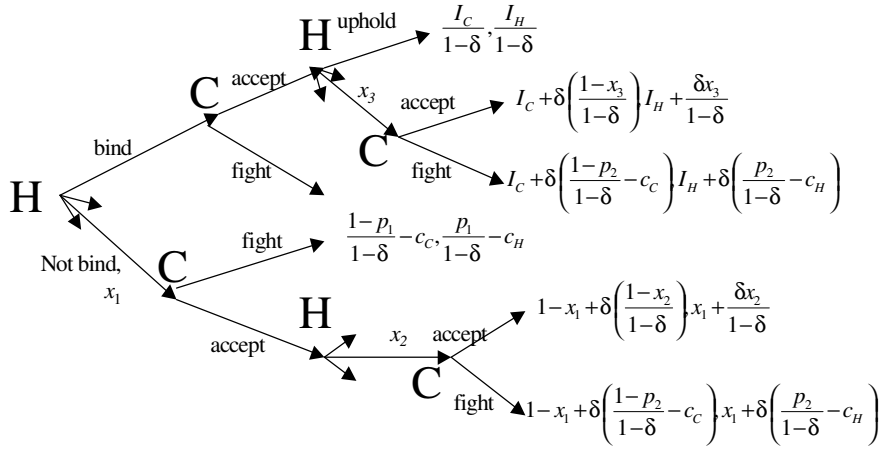
At both points in time t , H makes a claim x_t (a fait accompli that revises the status quo).⁵⁹ C can either accept the claim or fight at a cost of c_C . H is assumed to win the war (and C to lose) with probability $p_t \in (0,1)$. The winner gets its maximum payoff in all subsequent periods. Players discount future payoffs by an identical per-period factor of $\delta \in (0,1)$. We allow p_t to increase between the first and second period— $p_2 > p_1$.

The extensive form of the game is drawn in Figure 2. The game has two main branches, a binding (upper) branch and a no-binding (lower) branch. Consider first the lower branch. In a first period, H claims x_1 for itself. C either accepts the residual $1-x_1$ or rejects it with a payoff equal to the expected value of winning a war— $p_1(0) + (1-p_1)(1) = 1-p_1$ —calculated for the rest of time, minus the one-time cost of war, $[(1-p_1)/(1-\delta)] - c_C$. Similarly, the payoff for H is $p_1/(1-\delta) - c_H$. If C accepts $1-x_1$ in the first period, then sufficient time elapses to allow the power balance to change in favour of H and spur H to make a second claim x_2 . Again, C can either accept the residual $1-x_2$ or question it on the battlefield. C's period-2 payoff for war is the sum of the prior period payoff $1-x_1$ and the one-period discounted net value of war calculated over the rest of time— $\delta[(1-p_2)/(1-\delta) - c_C]$. C's period-2 payoff for accepting is the prior period payoff $1-x_1$ plus the once-discounted second period payoff summed up over the rest of time— $\delta(1-x_2)/(1-\delta)$. Similarly, second-period payoffs for H are $x_1 + \delta[p_2/(1-\delta) - c_H]$ and $x_1 + \delta x_2/(1-\delta)$.

⁵⁸ For a visual representation of the zero-sum dimension, see Fearon 1995, p. 387 and Powell 1999, p. 119.

⁵⁹ We use a take-it-or-leave-it bargaining game, which gives all the bargaining advantage to the side that makes the offer, with limited loss of generality (see last section).

FIGURE 1. The Binding Game



Still looking at the lower branch of the tree only, we solve for the sub-game perfect equilibrium through backward induction. We start from C's decision in the second period. C rejects H's claim if it can gain more through war. Hence in equilibrium the smallest partition that C is willing to take is x_2 so that

$$1 - x_1 + \frac{\delta(1 - x_2)}{1 - \delta} = 1 - x_1 + \delta \left(\frac{1 - p_2}{1 - \delta} - c_C \right) \quad (1)$$

which, solving for x_2 , yields

$$x_2 = p_2 + c_C(1 - \delta). \quad (2)$$

Moving back to the first period, C rejects x_1 if its *reservation payoff*, defined as how it expects to do on the battlefield, is strictly better; that is, if

$$\frac{1-p_1}{1-\delta} - c_C > 1 - x_1 + \delta \left(\frac{1-x_2}{1-\delta} \right) \quad (3)$$

Substituting for x_2 into (3), and rearranging yields the condition for which C questions H's claim and wages a preventive war:

$$\delta p_2 - p_1 > c_C (1-\delta)^2 - x_1 (1-\delta). \quad (4)$$

One way of interpreting this condition is to say that even if the rising hegemon tried to appease the coalition by equating x_1 to zero, the coalition would still wage a preventive war.⁶⁰ This is so if, *ceteris paribus*: (i) C's cost of war c_C is moderate—a high cost of war reduces the relative importance of the change in power; (ii) the expected change in power is substantial; this is self-evident if we rewrite inequality (4) isolating $\Delta \equiv p_2 - p_1$: $\delta \Delta / (1-\delta) > p_1 + c_C (1-\delta) - x_1$; (iii) the states value the future; in contrast, if the discount rate is zero, the commitment problem disappears, for no side values the second-period and subsequent payoffs. Hence, for technically feasible values of Δ and c_C and non-pathological values of δ , H faces a time inconsistency problem. Although it has an interest in promising to cap its future demands while it finds itself in a vulnerable position, it has no interest in fulfilling its part of the deal once it becomes dominant. The coalition fights a preventive war to guard against this possibility.

We now take into account the upper branch of the tree, which gives the hegemon the option to make a credible commitment at the beginning of the game by setting up a mechanism to which we refer as “the Institution”. It is clear from prior results that the coalition would refrain from waging a preventive war if it was forever guaranteed a payoff that was superior (or at least equal) to what it can expect to gain through war in period 1, $[(1-p_1)/(1-\delta)] - c_C$. This is

⁶⁰ See Fearon 1995, p. 406.

the minimum value that the Institution should enable H to guarantee to C for C to accept to be bound by it. We call this condition the *participation constraint for Coalition*. Formally,

$$\frac{I_C}{1-\delta} \geq \frac{1-p_1}{1-\delta} - c_C,$$

with I_C the institutional per-period payoff to C; after rearranging,

$$I_C \geq 1 - p_1 - c_C(1-\delta). \quad (5)$$

Once accepted by C, the game moves to the second period, characterised by a more powerful H. In light of its new power, H must decide whether to uphold the Institution created in the first period or abandon it and propose a new partition x_3 , which C in turn can accept or fight. If it accepts, C scores a first (one-)period payoff for binding, I_C , plus the once-discounted second period payoff $1-x_3$ summed up over the rest of time— $\delta(1-x_3)/(1-\delta)$. If, instead, it decides to fight at period 2, C scores the same first-period payoff for binding plus the one-period discounted net value of war calculated over the rest of time, $I_C + \delta \left(\frac{1-p_2}{1-\delta} - c_C \right)$. Similarly, second-period payoffs for H are $I_H + \frac{\delta x_3}{1-\delta}$, and $I_H + \delta \left(\frac{p_2}{1-\delta} - c_H \right)$.

We now determine the *participation constraint for Hegemon*. Given our insistence that the Institution be self-enforcing and assuming that period 2 is reached, H must be at least as happy with the Institution as without it. In other words,

$$\frac{I_H}{1-\delta} \geq I_H + \frac{\delta x_3}{1-\delta}. \quad (6)$$

The partition $1-x_3$ is at least equal to what would make C accept the revised status quo; it satisfies

$$I_C + \delta \left(\frac{1 - x_3}{1 - \delta} \right) \geq I_C + \delta \left(\frac{1 - p_2}{1 - \delta} - c_C \right),$$

that is

$$x_3 \leq p_2 + c_C(1 - \delta). \quad (7)$$

Plugging the maximum value of x_3 into H's participation constraint 6 yields

$$I_H \geq p_2 + c_C(1 - \delta). \quad (8)$$

Inequalities (5) and (8) are the two participation constraints that a mechanism that would implement the institutional equilibrium must satisfy.

We now raise the question as to what type of Institution could satisfy the two participation constraints. There is *a priori* a number of mechanisms that could meet these two conditions; at this point we only focus on generic features. Three features call for attention. First, the Institution must create a new value τ to distribute between the two sides, for the minimal desires of both sides, $I_C = 1 - p_1 - c_C(1 - \delta)$ and $I_H = p_2 + c_C(1 - \delta)$, added together, are greater than unity, the existing pie; $I_H + I_C = 1 + \Delta$, with $\Delta = p_2 - p_1$. There is a resource gap that is at least equal to the slide in power, $\tau = \Delta$.

Second, the added resource must be power neutral. It cannot modify the initial balance of power for which C is willing to fight a preventive war. Furthermore, the new resource cannot be split halfway between both sides. The new resource is a transfer τ to H, for it represents the extra payment that H must receive in order to uphold the Institution in period 2.

Last, the new resource must actually be larger than the change in power Δ . The establishment of an Institution with authority to enact binding is certain to be a costly proposition. It is fair to assume that (i) institutionalisation involves per-period sovereignty costs

s_i for both H and C, and that (ii) H must absorb C's sovereignty cost in addition to its own so that C's participation constraint is not violated. In sum, the Institution must accomplish a seemingly impossible task: (i) create value α de novo, so that

$$\tau = \alpha - 2s = \Delta, \quad (9)$$

and (ii) transfer it to H without worsening the unfavourable power position of C.

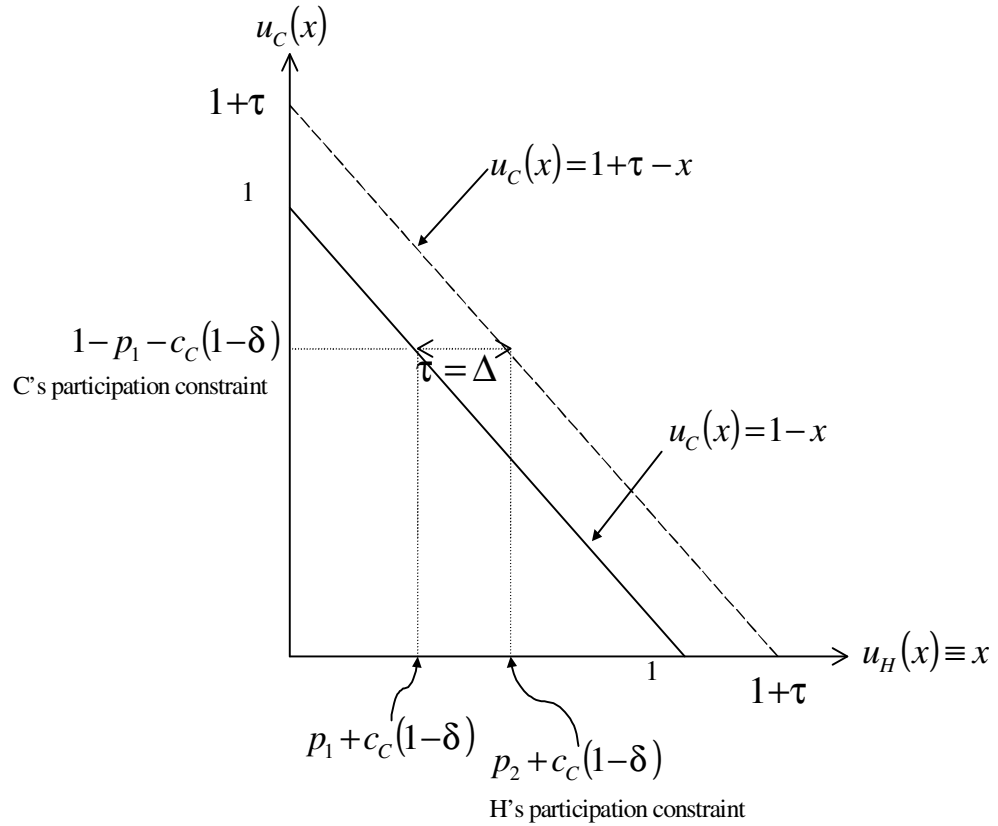
We claim that a mechanism that would deliver the prescribed result is an *exit cost* that H would have to pay were it to leave the Institution. This cost should be at least equal to H's opportunity cost of continued participation, τ , so as to make H indifferent between staying in and exiting. Two devices could deliver the exit cost: (i) efficiency gains that are contingent on continuing participation in the institution and (ii) an exit penalty proper. We review each device successively.

(i) Contingent Efficiency Gains. The hegemon would accept to be bound by the Institution if the Institution provided a positive incentive in the form of net efficiency gains of the order of τ . Simultaneously, the coalition would not be threatened by the negative impact of these transfers on its relative power if these gains were contingent on the continuation of the Institution—that is, on the hegemon's giving up on revising the status quo. Such gains may result from increased factor productivity. It is well known that a reduction in the risk of war favours commerce and foreign investment. The neutralisation of military potential and the creation of a single domestic market would thus raise productivity.

To see how contingent efficiency gains work, consider Figure 2. We plot C's utility on the y-axis as a function of H's utility on the x-axis, $u_C(x) = 1 + \tau - x$. The relative-gain argument in each utility function is captured by the -1 coefficient of H's utility, whereas the efficiency gain argument is captured by the τ component of the intercept, $1 + \tau$. τ is zero if there are no net joint gains, positive if there are such gains, and negative if there are net losses. A positive τ shifts the downward sloping function away from the origin. The hegemon is able to give to the coalition its reservation value, $1 - p_1 - c_C(1 - \delta)$, because the presence of net gains τ

allows H to squeeze the equivalent of its period-2 opportunity cost, $p_2 + c_c(1-\delta)$, from the institutional arrangement. Making τ contingent on the survival of the Institution guarantees that H cannot turn the efficiency gains τ to its military advantage. We argue in the next section that the EEC has provided such contingent efficiency gains.

FIGURE 2. Contingent Efficiency Gains
(Per-Period Institutional Payoffs)



This mechanism has several drawbacks, however. Efficiency gains of this type can only operate as an *auxiliary* binding mechanism, for, to materialise, these gains presume a prior diminution in the risk of war. Second, efficiency gains cannot materialise absent a growth economy.

(ii) Exit Penalty. A second way to bind a rising hegemon—one that also works in a zero growth economy—is to engineer a negative incentive in the form of an exit penalty. In principle, the coalition would want the hegemon to post a bond with a third party of an amount equivalent to its opportunity cost of continued submission to the Institution. Would H, in period 2, unilaterally free itself from the institutional bind in order to claim its best possible payoff short of war, its future gains would automatically be reduced by an equal amount, thus making H indifferent between maintaining and suspending membership in the Institution. In practice, a similar result to the posting of a bond can be reached through engineered military interdependence: the pooling of forces, the exchange of battalions, or the geographical dispersion of the armament industry—with one country manufacturing steel, another building tanks, still another planes or detection equipment—increases the cost of unilaterally freeing oneself from the institutional bind. More generally, any irreversible investment that raises the cost of exit will achieve binding.⁶¹

Graphically, a hegemon that would cancel its institutional membership (represented as a move from point 1 to 2 in Figure 3) would face a negative τ , equal to Δ , shifting the downward sloping function toward the origin (represented as a move from point 2 to 3). This would make H's expected payoff equivalent to what it received as member of the Institution, $p_1 + c_C(1 - \delta)$.⁶² We argue in the next section that the EDC as initially conceived by the French would have included a binding exit penalty, and that subsequent initiatives for defence integration have had a similar aim.

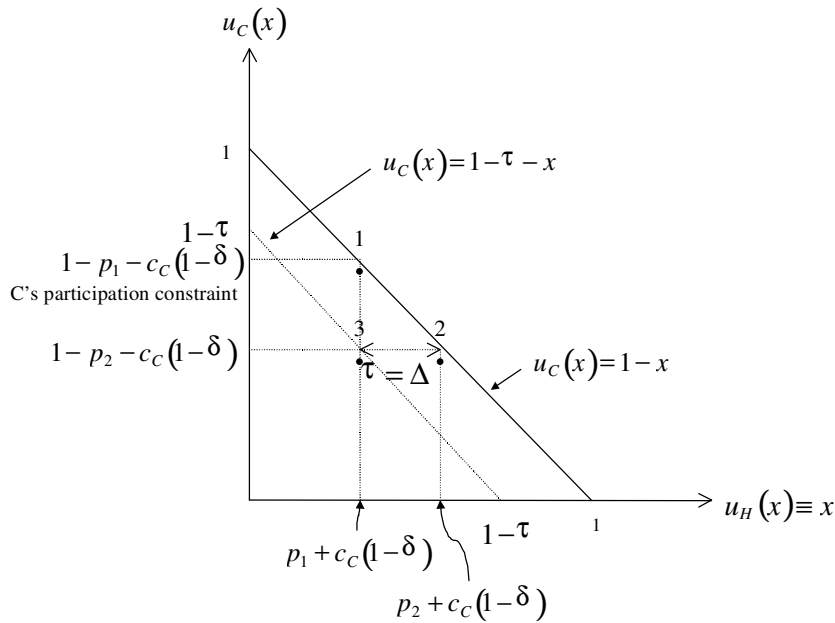
These two mechanisms create an exit cost for H, whether in the form of a new resource contingent on not leaving the Institution, or in the form of a loss inflicted upon exit. We mention a third mechanism, drawing on a slightly different logic, which, though difficult in practice, is always possible in theory—the implementation of a freeze in the balance of

⁶¹ In a similar vein, costs associated with violating an international treaty—reputation, audience cost, and so forth—could conceivably reinforce binding.

⁶² Note that this value must (and does) also guarantee to C its period-2 value for war, $1 - p_2 - c_C(1 - \delta)$; anything below this would lead C to prefer war in period 2, an outcome that would make the hegemon much worse off.

strategic resources. A radical, and somewhat degenerate, solution to equation 9 is to constrain the change in power Δ to be zero. It is always possible to prevent a rising hegemon from taking advantage of its future military superiority by making sure that it never acquires military superiority. Assuming military power to be a function of a handful of strategic resources, the Institution could keep military power in check simply by apportioning asymmetric growth in strategic resources between the hegemon and the coalition. This mechanism, which we will refer to as *real power redistribution*, presents two potential drawbacks. A first drawback lies in the elastic notion of a strategic resource, which, in modern days, can be stretched to include many sectors of the economy. A related drawback is a potentially high sovereignty cost s , which could only be paid through equally high efficiency gains α . We argue in the next section that ECSC and Euratom can be interpreted as attempts to redistribute real power.

FIGURE 3. Exit Penalty
(Per-Period Institutional Payoffs)



IV European Integration as a Credible Commitment to Peace—The Facts

In the previous section we defined the conditions in which integration will be favoured as a solution to preventive war. We identified three mechanisms by which integration enables credible commitment. The first two (contingent efficiency gains and exit penalties) rely on exit costs to deter second-period defection by a rising hegemon. The third mechanism, redistribution in real power, builds on a more cumbersome system of transfer of strategic resources. Below we consider the concrete form of European integration to see how this matches with the implications of the model. Further sections discuss additional substantive implications.

In the course of European integration, no systematic effort has been made to rely on power redistribution to enforce a freeze in the distribution of real power. Still, the mandate and actions of the High Authority (HA) of the ECSC can be interpreted as an attempt in that direction. Although its main role was to give other countries a say over the allocation of German coal and steel, the HA was also tasked with maintaining a rough balance between German and non-German sectoral growth.⁶³ The HA was empowered to abolish existing cartels and prevent the formation of new ones through constant supervision of price and sales practices on the markets for coal and steel. It used these powers to decartelize the Ruhr and design transfer-mechanisms through which “efficient producers”—i.e., Germany—would compensate less efficient ones. This particularly benefited France, Italy and Belgium, who were exempted from many restrictions imposed on Germany.⁶⁴ The HA also governed financing of the steel industry. From its own funds, which it obtained by direct taxation of industries, the HA would grant loans to existing or new industries as it deemed justified to avoid or correct inequalities of competition.⁶⁵ This led one observer to comment: “The common market is a regulated market,

⁶³ The London Economist, 10 March 1951; Hogan 1991, p.169.

⁶⁴ The so-called Hirsch-Vinck Plan called upon West Germany to pay subsidies to the Belgian and Italian steel sectors. See Bondeel 1952, p. 70; also Diebold 1959, p. 96-7, Gillingham 1991, p. 248, 401-25.

⁶⁵ See Bondell 1953, p. 13.

not a self-regulating one. Competition is not free but “loyal”.⁶⁶ René Mayer, President of the High Council, went even further in describing ECSC as a “*balancer* of economic conditions”. In a 1956 speech to the Assembly he said,

We can see how the Common Market tends to bring the benefits of the prevailing general prosperity to every country in the Community. If we compare the period 1953-55 with other industrial upswings, such as 1927-29, 1935-37 and even 1950-52, we find that only in 1953-55 did steel production increase in all the member countries at the same time.⁶⁷

In the end, however, the coal and steel pool was less efficient in terms of equalising industrial growth than expected. As Derek Bok (1955) observed in his assessment of the first three years of the pool’s existence;

To those who hoped for “containment” of German steel, the rapid expansion, the mergers and concentrations, and the increasing levels of investment cannot help but be disquieting.⁶⁸

The redistributive effects of the HA were both short-lived and of limited relevance to other sectors for two reasons. The redistribution of basic economic resources was conceivable in the context of a planned economy, in which inputs were allocated according to a comprehensive vision of growth; it was harder to reconcile with market competition. The French and Dutch planning experiments in sectors other than coal and steel worked as long as funding came from Washington, but lost their force when they had to be funded with tax revenues. Germany rejected planning for its economy, quickly moving towards market competition. Maintaining a balanced distribution of resources in the context of market competition would have had to take the form of post-facto redistributive transfers, not dissimilar in nature from the politically charged reparations imposed on a defeated Germany by the victors some three decades earlier at Versailles.

⁶⁶ Mason 1955, p. 71.

⁶⁷ Speech by Mayer, 8 May 1956, p. 18.

⁶⁸ Bok 1995, p. 79.

The EDC was more far-reaching than ECSC in its ambition for limiting Germany's potential for aggressive action by means of a tangible exit penalty. The proposed EDC had a common budget and was headed by a European Defence Minister. In addition to commanding the common army, the central authority of the EDC would co-ordinate foreign, economic and monetary policies of its members.⁶⁹ It would procure supplies, establish and direct military schools, and decide on the deployment of troops. Within this system, contingents of troops from each member state would serve in integrated units with troops from other countries.⁷⁰ This advanced level of military interdependence would render German armies improper for unilateral action, except at the cost of rebuilding an independent military. This, in French eyes, was the major difference with NATO. Under the authority of NATO, national armies remained intact. This system did not offer France adequate guarantees against future German aggression. However, the French could not get the Americans and the British to accept their version of the EDC and ended up rejecting the treaty as insufficient to solve the problem of German rearmament.⁷¹

The defeat of EDC foiled attempts to use military integration as a solution to war in Europe and consolidated NATO as a temporary external pacifier. As a result, the focus shifted to binding Germany to integration by means of contingent efficiency gains. The EEC generated efficiency gains very early on, as demonstrated by Britain's repeated applications for membership. Between 1958 and 1960, trade among the Six grew by 50%. The freeing of capital flows also caused an extraordinary acceleration of direct foreign investments and opening of subsidiaries abroad. The EEC thus helped to produce the tight interlocking of economic interests which Monnet and Schuman had hoped would result from ECSC via a logic of functional spill-over.⁷² But as we noted earlier, not all efficiency gains have a binding property; only those that are contingent on the maintenance of integration do. Efficiency gains generated by free trade and the free flow of factors of production do not make the grade. The

⁶⁹ Fursdon 1980, p. 340-1, Dinan 1994, p. 28.

⁷⁰ On details of the Pleven Plan, see Fursdon 1980, p. 109 and Dinan 1994, p. 28.

⁷¹ See Fursdon 1980, p. 193-6, Dockrill 1991, p. 107, 191.

⁷² Willis 1968, p. 100.

threat that a German withdrawal might trigger all-out protection is not credible. Efficiency gains resulting from market deregulation and tax harmonisation do not satisfy the binding condition either, for we doubt that the *acquis communautaire* would be completely unravelled by the termination of the EU—only future, hypothetical additions would be forfeited.

The only tangible efficiency gains that one may confidently attribute to the continuation of the EU are those that generate redistributive “transfers.” Economic growth and modernisation customarily create “winners” and “losers.” To placate the latter and prevent them from mobilising against growth and innovation, governments customarily transfer resources from the former to the latter. The institutionalisation of cross-country transfers in the EU is evidence of efficiency gains that would be lost if these transfers ended.

From the outset, the EEC has had a budget out of which compensatory payments were made to presumed victims of market integration—farmers and backward areas. Were Germany to exit, the main source of revenues to that budget would dry out, eliminating transfers and redirecting the victims of market integration toward their respective national governments. Unable to offset most of these losses, we believe that governments would be forced to seek compensation in the form of impediments to trade and factor mobility. All parties would be worse off, including Germany. This is why we think that transfers reflect a binding property of the EU. Nevertheless, measured by the mere size of its budget for transfers, the EU is no impressive binding mechanism.

There is, however, another way in which the EEC has created substantial exit penalties for its members, namely via relation-specific investments. Relation-specific investments are investments made to support transactions with a particular partner, and their value in alternative uses is often greatly reduced. Their worth therefore depends on the persistence of the relationship for which they are designed.⁷³ Investment in relation-specific assets is common in regional trade areas such as the EEC because processes of specialisation spur investment in increased production capacity designed to service regional export markets. Note, however, that

⁷³ Williamson 1983, pp. 526; Yarbrough and Yarbrough 1992, p. 25-28

such investments will have a binding effect only if their value exceeds the marginal benefit of unilateral defection.

Besides contingent efficiency gains and relation specific investment, there are few substantial exit penalties in today's EU. One exception is the common currency. The move to a single currency in 2002 represented for Germany (as for other participants) more than the emotional sacrifice of a national icon—it also raised the exit cost by the amount it would take to reprint and put back into circulation a national currency. The link between EMU and the security issue, however, is fortuitous. Of greater relevance to our argument are the continued attempts, since the 1960s, at integrating French and German defence. The 1963 Elysee Treaty enabled exchanges of personnel between the armed forces of France and Germany, including temporary detachments of entire units. More far-reaching results were achieved in 1987 with the formation of the Franco-German Brigade, the nucleus for the Eurocorps, set up in 1993, which also includes Belgium, Luxembourg and Spain. Such defence integration heightens military interdependence, and—in light of current plans for making this the core of a more ambitious project of integrating French and German defence—promises to create a significant exit penalty.

V. The Decision Rule

In this section, we further specify the institutional format that must be met to solve the commitment problem and assess the extent to which this format is met by European integration. Institutionalised co-operation is a plausible alternative to war if it guarantees the coalition its reservation payoff for the game (inequality 5). This is achieved by adopting a new decision rule which institutionalises a power distribution that reflects the military balance in the first period but is separate and unchanging in the face of subsequent vicissitudes in military power. This restriction especially matters in the occurrence of economic growth, which provide the basis for the efficiency gains that are transferred to the Hegemon (an exit penalty can function under any growth rate). A simple way of achieving this in practice is unanimity. Once a distributive

principle securing the reservation value to the coalition has been reached, each country is granted the power to veto any future change.

The unanimity rule is appropriate for important issues—which we define as issues with rippling effects of which the resolution can single-handedly affect the resolution of other issues—but not for issues of mere statistical importance. In the latter case, the participants are better off adopting the more flexible qualified majority voting (QMV) rule whereby decisions are taken by a body composed of member states—the hegemon and the coalition disaggregated into its individual components—with each state disposing of a vote weighted to reflect its power in the first period. There is a very close correlation between actual weights and notional power as calculated according to power index methods.⁷⁴ According to these methods, the ability of a government to influence deliberations is a function of the number of all mathematically possible winning coalitions to which it is pivotal. The method’s accuracy depends on a critical assumption—that the allocation of government preferences across the range of issues is random. It works best with issues of secondary importance or in constitutional settings where actors agree to construct institutions according to Harsanyi’s “principle of insufficient reason” or Rawls’ “veil of ignorance.”

We can deduce the relative voting weights from the model. The weight $1-p_B$ that gives the coalition its reservation value is equal to that reservation value minus the sovereignty cost—for this cost, like withholding taxes, is incurred in the first place by the coalition, even though it must eventually be borne by the hegemon. Hence, the relative voting power distribution institutionalised through binding is, for the coalition,

$$1 - p_B = \frac{1 - p_1 + s_C}{1 - \delta} - c_C,$$

⁷⁴ The two best known are the Shapley-Shubik and the normalized Banzhaf indices. For a review, see Shubik (1984); for an application to voting in the Council of the EU, see Hosli 1993 and 2000.

and for the rising hegemon,

$$p_B = \frac{p_1 - s_C}{1 - \delta} + c_C. \quad (6)$$

This is true irrespective of the presence of efficiency gains, α , since the coalition has no claim to those.

How useful is this model in predicting the distribution of voting strength in European institutions? Within each institution, voting power is determined by at least two features—the decision rule (unanimity, qualified majority, simple majority) and the allocation of agenda setting power. Relations between institutions (Council, Commission, and Parliament) also influence the outcome. It is beyond the scope of this study to estimate the comprehensive institutional power of each country. Instead, we shall focus on partial indicators of voting influence.

First, all the important decisions (notably decisions on enlargement and institutional reform) have been taken, and continue to be taken, according to the unanimity rule. Second, many less important decisions have been subject to QMV, in the Council at least, according to a system of voting weights that freezes the relative voting power among large countries. The ECSC in 1952 institutionalised three groups of powers, each country within a group having the same weight—large (France, Germany, and Italy), medium (Belgium and the Netherlands), and small (Luxembourg). Successive enlargements created new groups, to be sure, but the group of large powers—which was increased to four with the joining of Britain in 1972—has remained unchanged throughout. In preparation for EU enlargement, the 2000 Nice Summit re-balanced votes and set notional votes for the 12 aspiring members. The current “15” agreed to breach the principle of overrepresentation of small countries, but left untouched the principle of equal vote allocations for the largest states.⁷⁵ Indeed, the principle of equal vote allocations for large states (including France, Germany, UK, and Italy) has been a cornerstone of European institutions, despite variations in actual, underlying power.

⁷⁵ The new weights are given by The Economist, December 16th 2000, p. 25.

Because of this rule, German institutional power has moved further away from its actual power. This fact is visible on Figure 4, in which we graphed the large countries' share of votes and GDP. In 1952, German voting weight was 9 percent below its actual power—calculated in GDP; by 1995, the gap had widened to 16 percent. Equivalent figures for France were 12 and 7 percent.

VI. Further Implications and Robustness

In this section, we draw some implications with respect to enlargement, free riding, and the timing of integration in Europe. In the process, we also discuss the degree of robustness of the model. A first question is whether enlargement of a regional union hinders or facilitates binding. The impact of enlargement, *a priori*, is indeterminate. Looking at condition 9, we see that enlargement has an inconsistent effect on binding: on the one hand, enlargement increases the degree of heterogeneity among members and thus their sovereignty cost, s . On the other hand, enlargement increases the size of the single market and thus raises the efficiency gains, α . The net effect is *a priori* indeterminate.

The net effect of enlargement may be negative, however, if it brings in new members that do not share the politico-military goals of the initial coalition. The case in point is the joining of the initial Six EC-members by Britain in 1972. Britain—due to its geographical distance from the continent and its 'special relationship' with the US—has preferred to contain Germany through conventional power balancing in close alliance with the Americans, rather than by entering into supranational co-operation with its continental allies.⁷⁶ Britain condemned the Schuman Plan and the Pleven Plan, rejected Euratom and initially opposed the EEC—all because they were seen as too taxing on British autonomy. Britain later supported a minimalist version of the Single Market because it generated efficiency gains without a significant sacrifice of sovereignty, but opposed monetary and political union.

⁷⁶ See Bullen 1989 and Author.

Our model predicts that the divergence of views between Britain and France on the German question strengthens Germany's bargaining power. Any cause for internal disharmony among coalition partners—be it free riding or internal rivalry—has the effect to lower Coalition's reservation payoff (because balancing is expected to be less efficient or more costly). It is this reservation payoff that H matches through institutional binding. Therefore, disharmony among allies results in a binding arrangement that initially is less advantageous to the allies. But it does not make binding less likely, since disharmony lowers the payoff to the coalition from balancing as well. This result does not depend on the initial attribution of bargaining power.

The initial attribution of bargaining power matters for a different reason. If, instead of having H confront C with a take-it-or-leave-it offer, we had C make the offer, then we would open the possibility that for power changes that are small relative to the cost of war, $\Delta \leq (c_C + c_H)(1 - \delta)$, C makes an offer that is accepted by H and peace is sustained. However, for larger changes in power the results are indifferent to the initial attribution of bargaining power.⁷⁷ Even though we believe it is realistic to give the initiative to the rising hegemon—it is the one that is dissatisfied with the status quo—our modelling choice is mainly motivated by the question at hand. We are not concerned with predicting the occurrence of preventive war but, given its likelihood, we wish to investigate how governments may avoid it.

A final question is the timing of integration in Europe. If European integration was designed to constrain German power with a view to preventing another European war, then why was it not tried at the turn of the century or during the interwar period? After all, France after World War I faced a security dilemma similar to after World War II. Our model suggests that binding is less likely if (1) the expected power transition is large, (2) the cost of war is small, (3) sovereignty costs are high, and (4) the expected efficiency gains (or exit costs) are small.⁷⁸ The last three conditions were believed by contemporaries to obtain during the period

⁷⁷ See Powell 1999, p. 131.

⁷⁸ Propositions 1, 3 and 4 are directly derived from equation 9. Proposition 2 can be inferred from the fact that, in equilibrium, H's institutional payoff is superior to its preventive war payoff:

that led to World War I, but were falsified by the war. Prior to the war, widespread belief in offensive advantage led many to predict that war would be swift and relatively inexpensive. Furthermore, fervent nationalism meant that the sovereignty costs of institutional binding were seen as high. The war altered these beliefs. Interestingly, before World War I was over, the French aired plans for European regional integration, to be roundly dismissed by the British and Americans.⁷⁹ The reason why the French did not at this time go beyond Anglo-Saxon opposition is left to further research.

We finally note that the predictions of the model are indifferent to a variety of alterations such as making the change in power probabilistic rather than certain, or making the cost of war proportional to the size of the adversary. Although perhaps desirable for their realism, these additions would merely complicate the analysis without adding substantive value.

Conclusion

Evidence from post-war European integration lends strong support to the institutional binding theory. Since 1945 European political officials have framed the problem of German power in terms of a preventive dilemma, which they hoped to solve via integration. The desire to obtain a credible guarantee against renewed German aggression has given rise to several institutions designed to neutralise the threat of German hegemony. These institutions have been primarily championed by the countries most exposed to German aggression in the past—chiefly France and the Benelux states—whereas countries which have been less

$$\frac{p_1 - 2s + \alpha}{1 - \delta} + c_C \geq \frac{p_1}{1 - \delta} - c_H,$$
$$\text{or } \frac{\alpha - 2s}{1 - \delta} \geq c_C + c_H.$$

⁷⁹ See Trachtenberg 1979, p. 26, McDougall 1979, p. 9.

vulnerable to German power—such as the neutral European states and Britain—have been more reluctant to embrace integration.

The argument that European integration has been driven by a need to constrain German power is not new. As we noted in the introduction, the idea that European integration has been fuelled by a desire to avoid another intra-European war has long been popular with historians of diplomacy and non-academic commentators. However, the argument has so far lacked a clear theoretical foundation. Our model of institutional binding shows that states can deliberately use integration as a way to solve credible commitment problems. We have demonstrated how institutional features associated with politico-economic integration produce contingent gains and exit penalties, which reduce the possibility of conflict among members. The model allows us to claim that European integration has not merely presented a way for Germany to reassure other states by signalling its benign intentions—rather, integration has rendered the German commitment to peace credible by decisively limiting German power potential.⁸⁰

Some would dispute that integration is the real reason that other European states have stopped worrying about preponderant German power. They would point to the fact that NATO and the Soviet threat constrained German geo-strategic and political ambitions, thereby making Germany's growing economic power unthreatening.. Compelling in many ways, this argument leaves unanswered the question of why the French have been consistently critical of NATO. Further, the disappearance of the Soviet threat and the weakening of NATO should have reopened past territorial conflicts and weakened regional integration.⁸¹ This has not happened. Instead, European states have proceeded down the path towards ever-closer union by pooling their currencies.

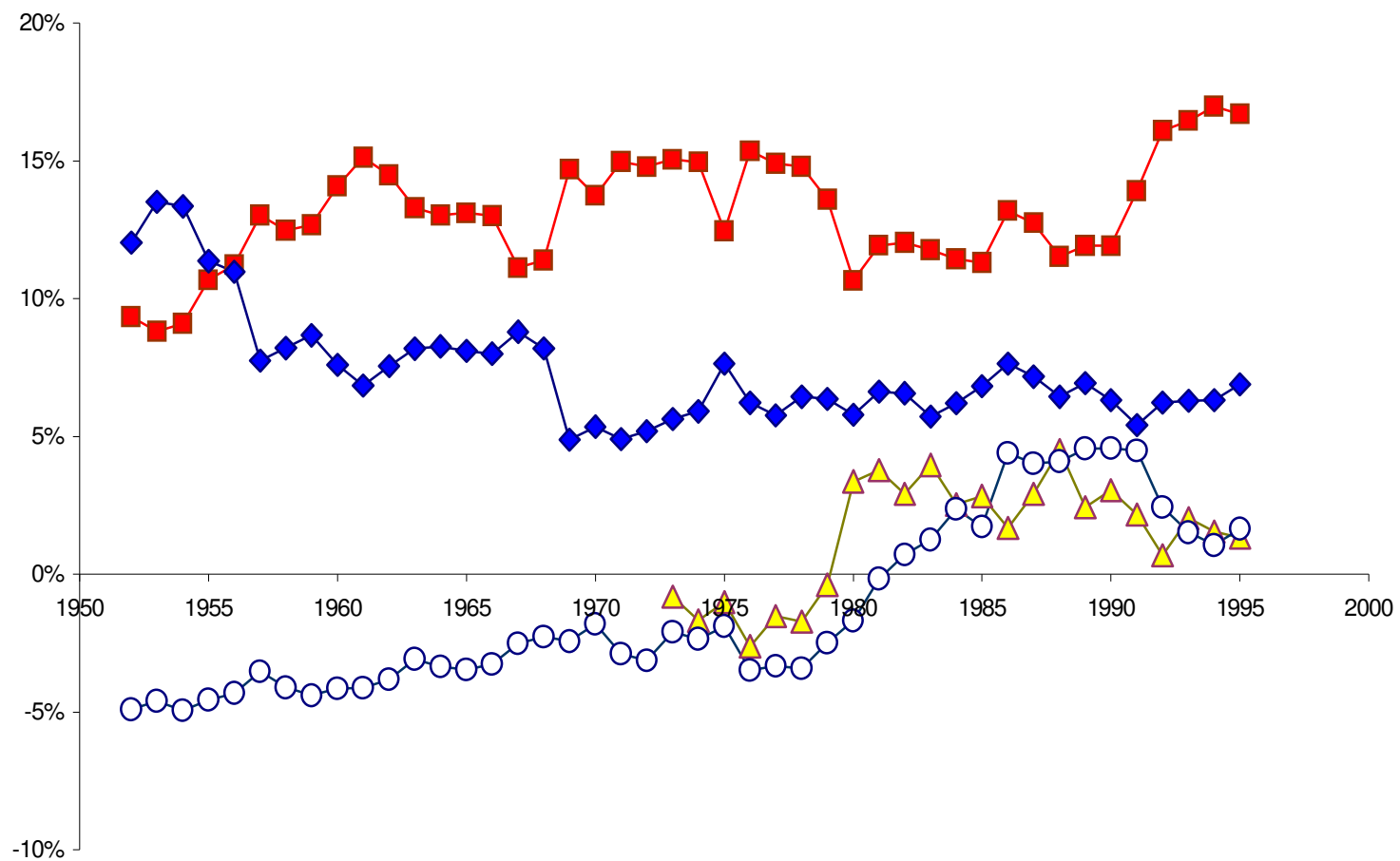
⁸⁰ Binding commitments can be distinguished from 'type-revealing' commitments. The latter solve conflict because they indicate a certain quality (e.g. 'niceness') in the actor, thereby assuring others that opportunistic behavior will not occur. Students of integration often portray German consent to various integration initiatives as type-revealing commitments designed to 'signal' Germany's benign intentions. While such signals may be sincere, they are not necessarily credible, since the type of the government may change over time, as it did between the wars, when the Nazi regime succeeded the Weimar Republic.

⁸¹ This is the argument made by Mearsheimer 1991.

Of course, not every development in the EC/EU can be attributed to a concern with binding German power. As European states have grown to feel mutually secure other goals—such as monetary stability and environmental protection—have come to play a more prominent role. Today's Europe thus features a plethora of multipurpose political and regulatory institutions many of which bear no direct relation to the objective of constraining German power. Yet, at the core of the European integration project is a goal of binding a growing Germany. Without this goal, we argue, patterns of institutional co-operation in Europe would likely have taken a different form.

One last caveat must be addressed. Germany at various points has pushed for a more federal Europe, whereas France has insisted on a principally intergovernmentalist framework. How do we explain French resistance to centralisation. Has the French not consistently desired to bind Germany through integration? We need to remember, in this case, that the purpose of institutional binding is to safeguard state sovereignty, not to replace it with central government. It is not surprising to see a demographically dominant state push for federation; substituting an electorally accountable central authority for the intergovernmental system of veto points would increase German influence over policy-making. Yet, from the perspective of other member states, this would defy the logic of institutional binding.

FIGURE 4.
Discrepancy between EU GDP and Share Voting Weight
(GDP share - voting weight)



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