

THEORY OF METAREALISM

by

AMARDEEP ATHWAL

BA, Simon Fraser University, 2001

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF ARTS

in

THE FACULTY OF GRADUATE STUDIES

DEPARTMENT OF POLITICAL SCIENCE

We accept this as conforming
To the required standard

THE UNIVERSITY OF BRITISH COLUMBIA

August 2002

© Amardeep Athwal, 2002

In presenting this thesis in partial fulfilment of the requirements for an advanced degree at the University of British Columbia, I agree that the Library shall make it freely available for reference and study. I further agree that permission for extensive copying of this thesis for scholarly purposes may be granted by the head of my department or by his or her representatives. It is understood that copying or publication of this thesis for financial gain shall not be allowed without my written permission.

Department of Political Science

The University of British Columbia
Vancouver, Canada

Date August 20, 2002

ABSTRACT

The Theory of Metarealism is a reformulation of Kenneth N. Waltz's landmark 1979 work, *Theory of International Politics*. Specifically, the reformulation is of Waltz's market-firm analogy and more generally his microeconomic logic. The starting points for the Theory of Metarealism are the two major problems present in structural neorealism, the approach most closely linked to Waltz's *Theory of International Politics*. These two major problems are European integration and the Cold War. Structural neorealism has generally been unable to explain these two anomalies.

The Theory of Metarealism attempts primarily to address the two major problems by correcting and building upon the microeconomic logic of Waltz's *Theory of International Politics*. The thesis proceeds by first examining in some detail Waltz's *Theory of International Politics*, with specific attention being placed on Waltz's use of microeconomics. Secondly, the major problems with Waltz's approach and with structural neorealism more generally are highlighted. Third, the Theory of Metarealism is presented, with its two major components relating to the nature of systems and interunit interaction as a solution to the problems within Waltz's work and with structural neorealism. Finally, a case study of European security integration is presented to demonstrate the viability of the second component of the Theory of Metarealism.

A number of important conclusions are drawn from the introduction of the Theory of Metarealism. It is determined that structural neorealism and neoliberal institutionalism as theories of international relations, can in some ways be synthesized. Secondly, international cooperation is deemed to be easier to achieve and international cooperation and conflict can be predicted more easily from the first component of the theory. In general, the Theory of Metarealism offers a more complete structural neorealist theory of international relations.

TABLE OF CONTENTS

| | |
|--|-----|
| Abstract | ii |
| Table of Contents | iii |
| Acknowledgements | iv |
| Introduction | 1 |
| CHAPTER I Waltz's Theory of International Politics | 9 |
| 1.1 Waltz's Theory In General | 9 |
| 1.2 Anarchy as an Ordering Principle | 10 |
| 1.3 Characteristics of the Units | 13 |
| 1.4 The Distribution of Capabilities | 14 |
| 1.5 Relative Gains | 17 |
| CHAPTER II The Internal Inconsistencies and Overlooked Arguments with Waltz | 18 |
| 2.1 The Punishment of 'Irrational' Actors | 18 |
| 2.2 Relative Gains and the Nature of Markets | 20 |
| 2.3 Relative Gains and Balancing Theory | 28 |
| 2.4 Strategic Mergers Overlooked | 30 |
| CHAPTER III Metarealism as a Theory of International Politics | 35 |
| 3.1 Loose and Tight Oligopolies | 35 |
| 3.2 Strategic Mergers and Political Integration | 47 |
| 3.3 Metarealism in terms of Waltz's Theory of International Politics | 60 |
| CHAPTER IV 1990-2000 The Emergence of An Independent European Security Entity? | 75 |
| 4.1 1989-2000, Post-Cold War Developments | 77 |
| Conclusion: Prospects for the Future and Theoretical Implications | 104 |
| Bibliography | 106 |

ACKNOWLEDGEMENTS

I would like to thank a number of people which provided me with invaluable feedback and helped bring this MA thesis into completion. First I would like to thank my MA supervisor Brian L. Job. He played a key role in the initial development of my ideas, held many important and productive meetings with me and responded to countless emails. Professor Job also pushed me to express my thoughts more clearly and I am grateful for his quality supervision. I also owe a debt of gratitude to Richard Price. Dr. Price also played an instrumental role in the early developmental stages of my thesis. Many arguments in my thesis were directly or indirectly generated from his graduate course in International Relations Theory and Dr. Price was kind enough to respond to many email questions throughout the period in which I wrote the thesis. I would also like to thank my fellow graduate students and faculty members at UBC for their positive attitude and in encouraging my efforts. Two PhD students, Scott Watson and Philippe Bourbeau were gracious enough to read my whole thesis and offer their useful comments. Alex Moens, back from when I was at SFU is primarily responsible for my knowledge of the European security sphere and Allen Sens also helped with some questions. Egon Matzner recommended a number of important books in industrial organization and microeconomics and was generous enough to discuss many ideas in this area with me. I also wish to thank the UBC and SFU libraries for their excellent resources, enabling me to rapidly do my research. Finally I would like to thank my brother Jim Athwal, with whom I ran by many of my ideas and my parents for providing me with support and a stable working environment.

"Those who are not shocked when they first come across quantum mechanics cannot possibly have understood it." ~ Niels Bohr.

Introduction

For the past 10 to 15 years, neorealists have been on the defensive, being unable to explain two major anomalies; increasing European integration and the end of the Cold War.¹ The first wave of challenges came from the neoliberals from the mid-1980s to the early 1990s, best embodied by the relative gains and absolute gains debate.² The most recent wave of challenges, however, is coming from cultural/constructivist/normative theorists.³ They emphasize the important role of norms and social constructions in explaining international relations and have been gaining increasing momentum. There appears to be a general trend in international relations

¹ For information about the latter anomaly see William Wohlforth, "Realism and the End of the Cold War," *International Security* Vol.19 No.3, Winter 1994/1995, Charles W. Kegley, "The Neoidealist Moment in International Studies? Realist Myths and the New International Realities," *International Studies Quarterly* Vol.37 No.2, June 1993, Friedrich Kratochwil, "The Embarrassment of Changes: Neorealism as the Science of Realpolitik without Politics," *Review of International Studies*, Vol.19 No.1, January 1993, Friedrich Kratochwil, "Understanding Change in International Relations: The Soviet Empire's Demise and the International System," *International Organization* Vol.48 No.2, Spring 1994, John A. Vasquez, "The Realist Paradigm and Degenerative versus Progressive Research Programs: An Appraisal of Neotraditional Research on Waltz's Balancing Proposition," *American Political Science Review* Vol.91 No.4, December 1997, Richard Ned Lebow, "The Long Peace, the End of the Cold War, and the Failure of Realism," *International Organization* Vol.48 No.2, Spring 1994 and also see John Lewis Gaddis, "International Relations Theory and the End of the Cold War," *International Security*, Vol.17 No.3, Winter 1992/1993. For information concerning the former anomaly, see Richard Ned Lebow, "Cold War Lessons for Political Theorists," *The Chronicle of Higher Education* Vol.42 No.20, January 26, 1996, in general Kegley, Michael Doyle, "Kant, Liberal Legacies and Foreign Affairs," In Michael Brown, Sean Lynn-Jones and Steven Miller eds. *Debating the Democratic Peace*, Cambridge: MIT Press, 2001, Michael Doyle, *Ways of War and Peace: Realism, Liberalism and Socialism*, New York: Norton and Co. 1997, pp.205-311, Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, Glenview, IL.: Scott Foresman, 1989, Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton: Princeton University Press, 1984 and also Richard Rosencrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World*, New York: Basic Books, 1986. For a collection of various 'realist' responses to such criticisms, see in general, Ethan B. Kapstein and Michael Mastanduno eds. *Unipolar Politics: Realism and State Strategies After the Cold War*, New York: Columbia University Press 1999 and also Kenneth N. Waltz, "The Emerging Structure of International Politics," *International Security* Vol.18 No.2, Fall 1993 and John Mearsheimer, "Back to the Future: Instability in Europe After the Cold War," *International Security* Vol.15 No.1, Summer 1990.

² David A. Baldwin, *Neorealism and Neoliberalism: The Contemporary Debate*, New York: Columbia University Press, 1993. It should also be noted that for the purposes of this essay, structural neorealism will be used as the term which refers to Waltz's work and will be generally considered synonymous with neorealism unless specified otherwise (Waltz's work is generally referred to as representing the neorealist tradition). This will be done despite the objections of some analysts who reserve a separate meaning for the term structural. See Barry Buzan, Charles Jones and Richard Little, *The Logic of Anarchy: Neorealism to Structural Realism*, New York: Columbia University Press 1993, p.9.

³ Alexander Wendt, *Social Theory of International Politics*, Cambridge: Cambridge University Press, 1999.

literature; critical and normative theories are becoming ever more dominant while 'materialist' explanations (neorealism especially but also neoliberalism)⁴ are becoming of secondary importance. Although for many, this is seen as a step in the right direction, given the stranglehold that realism especially has had in international relations since the mid-20th century, such conclusions are premature. Before pure 'materialist' explanations⁵ are abandoned in favor of ideational accounts (or materialist-ideational accounts), or before the primacy of ideational theory is heralded, more work needs to be done on the former. In particular, Waltz's "Theory of International Politics" (TIP hereafter), the starting point for the development of structural neorealism, needs to be reexamined.

Since the introduction of Waltz's work on structural neorealism in 1979, many of the subsequent structural neorealist explanations of international relations can be related back to his TIP. More specifically, most structural neorealist explanations can be related back to one of the key theoretical concepts Waltz employed in the development of his own theory--the market-firm analogy. The entire school of structural neorealism essentially rests upon this analogy, of how a state behaves under anarchy like a firm behaves in the market place. If this analogy were proven to be flawed or incorrect in any major way, it would have major implications for the entire school of structural neorealism. Although one could argue that this is irrelevant, given the fact that a relatively coherent paradigm of structural neorealism was developed, regardless of how the market-firm analogy was applied to international relations theory, this response is ultimately unacceptable. This is because the misuse of the market-firm analogy from microeconomics is primarily responsible for the current poverty of structural neorealist explanations (e.g. the two anomalies noted above) of international relations. With a more accurate analogy comes a more useful structural neorealist theory of international relations--metarealism.

⁴ Admittedly there is some overlap between various approaches and it is often difficult to pinpoint exactly different schools of thought. Nonetheless a general trend can be noted.

⁵ Wendt outlines the similarities between neorealism and neoliberalism as materialist explanations, p.137.

Metarealism, the label given to the approach developed here attempts primarily to provide a more complete market-firm analogy than the one initially employed by Waltz in his TIP. The grounds for doing so have been provided by the increasing problems that the theory of structural neorealism has encountered over the years. Although some may not wish to acknowledge the increasing problems that structural neorealism is facing, it is clear to this analyst that an alternative explanation is necessary. The theoretical approach of metarealism, will parallel Waltz's approach in the TIP. Like Waltz, the structuralist solution to the agent-structure problem is chosen because it remains, despite the many criticisms charged against it,⁶ the best way to avoid the problems associated with reductionism when constructing theories of state behavior. Correspondingly, Waltz's conception of the role of assumptions in theory is also the one used here. Of assumptions, Waltz contends that it must be asked "not whether it is true but whether it is the most sensible and useful one that can be made."⁷ However, it will be contended here that the assumptions made by Waltz, are no longer the most sensible or the most useful. More appropriate assumptions, assumptions which are more closely linked to microeconomic logic, can be made. This is the *raison d'être* of the theory of metarealism.

Realism or neorealism, as a theory of international relations, by its very name, attempts to portray an accurate picture of reality, focusing on its alleged major components.⁸ Realism is seen as the study of what is, instead of what ought to be, concerned with practical matters. Or in other words as a "hard ruthless analysis of reality."⁹ Waltz's misuse of the market-firm analogy, however, has distorted the 'reality' which neorealism purports to analyze and adhere to. A reassessment of this analogy will do much to alleviate the increasing pressure that has been placed upon neorealism for the last 10-15 years. Such a reassessment will help to address one of

⁶ Alexander Wendt, "The Agent-Structure Problem in International Relations Theory," *International Organisation* Vol.41 No.3, 1987

⁷ Kenneth N. Waltz, *Theory of International Politics*, New York: McGraw Hill, 1979, p.91.

⁸ Hans Morgenthau, *Politics Among Nations*, New York: Knopf 1948, pp.3-10 and E.H. Carr, *The Twenty Years Crisis 1919-1939*, London: Macmillan, 1939.

the major anomalies that neorealists have found difficult to come to terms with, the development of the European Union and increasing European integration and will also help in coming to terms with the 'Cold-War' problem.¹⁰ In the process of reformulating neorealism, refocusing on the market-firm analogy will also alter the present relationship between neorealism and neoliberalism. The absolute-relative gains debate will be presented in a different light and the possibility for some type of synthesis between the two approaches will be left open. In other words, a critical re-examination of the market-firm analogy with the theory of metarealism will perhaps serve to unify 'materialist' theories of international relations, neorealism and neoliberalism, in important ways.

The following paper will proceed to accomplish these tasks and exemplify these arguments in 4 chapters. In the first chapter, Waltz's theory of international relations, noted earlier as the starting point of structural neorealism and thus the neorealist-neoliberal debate will be reexamined. The main tenets of Waltz's theory will be highlighted, with specific attention being placed on Waltz's adoption of microeconomics and his use of the market-firm analogy. Waltz's TIP will first be examined generally; thereafter, Waltz's use of the market-firm analogy in his conceptions of anarchy, the characteristics of units, the distribution of capabilities and relative gains will be explored. The primary purpose of this short chapter will be to lay the groundwork for the assessments which will follow in chapters 2 and 3. An in depth understanding of Waltz and his use of the market-firm analogy will be essential to comprehend the main arguments made in this work. This chapter largely takes on an impartial stance and attempts to portray Waltz's theory as accurately as possible without introducing any personal objections, opinions or criticisms. The opposite will be the purpose of the next chapter.

⁹ Carr, pp.9-10.

¹⁰ At this point it should be noted that this paper is particularly concerned with European integration instead of more general notions concerning institutional cooperation. This is because, as it will be discussed in more depth later, the process of European integration is perceived to be a special type of institutional cooperation which may or may not be equivalent to other types/forms of institutional cooperation.

In chapter 2, the major problems and inconsistencies with Waltz's use of the market-firm analogy will be outlined. Furthermore, some arguments, which Waltz overlooks, will also be illustrated. In this chapter, it will be argued that Waltz's microeconomic logic breaks down in four important ways. Waltz's misuse of the market-firm analogy leads to three internal contradictions concerning the punishment of irrational actors, relative gains and the nature of markets and relative gains and balancing theory. The first of these internal contradictions has been well noted by various analysts while the other two, (to my knowledge) have not been picked up on by any analysts. The fourth way in which Waltz's microeconomic logic breaks down is that it leads him to ignore significant information regarding what has been termed strategic mergers (This is expanded upon in the third chapter of this essay.). This chapter thus begins the process of breaking down Waltz's use of the market-firm analogy--primarily by revealing the internal inconsistencies embedded in Waltz's TIP. Many questions and criticisms concerning the logic of Waltz's theory are posed and presented in this chapter. Although it may not be evident by the end of chapter 2, many of the problems and inconsistencies discussed in Waltz's work are the very problems which enabled and allowed for the gradual impoverishment of structural neorealism (the two major empirical anomalies noted earlier). Chapter 3 thus becomes the most important and most crucial chapter in this work. It will link all of these problems and issues together and resolve them through presenting the theory of metarealism.

The third chapter of this work will introduce the theory of metarealism as a means of resolving the inconsistencies and problems in Waltz's work. In the process, metarealism will also reconcile structural neorealism with the two major empirical anomalies (the Cold War and European integration) noted at the outset of the essay and with neoliberalism in important ways. Drawing on literature from microeconomics, specifically industrial economics/organization and the arguments made in the second chapter, it will be contended that significant information regarding the structure of markets and firm behavior (which has a direct relationship with the

behavior/role of states under anarchy) is ignored. First, Waltz fails to make important distinctions regarding the structure of markets (between what is termed tight and loose oligopolies). Secondly he fails to recognize that markets induce firms to achieve their ends (firm survival, efficiency, competitiveness) in more ways than is assumed in the TIP. Markets also induce the phenomenon of the strategic merger/collaboration for firms to achieve their ends of efficiency and competitiveness (and thus survival).

The first argument concerning the structure of markets and the distinctions between tight and loose oligopolies will help solve the 'Cold War problem'¹¹ by linking interstate interactions in international systems more closely to microeconomic logic. This argument will also demonstrate that international systems in general are more cooperative than neorealists would traditionally assume and that relative gains considerations are usually more moderate. The second argument will illustrate that the strategic merger is a rational response under market conditions, which has a direct (and previously ignored) correlation to state behavior under conditions of anarchy. The strategic merger, specifically, can be correlated to the phenomenon of political integration at the international level (absolute gains), in some ways represented by the European integration process. This second argument, concerning the strategic merger, will help theoretically resolve the 'integration' anomaly by linking this behavior to a sounder market-firm analogy. This will also create some type of synthesis between structural neorealism and neoliberal institutionalism. The use of a more complete market-firm analogy therefore will significantly alter structural neorealism as a theory of international relations. Correcting the market-firm analogy will have this effect because it radically impacts the manner in which relative and absolute gains are perceived in international relations theory. The closing section of

¹¹ The Cold War problem as it pertains to structural neorealism, can be divided into 4 interrelated categories which hold that structural neorealism: (1) failed to anticipate change and predicted continued bipolar stability, (2) predicted balancing after the collapse of the Soviet Union, (3) held that large-scale systemic international change is associated with (great power) war and (4) couldn't account for cooperative behavior during the latter half of the Cold

this chapter will restate metarealism as a theory of international relations in terms of Waltz's TIP to determine exactly how its expectations differ and how it relates to the original point of analysis. This section will also deal with some other problematic features of the Cold War anomaly not dealt with in the earlier section. Chapter 3 thus, not only shows how the inconsistencies and problems with Waltz's work led to the impoverishment of structural neorealism (Cold War and EU anomalies) but also solves these problems with the theory of metarealism. This is by linking arguments concerning relative gains, the nature of international systems and integration closer to microeconomic logic.

The fourth and final chapter will come down from levels of abstraction to examine the application of metarealism in the present context. This will be done through a case study of European security initiatives since the end of the Cold War. One of the most problematic features of metarealism will be to demonstrate the operation of the strategic merger in the international arena and to show that the process of European integration can be characterized in these terms. European integration is chosen as the focal point of analysis, as alluded to earlier, because it is a good example of the political integration process and is at the center of the neorealist-neoliberal debate. If it can be held that the process of European integration is increasingly about absolute gains, then a direct relationship to the microeconomic notion of the strategic merger can be established, which will in turn link this to the theory of international relations presented here. Although it will be expressed that the process of a strategic merger with the EU is by no means near completion, developments in the security sphere will nonetheless indicate where the EU states are heading. This case, since it analyzes cooperation in the security sphere, will represent a tough case for the theory (certainly it would be easier to examine European economic integration as manifested by the Economic and Monetary Union) as both neorealist and neoliberals generally

War. The answers to problems 2 and 4 will become clear after reading the first section of the third chapter but problems 1 and 3 will require a more careful response which will be discussed in depth later in the paper.

expect relative gains to dominate in the security sphere.¹² Therefore even any indication that absolute gains are coming into operation in the security sphere will have major implications.

¹² At this point it should be noted that critics have pointed to several problems in Waltz's work such as his confusion between system and structure and a corresponding lack of attention to unit-level phenomenon. It is not the purpose of this essay to solve all of these problems. Rather Waltz's work and his microeconomic logic are simply being used as a springboard to construct an alternative theory of international relations. Thus, it is recognized that this theory could perhaps be susceptible to similar criticisms as those leveled against Waltz. For more information about these arguments see Buzan et al., ch.3.

CHAPTER I Waltz's Theory of International Politics

The primary purpose of this chapter is to explain the key components of Waltz's TIP. A basic understanding of this theory and the microeconomic logic which it is grounded in will be vital in comprehending the chapters to follow. In this chapter, criticisms of Waltz's work are not discussed and no new arguments are introduced. This chapter will simply present Waltz's theory in a microeconomic light in an impartial and unbiased manner.

1.1 Waltz's Theory In General

Waltz, in his 1979 work, TIP, attempts to construct a theory of international relations, which remedies the problems and defects of previous theories. For Waltz, previous theories in international relations have been primarily reductionist and have confused systems-level and unit-level causes and effects. Waltz's theory of structural neorealism, in response, attempted to create a scientific systemic theory, which could clearly distinguish unit-level and systems-levels causes. This would therefore avoid the problems associated with reductionism.¹³ The key to Waltz's theory is his concept of structure. For Waltz, "A system is composed of a structure and of interacting units. The structure is the system-wide component that makes it possible to think of the system as a whole."¹⁴ Waltz defines structures in three main capacities. First the ordering principle of a structure is either hierarchic or anarchic (a change in ordering principle is a systemic change). A hierarchic ordering principle implies the differentiation of units within the system, however Waltz's major insight is the stipulation that in international politics the ordering principle is anarchic instead of hierarchic (as is the case domestically within states). This makes the units (states) like, or the same, all seeking security and survival (resulting in balancing

¹³ See Waltz, 1979, ch.4 for more information on the pitfalls of reductionist theories of international relations and how they would compare to systemic accounts.

¹⁴ Kenneth N. Waltz, "Theory of International Politics," ch.'s 1,4,5,6 in Robert O. Keohane eds. *Neorealism and its Critics*, New York: Columbia University Press, 1986, p.70. All references made to Waltz which do not specify the year, refer to his work as it appears in this volume edited by Keohane.

behavior,¹⁵ likeness in foreign policy, military emulation and relative gains considerations through systemic socialization and competition). Thus, Waltz's second definition of structure, the specification of the functions of differential units, drops out at the international-level because under anarchy state or unit-level factors become irrelevant in explaining the behavior of states. Through this insight, the problem of reductionism is also avoided as unit-level explanations for state behavior can be ignored. The final component of Waltz's definition of structure is the distribution of (material) capabilities across units, which is also a system-wide concept. The distribution of capabilities across systems, determines the polarity of the system. In other words if the distribution of capabilities is concentrated in one state, the system can be characterized as unipolar. Any change in this distribution, say with the rise of another power with an equal level of capabilities, would also be a systemic change, from unipolarity to bipolarity. The number of major powers or the polarity of a system therefore becomes vital (as the only explanatory variable) and changes in the distribution of capabilities become changes of system (therefore, only the major states matter).

1.2 Anarchy as an Ordering Principle

With Waltz's general TIP relatively clear, it is now worthwhile to specifically examine how Waltz employs the market-firm analogy in his approach and how his arguments are derived from this analogy. One of the most significant ways in which microeconomic analysis is employed by Waltz is with his exploration of anarchy as an ordering principle. For Waltz, the problem was how to conceive of structure as an organizing principle in the face of anarchy at the international level of relations. As Waltz notes, "The problem is this: how to conceive of an

¹⁵ Waltz contends that a self-help system induces states to create balances of power to preserve security. As Waltz notes, power is a means and not an end and power may or may not serve the end of seeking security. It is the strong that are feared and bandwagoning could result in preventative attacks. Thus, states balance behavior and do not in fact maximize power (although this assertion is commonly linked to neorealism) Waltz, p.127. Waltz simply notes that at a minimum states seek their preservation and at a maximum universal domination. Waltz, p.117. Keohane has noted some problems with the latter argument, contending that it is incompatible with balance of

order without an orderer and of organizational effects where formal organization is lacking."¹⁶ The answer for Waltz was found in microeconomic theory in the analogy of the market and the firm. Microeconomic theory, according to Waltz, provides the perfect explanation of how "self-interested acts and interactions of individual units" such as firms spontaneously create order.¹⁷ Namely, firms, through pursuing their own self-interested goals of survival and profit maximization spontaneously generate the market.¹⁸ The market, therefore, is individualist in its origins, "spontaneously generated and unintended."¹⁹ As Waltz notes, "From the coaction of like units emerges a structure that affects and constrains all of them. Once formed, a market becomes a force in itself, and a force that the constituent units acting singly or in small numbers cannot control. Instead, in lesser or greater degree as market conditions vary, the creators become the creatures of the market that their activity gave rise to."²⁰ The market therefore, although individualist in origin, becomes an entity in itself and constrains the behavior of the firms within it. According to Waltz, firms are induced by market forces to increase their efficiency and competitiveness or suffer the consequences. Therefore, as Waltz puts it, "The market rewards some with high profits and assigns others to bankruptcy."²¹

For Waltz, the same microeconomic logic can be applied to international political structures. International political structures, like markets are individualist in origin. States pursue their own self-oriented goals like firms and in the process spontaneously generate anarchy as an ordering principle. The formation of anarchy as an ordering principle, again, like the market is an unintended consequence of the coaction of the units within the system, pursuing their own individual goals. In microeconomics, Waltz notes that assumptions are made, which abstract

power theory, see Robert O. Keohane, "Theory of World Politics: Structural Realism and Beyond," In Robert O. Keohane eds. *Neorealism and its Critics*, New York: Columbia University Press, pp.173-74.

¹⁶ Waltz, p.82.

¹⁷ Waltz, p.82.

¹⁸ For Waltz, this is an assumption and not necessarily a depiction of reality. Such assumptions are instrumental for abstraction and the construction of theory. Waltz, pp.82-83.

¹⁹ Waltz, p.83.

²⁰ Waltz, p.83.

from reality (for the purposes of constructing theory)--assumptions which hold that firms are profit-maximizers, concerned ultimately with their own survival and efficiency. Waltz correspondingly extends this logic into the realm of international relations and assumes that states seek survival.²² For states, survival is the foremost goal and the prerequisite to any other possible goals. This is because under anarchy, the security of states is not guaranteed and therefore survival becomes the most important goal and must be considered before any other goals can be pursued. The international system, according to Waltz induces states to be concerned about their own survival much like the market induces firms to be concerned about their competitiveness and efficiency.²³ Waltz does allow for states to pursue other goals and even contends that some states will value other goals more highly than that of basic survival. For Waltz, however, those states which fail to conform to successful practices like firms, will fall by the wayside, the equivalence of bankruptcy for firms that fail to achieve efficiency. As Waltz notes, "To say that 'the structure selects' means simply that those who conform to accepted and successful practices more often rise to the top and are likelier to stay there."²⁴ Again, Waltz emphatically notes that

some states may persistently seek goals that they value more highly than survival; they may, for example prefer amalgamation with other states to their own survival in form. It [the assumption of survival] allows for the fact that in pursuit of its security no state will act with perfect knowledge and wisdom...Some systems have high requirements for their functioning...Other systems have medium requirements...Competitive economic and international political systems work differently. Out of the interactions of their parts they [states] develop structures that reward or punish behavior that conforms more or less nearly to what is required of one who wishes to succeed in the system...One may behave as

²¹ Waltz, p.84.

²² Waltz, p.85.

²³ Waltz, pp.85-86.

²⁴ Waltz, p.86.

one likes to [but] [p]atterns of behavior nevertheless emerge, and they derive from the structural constraints of the system.²⁵

1.3 Characteristics of the Units

When Waltz is dealing with the second component of his TIP or the second component of his conception of structure, he again applies the market-firm analogy. His second component of structure deals with the character of the units of the system and the differentiation (or lack thereof) of their functions. For Waltz, the internal dynamics of the units being analyzed simply do not matter because the functions of these units are alike. Waltz poses two questions for readers regarding this argument and both questions are answered using logic derived from microeconomics. The questions are "Why should states be taken as the units of the system?" and "Given a wide variety of states, how can one call them 'like units'?"²⁶

The first question is answered using a comparison placing the firm in the context of the market. Within the market structure, there are, of course, various different actors. However, it is the firms that are the most important actors. More significantly, it is the number of significant firms in the marketplace that matter in microeconomic analysis as the "structure of a market is defined by the number of firms competing" in the market.²⁷ Therefore, when there is only one major firm in a market, the market could be characterized as being a monopoly--when there are two major firms a duopoly and so forth, down to levels of perfect and pure competition. Given the fact that microeconomists have been able to construct fairly sound economic theory with the firm as their basis of analysis, Waltz contends that an equally strong if not stronger case can be made for states under anarchy. Non-state actors and non-firm/economic actors often play a role in international relations and in economics, however, this should not inhibit the development of theory and does not mean that states and firms respectively are still not the main actors within

²⁵ Waltz, p.86.

²⁶ Waltz, p.87.

²⁷ Waltz, p.88.

their systems. As Waltz observes, "Firms interpenetrate, merge, and buy each other up at a merry pace. Moreover, firms are constantly threatened and regulated by, shall we say, 'nonfirm' actors. The market structure of parts of an economy may move from a wider to a narrower competition or may move in the opposite direction, but whatever the extent and the frequency of change, market structures, generated by the interaction of firms, are defined in terms of them."²⁸ Like these firms in the marketplace, states--more specifically, powerful states are the most important actors in the international system.

To answer the second question of how states could be perceived as like units given the apparent differences between them, Waltz again extends the logic of the market-firm analogy. For Waltz, states, like firms are alike in the functions that they perform. This is how they can be grouped together in a single category. As Waltz puts it, "The differences are of capability, not of function. States perform or try to perform tasks, most of which are common to all of them; the ends they aspire to are similar."²⁹

1.4 The Distribution of Capabilities

This leads to how Waltz employs the market-firm analogy in his final component of structure, the distribution of capabilities across the system. For Waltz, although the units within anarchic systems (states) do not differ in terms of their functions, they do differ in terms of their relative capabilities in performing similar tasks. According to Waltz, within an international system, states are placed differently with regards to their capabilities or powers. As Waltz, emphasizes, "the distribution of capabilities is not a unit attribute, but rather a system-wide concept."³⁰ The manner in which Waltz comes to these conclusions in the construction of his theory is again on the basis of the market-firm analogy. In economics, market structures change in accordance to changes in the number of major firms within the market, not through any

²⁸ Waltz, p.88.

²⁹ Waltz, p.91.

³⁰ Waltz, p.93.

changes within the internal dynamics of firms. Thus, as noted before, markets can be defined as monopolies, duopolies and oligopolies down through to perfect competition (when there are no inequalities and firms of equal size compete under perfect conditions). As Waltz observes, "Both firms and states are like units. Through all of their variations in form, firms share certain qualities: They are self-regarding units that, within governmentally imposed limits, decide for themselves how to cope with their environment and just how to work for their ends. Variation of structure is introduced, not through differences in the character and function of units, but only through distinctions made among them according to their capabilities."³¹ For Waltz then, this is the only unit attribute (which is a system-wide one) that matters and factors such as ideology can be ignored. According to Waltz, other factors such as the grouping of states within a given system, in terms of alliances can also be ignored for similar reasons. This is because, again, it is only the number of major powers within the system, defined in terms of their relative capabilities that matter. Thus, even if states form alliances and groups of alliances, the polarity of the system still remains unchanged. Drawing on the market-firm analogy, Waltz makes the following crucial assertions, "Market structure is defined by counting firms; international-political structure, by counting states. In the counting, distinctions are only made according to capabilities."³²

On the basis of this logic, Waltz deductively comes to the conclusion that small-number systems (those with fewer numbers of states) are more stable and thus more preferable. This is because if variation of structure results from differences in the capabilities of units across the system, then the number of powerful units within a given system becomes an important explanatory variable.³³ In a system of perfect competition, in which there are thousands of equally capable competitors, Waltz notes that the "tyranny of small decisions" reigns. All of the competitors in such economic situations, through their collective competition cause collectively

³¹ Waltz, p.93.

³² Waltz, p.94. For a similar argument, also see Waltz, 1979, p.132.

³³ Waltz, 1979, p.133.

unfavorable results (from the perspective of the firm)--the lowering of prices and therefore profit margins. In such a system, with so many competitors, firms are forced to look internally to maximize efficiency and cannot be concerned with the actions of others. As Waltz notes, "Since anybody's decision makes only an infinitesimal difference in the total that all will produce, the independent variables are inaccessible to those in the market...Unable to affect the market, each farmer is free to ignore competitors. Because the market dominates, farmers individually have to consider only how to plan and conduct their own operations."³⁴ In more common situations however, where there are a small number of major competitors within the system, action cannot be taken without regard for the action of other competitors and the effects that their actions will have on their competitors. Thus, in these situations it is not only market forces, which are of concern and the strategic positioning within the market. Rather, market constraints, in addition to the impact that other competitors have on the market have to be considered. As Waltz puts it, "States, especially the big ones, are like major corporations. They are at once limited by their situations and able to act to affect them."³⁵ For instance, in oligopolistic markets, the market and the competitors exercise certain controls and influences, but in reality, neither exercise total control. On the basis of this analysis, Waltz concludes that by "comparing nations and corporations, the elusive notion of the national interest is made clear."³⁶ This again leads Waltz to arguments noted earlier about how firms seek to maximize profits and states correspondingly seek survival. As Waltz notes, "Major firms are in a self-help situation, with their survival depending on their own efforts within limits established by law. Insofar as they are in a self-help situation, survival outranks profit as a goal, since survival is a prerequisite to the achievement of

³⁴ Waltz, 1979, p.133.

³⁵ Waltz, 1979, p.134.

³⁶ Waltz, 1979, p.134.

other ends."³⁷ Similarly Waltz contends that states first and foremost are concerned with their security and must meet these needs first before any other goals are considered.

1.5 Relative Gains

This depiction of how states are first primarily concerned for their security leads Waltz to make his argument concerning relative gains. Waltz notes that relative gains, therefore, "may be more important than absolute ones because one's gain measured against that of others affects the ability to shift for oneself."³⁸ Therefore, survival is the most important end and because of this, relative gains considerations become important. If a firm desires to maximize profits in the present and in the future then the issue of relative gains, according to Waltz, cannot be ignored. This is because according to Waltz, the "relative strength of firms changes over time in ways that cannot be foreseen...If possible, one must resist accepting smaller markets in return for larger profits because 'the potentiality of renewed warfare always exists.'"³⁹ Therefore, "like nations, oligopolistic firms must be more concerned with relative strength than with absolute advantage."⁴⁰ Thus, states, just like firms, are primarily concerned with how possible gains are to be divided. This is because more gains achieved by one cooperating party could come back to harm the other cooperating party(ies) if there is renewed conflict in the future. For Waltz, then, the issue of relative gains, derived from the market-firm analogy in international relations, is a major impediment to cooperation and limits the cooperation of states more generally.⁴¹

³⁷ Waltz, 1979, p.134.

³⁸ Waltz, 1979, p.134.

³⁹ Waltz, p.102, William Fellner, *Competition Among the Few*, New York: Alfred A. Knopf 1949, p.177 quoted by Waltz.

⁴⁰ Waltz, p.102.

⁴¹ Waltz, pp.102-103. Some analysts have also noted Waltz's use of microeconomic analogy to the balance of power. These links, however, are not explicitly drawn out by Waltz and have been inferred in the context of other arguments. When Waltz specifically deals with the matter of balance of power in his book (latter part of chapter six) the links with the market-firm analogy and microeconomics are not explicitly drawn out compared to what he did when discussing his three components of structure and the relative gains argument. For more information see, Buzan et al., p.178.

CHAPTER II The Internal Inconsistencies and Overlooked Arguments with Waltz

So far, it should be fairly clear that in essence, Waltz's whole argument, is derived from the market-firm analogy or from microeconomics more generally. Waltz employs the market-firm analogy to determine his three components of structure in international political systems and also derives his relative gains argument from the market-firm analogy. Waltz's use of the market-firm analogy, however, as it will be discussed in this chapter, has a number of internal inconsistencies. The purpose of this chapter is to introduce some key and important problems with Waltz's TIP. The chapter will reveal that there are three main internal inconsistencies with Waltz's work and one main argument which is overlooked. Waltz's theory, as presented in the last chapter is inconsistent in the use of its microeconomic logic. This is with the punishment of irrational actors, the nature of systems and balancing theory. It will also be demonstrated below that Waltz's approach unjustifiably excludes in its analysis the phenomenon of what has been labeled here, strategic mergers. The manner in which these problems will be resolved thus will become the main task of the next chapter where the theory of metarealism is presented. Some of the problems, which will be discussed in this chapter, have been well noted by some critics and analysts before while others have not.⁴²

2.1 The Punishment of 'Irrational' Actors

The first major internal inconsistency with Waltz's work has been well documented and commented on by various analysts. In short, Waltz tries to have his cake and eat it too when it comes to the behavior of states under conditions of anarchy. The problem lies with Waltz's assumption that states seek survival under anarchy and will behave correspondingly--paying

⁴² The first internal inconsistency noted here has been well documented, however, the other internal inconsistencies noted here in this chapter, to the best of my knowledge, have not been picked up on by any other analysts. For information related to this chapter, concerning criticisms of Waltz's work, see for instance Paul Schroder, "Historical Reality vs. Neorealist Theory," *International Security* Vol.19 No.1, Summer 1994, John Gerard Ruggie, "Continuity and Transformation in the World Polity: Toward a Neorealist Synthesis," and Richard

attention to relative gains, balancing behavior, military emulation and foreign policy simulation. On the basis of this Waltz contends that those states that fail to conform to such practices will suffer the consequences. They will "lay themselves open to danger" and "fall by the wayside."⁴³ Waltz, however, cannot reconcile this with comments made in his work in which he admits that the death rate among states is "remarkably low."⁴⁴ Although Waltz does not explicitly assume that states are rational actors,⁴⁵ the assumption is at least implicit in his theory. As Keohane has noted, "I conclude that Waltz does rely on the rationality argument, despite his earlier statement to the contrary."⁴⁶ In this instance then, the use of the market-firm analogy becomes problematic for Waltz. Waltz consistently maintains that if firms do not behave rationally and do not conform to successful practices (driven towards efficiency and profit maximization) they will suffer the consequences, go bankrupt and will not survive.⁴⁷ However, Waltz cannot sustain the analogy in international relations because he concedes that states have not been punished regularly for irrational behavior. States have not fallen by the wayside and Waltz himself can only "think of four states that have met involuntary ends in the last half-century--Estonia, Latvia, Lithuania and Tibet."⁴⁸

The explanation that Waltz gives for this discrepancy has to do with the nature of competition in economic and international systems. Waltz contends that in economic systems, the greater the competition (and number of competitive firms) the more beneficial it is for consumers as prices will go down. As Waltz notes, "The disappearance of the inefficient, forced by the operation of the system, is a condition for the good performance of the economy."⁴⁹ In international relations, however, it is the producers (states) and not the products that are of

Ashley, "The Poverty of Neorealism," In Robert O. Keohane eds. *Neorealism and Its Critics*, New York: Columbia University Press, 1986.

⁴³ Waltz, p.117.

⁴⁴ Waltz, 1979, p.137 and p.95 (p.90 in Keohane).

⁴⁵ Waltz, p.117.

⁴⁶ Keohane, 1986, p.173.

⁴⁷ See Waltz p.108 as well as pp.84, 86.

⁴⁸ Waltz, 1979, p.137.

primary concern. As Waltz puts it, "Economic systems are judged more by the quantity and quality of their products than by the fate of the producers. International political systems are judged more by the fate of the units [states] than by the quantity and quality of their products."⁵⁰ Competition in international politics is not as constructive as competition in the economic realm. For Waltz, this is why historically Social Darwinism became so problematic, because of the costs involved in the process of the struggle (war).⁵¹ In economics then, according to Waltz, big number systems are stabilized if "high death rates are matched by high birth rates."⁵² In international relations, a large number of competitive powers are not attractive because the efficiency/process of competition entails costs rather than gains. Thus, for Waltz, this is why "economists deplore small-number systems because they favor producers at the expense of consumers."⁵³ Instead they favor large systems where competition is more intense because this results in greater economic efficiency and is more beneficial for consumers. Conversely, in international relations therefore, this is why small number systems are more favorable, because they are more stable and beneficial for the fate of the producers or states. This is how Waltz tries to explain the low death rate among states in comparison to economic systems.

2.2 Relative Gains and the Nature of Markets

Waltz's market-firm analogy, therefore breaks down. He is forced to distinguish key differences between economic and international systems. The primary reason that Waltz is forced to make this departure is to salvage what is termed in this paper his 'extreme relative gains' argument⁵⁴ which predicts the improbability of international cooperation (because states

⁴⁹ Waltz, 1979, p.137.

⁵⁰ Waltz, 1979, p.137.

⁵¹ This argument, however, is also problematic because it can not account for why states have not disappeared even after costly wars.

⁵² Waltz, 1979, p.138.

⁵³ Waltz, 1979, p.138.

⁵⁴ This differs from the moderate relative gains argument which holds under metarealism that greater international cooperation can be expected. This will be discussed in greater depth in the third chapter of this essay.

are concerned with their relative positioning and quarrel over the division of possible gains).⁵⁵ Without making this distinction between economic and international systems (noted in the previous section), Waltz cannot make his relative gains argument in the manner which he did (in the extreme form), seemingly derived from microeconomics and the market-firm analogy. This, however is not the case--Waltz's argument is not properly derived from microeconomic logic. Closer examination, reveals that Waltz has to falsely portray the market-firm analogy in order to ensure that his own extreme relative gains arguments can be made.⁵⁶ Waltz's error is that he deviates from pure microeconomic models or theory to make his own extreme relative gains argument. While the error he makes is slight the consequences of this deviation, however are massive. By departing from pure theoretical microeconomic modeling when making claims about relative gains and incorporating factors that are only important outside of pure theoretical economic models (or in 'everyday economics'⁵⁷), Waltz makes a serious mistake with his analogy. Correcting this analogy will have a significant impact on structural neorealism or the version of neorealism presented in this work. What it will mean is that in most instances (small number international systems) relative gains considerations are more moderate than neorealists expect. Before getting to these arguments concerning moderate relative gains however, it is necessary to discuss Waltz's error in greater depth.

Waltz's characterization of economic systems favoring competition because of the beneficial effects of economic competition for the economy and consumers is a necessary condition for him to derive the extreme relative gains arguments from the market-firm analogy (discussed above). This is because only in large-number competitive economic systems, where survival is consistently at stake or threatened in the foreseeable future will extreme relative gains

⁵⁵ Refer back to the previous chapter.

⁵⁶ Perhaps indicating that Waltz had some preconceived notions and ideas about relative gains which he set out to incorporate within his theory.

be of major concern for states.⁵⁸ In such openly competitive systems, the possibility for the renewal of future warfare definitely exists and thus, as Waltz put it, the way in which a gain is divided becomes instrumental.⁵⁹ This inhibits cooperation between firms because the uneven division of gains could come back to haunt the very firms that thought the initial cooperation was beneficial (if that uneven gain is used down the road against the initial cooperating partner). Firms, therefore are more concerned about whether gains will benefit others more than themselves or about their relative positions with other firms. Waltz then correlates this to behavior to the international arena and notes that (extreme) relative gains considerations are key impediments to international cooperation. For Waltz, firms might be too naïve to pay attention to relative gains but these firms will nonetheless pay the price down the road, face bankruptcy after a price war erupts for instance (which, as already demonstrated is false).⁶⁰ The same is true according to Waltz in the international arena and this inhibits cooperation between states.

Waltz's characterization of the market-firm analogy in this instance, is problematic and reveals another internal inconsistency within his work. A number of questions arise with Waltz's use of the market-firm analogy in this instance, which simply are not adequately resolved. In competitive economic systems, if the costs of competition are damaging to the firms' profitability and survival (as to states in international systems) then why would such competition continue in the economic realm (if you are dealing with pure theoretical models instead of 'everyday' type of economics)? Although beneficial to the economy, what is inducing the firms to correspond with their competitive behavior, especially if such competition could put their survival in jeopardy? Waltz's analogy simply does not work here. Just as in international relations, where small-

⁵⁷ By everyday economics, what is meant is economics which factor in consumer interests and the overall benefits to the economy of competitive systems. In pure economic models, this should be irrelevant. See the last paragraph of the previous section for information on how Waltz brings everyday economics into the equation.

⁵⁸ This point, although not in the same context, has also been picked up on by Jeffrey Legro and Andrew Moravcsik. See their article, "Is Andybody Still a Realist?" *International Security* Vol.24 No.2, Fall 1999, p.14.

⁵⁹ Waltz, pp.102-103.

⁶⁰ Waltz, p.102.

number systems are held to be favorable because of the costs of struggle and war, small number systems would be equally advantageous from the viewpoint of the firms. Although as mentioned earlier, economists might deplore small-number economic systems, from the viewpoint of firms, like states, these are the most favorable systems. In pure economic theory then, when dealing with small-number economic systems, firms would not necessarily be concerned with extreme relative gains, as Waltz would have you believe. Their main concern would be to preserve small number systems and to avoid the costs associated with the process of the struggle.⁶¹ When Waltz derived his extreme relative gains argument, he was not referring to these types of pure theoretical economic systems from which most of his theory is derived. Instead he emphasized the role of external factors of how competition is more favorable in economics and how consumer interests play a role.⁶² This, however, is no longer dealing with the common small-number systems (most prevalent in international relations) in pure theoretical terms. If one wants to make comparisons between small-number international systems and economic models, one must use the equivalent model--a small number, pure theoretical economic model that doesn't take into account consumer interests and external factors (especially when theory is constructed at levels of abstraction, when equivalent factors are ignored in international relations and when the rest of the theory is based on pure economic modeling). Waltz does not do this, likely to salvage some type of extreme relative gains⁶³ argument and his argument thus consists of the following erroneous logic:

In economics, firms are concerned with extreme relative gains, as competition is intense. Under these circumstances it is difficult to achieve cooperation and to pursue absolute gains. This is because in economic systems, the process or costs of struggle are more beneficial for

⁶¹ This would also indicate that the death rate of firms in these pure economic systems would also be "remarkably low."

⁶² This is what is meant by how Waltz seemingly links his relative gains argument to the microeconomic logic embedded within the rest of his theory.

consumers and for the economy. In international systems then, states likewise are concerned with extreme relative gains (in keeping with the microeconomic analogy). This assertion then is made a priori and is predetermined from his microeconomic analysis. The microeconomic analogy used by Waltz here, however, assumes that it is the correct analogy. Waltz already noted that the process or costs of struggle are great and unfavorable in international systems. However, he still uses the microeconomic analogy where the costs of struggle are not great and are in fact beneficial (in the everyday economic realm where competition is intense). The correlation between extreme relative gains in his economic model and in the international system then does not follow. The correct economic model would be one where the costs of struggle are equally costly for the firms involved. By stating that the economic costs are beneficial to the economy and to consumer interests, the idea of anarchy is lost as the firms are not operating unrestrained as they would in pure small number economic models or in the small number international arena. The idea of extreme relative gains cannot be inferred from the equivalent economic model where the costs of struggle are equally damaging to the firms involved and are not being encouraged by outside factors. The idea of extreme relative gains thus has no initial basis in small number economic systems.

The inconsistency within Waltz therefore is this; Waltz does recognize the fact that in pure (small number) theoretical market conditions, existing firms would prefer to sustain small number systems. This is because they value their survival, as states do. Firms in pure theoretical economic models would be just as interested to keep entry barriers high and to continue their existence. In pure economic theoretical models, economic competition or the process of the struggle is equally as costly and firms will have little concern for consumers (over their own survival). As Waltz himself notes, "Economic stability increases as oligopolistic sectors narrow. Other effects also follow. The likelihood of price wars lessens; the affairs of the competitors

⁶³ It will be argued later that his arguments do apply in other situations or systems, namely--large number

become more orderly because they can more easily be managed."⁶⁴ In fact, Waltz goes on to list 9 different reasons why this is the case. He contends that the main point to be noted is that "As collusion and bargaining become easier, the fortunes of firms and the orderliness of their markets are promoted; and collusion and bargaining become easier as the number of parties declines."⁶⁵ From such a situation, Waltz's extreme relative gains argument cannot be derived. In markets, where the number of actors are low, Waltz himself notes that collaboration and bargaining is promoted. It then becomes clear why Waltz introduces everyday economics, which includes external emphasis on economic competition and consumer interests instead of pure economics to characterize relative gains. This is the only way he can make his extreme relative gains argument while linking the idea of relative gains to the micro-economic logic of the rest of his theory.⁶⁶ In other words when Waltz was developing the theoretical components of his argument, namely his

systems--the kind I think he is referring to when making his extreme relative gains argument)

⁶⁴ Waltz, 1979, p.135.

⁶⁵ Waltz, 1979, p.135. Also see pp.173-74 for related arguments. Gaddis has also picked up on how Waltz perceived international systems to be cooperative when there are less powers in the system. See Gaddis, 1992/1993, p.33-34. A good example where collaboration and bargaining is facilitated in small number oligopolistic markets (in this case assume that the market is the Arab world--otherwise the setting might be in a large or loose oligopolistic system), is OPEC. OPEC members are generally very cooperative in their arrangements and go to tremendous lengths to avoid costly price wars. OPEC members seem only moderately concerned with relative gains vis-à-vis other OPEC members as long as the positive effects of cooperation are attained. Thus, as Waltz himself seems to admit, cooperation is facilitated in small number oligopolistic markets. This argument will be drawn out again later in this essay.

⁶⁶ This is also done, as noted earlier to address the point of why states do not die. However, the death rate of firms, in (small number) pure economic theoretical models could be expected to be as limited as that of states in small number systems. In fact, as it will be discussed later in this essay, it has been in periods where Waltz's extreme relative gains argument applies the most, in large number international systems (corresponding to large number competitive economic systems) that the death rates of states have been high (in loose oligopolies--this concept will be introduced later. Waltz's original, extreme relative gains arguments apply in these types of markets or international systems, although these systems generally tend to be less common). It is these periods, namely surrounding WWI and WWII when states start disappearing and get amalgamated into larger entities (Nazi occupation and the expansion of the Soviet Union etc.). Although these states often reappear down the line in some manifestation, this should be taken to be a separate issue as the new state which emerges, is often under new leadership and government with the name of the state being the only connecting factor. In economics, when firms disappear, it is not a good economic idea for firms to adopt the name of previous firms which collapsed and this likely will violate some type of intellectual property rights. The same, though is not the case in international relations. Historical nostalgia compels new governments to retain former state names but these states can be considered new entities. Thus the states which were militarily defeated by the Nazis in WWII died, fell by the wayside and suffered the consequences. Although after Germany was defeated in WWII the formerly occupied states were liberated, the state which emerged after occupation should be considered a new entity (despite the name of the state being the same and some government officials returning) with the previous entity already dead. This should especially be the case with the Soviet Union, with the re-emergence of states such as Estonia, Latvia, and Lithuania. When states are militarily defeated they die and the number of actors (maybe even the polarity depending on the significance of the state) within the system also changes when this happens.

arguments concerning the behavior that is induced under conditions of anarchy, especially relative gains, he did not use the pure (small number) economic model and its predictions, although he falsely portrays he did with his continuous comments linking oligopolies with relative gains.⁶⁷ The reason behind this is because the only way he could have made his extreme relative gains argument is if he used the alternate model that takes into account external factors such as the performance of the economy and consumer interests (when Waltz contends that he is using the oligopolistic model, he is ambiguous on such points) and is more competitive.⁶⁸ However, relatively small number international systems (when the number of great powers is relatively limited)⁶⁹ which Waltz refers to in his analysis as being generally the most common do not correspond with the highly competitive consumer economic model from which he derived his extreme relative gains argument. The more appropriate model of comparison (in most instances, important exceptions, where Waltz's extreme relative gains argument would apply will be discussed later in the work) is the small number pure economic model in which he himself admits collusion, bargaining, order and stability are facilitated. From this model the extreme relative gains argument cannot be inferred. Thus, Waltz illogically makes the connection between his own TIP and the placement of extreme relative gains within in it and the role of relative gains in economic models. This is the second major inconsistency with Waltz's work and proves that his extreme relative gains argument, purportedly based on a coherent market-firm

⁶⁷ Waltz contends that the relative gains argument is derived from oligopolistic market situations (Waltz, 1979, p.102) but as was demonstrated earlier, this does not correspond with his explanation of why states do not die while firms do. Competition between firms is fierce because of consumer demands, causing death rates to be high. However in oligopolistic markets Waltz contends that the fortunes of firms are promoted and thus their death rates are not as high (Waltz, 1979, p.135).

⁶⁸ Waltz, 1979, p.134-35 tries to elaborate on these points but still ultimately is unclear about these arguments. He contends that relative gains considerations will matter in oligopolistic markets as large firms unlike under situations of perfect competition will have to be concerned about the actions of others in addition to the constraints induced by the market. Thus relative gains may be more preferable than absolute gains. However, the range of powerful competitors within oligopolistic markets becomes instrumental. The manner in which Waltz derives his relative gains argument is likely at the large number end of the scale where competition is the most intense (the one which does not correspond to international relations most of the time, Waltz p.132). The relative gains arguments simply cannot be inferred from the situation in which "the fortunes of firms...are promoted" under stable conditions when bargaining and collaboration are made more likely.

⁶⁹ The exact implications and definitions of this specific terminology will be discussed in the next chapter.

analogy is likely flawed. The correct use of the market-firm analogy as it will be discussed in the next chapter of this paper would point to another way of perceiving the relative gains phenomenon.⁷⁰

Waltz himself was ambivalent about this relationship between his own model and his use of the market-firm analogy. At times he recognized that his theory would make certain phenomenon difficult to explain and ultimately could not get around these problems. At various points Waltz essentially concedes that the logical derivation of relative gains from the market-firm analogy is problematic. This can be seen when Waltz makes reference to the phenomenon of integration at various points. For instance when noting what requirements are necessary for his theory to work he observes that most but not all states need to be concerned with preserving themselves. As Waltz notes, "Obviously, the system won't work if all states lose interest in preserving themselves. It will, however, continue to work if some states do, while others do not, choose to lose their political identities, say through amalgamation."⁷¹ Waltz then does recognize as discussed earlier that some states will not be concerned with preserving themselves and may choose to lose their political identities. However, when coupled with one of the previous logical inconsistencies in Waltz's work regarding the low death rate of states, serious questions arise. If these states are choosing to lose their political identities through amalgamation and they are not and will not be punished for not conforming to 'rational' behavior, then what precisely is going on? Within this process of political amalgamation, which Waltz refers to, relative gains between the parties that are integrating could not really have played a role because they have amalgamated and lost their political identities. Waltz therefore admits that there are instances where relative gains do not play a role. This becomes even more important and puzzling given

⁷⁰ If this inconsistency is still unclear with Waltz, it will become clear later when some of the implications of Waltz's inconsistencies are discussed in the next chapter and possible solutions.

⁷¹ Waltz, pp.117-118.

the other inconsistency in Waltz's work, namely about how such states, which amalgamate, will not suffer any consequences like firms experience bankruptcy.⁷²

2.3 Relative Gains and Balancing Theory

The final internal inconsistency with Waltz also has to do with the compatibility of relative gains and balancing theory. Waltz links the balance of power to his theory through the self-help principle. For Waltz, because states are primarily concerned with their own survival first and foremost, they will engage in balancing behavior, whether they desire to do so or not. As Waltz notes, "A self-help system is one in which those who do not help themselves, or who do so less effectively than others, will fail to prosper, will lay themselves open to dangers, will suffer. Fear of such unwanted consequences stimulates states to behave in ways that tend toward the creation of balances of power."⁷³ For Waltz then, states attempt to realize these goals of survival both internally (improve economic and military capabilities) and externally (balance of power, alliance formation), both of which are induced under anarchic self-help conditions. Therefore, for Waltz, the balance of power arises from the assumed behavior of states--survival. Drawing on the economic analogy again, Waltz notes that "Balance of power theory is microtheory precisely in the economists sense. The system, like a market in economics, is made by the actions and interactions of its units, and the theory is based on assumptions about their behavior."⁷⁴ As the distribution of capabilities or the polarity of systems change, then balances of power can be expected to change. This is the way in which Waltz explains the "observed regularities" in the international system.⁷⁵

It has already been demonstrated that the manner in which Waltz derived his relative gains argument is flawed and that the actual oligopolistic market which Waltz refers (and

⁷² Waltz makes similar comments on p.86. This argument will be picked up on in the section concerning strategic mergers.

⁷³ Waltz, 1979, p.118.

⁷⁴ Waltz, 1979, p.118.

⁷⁵ Waltz, p.115.

generally correlates the closest to the international system) to and acknowledges, is more conducive to facilitating cooperation and collective bargaining.⁷⁶ From this system it is difficult to derive the extreme relative gains argument because the major parties, with their survival essentially ensured in a stable environment, can pursue collective gains.⁷⁷ As neoliberals have been arguing, in favorable international contexts, where the possibility of mutual gains exist, these gains will be pursued because states, like firms are utility maximizers.⁷⁸ In contexts where collaboration and bargaining are favorable there is ample empirical evidence available to suggest that collective gains are possible. If Waltz was wrong in the manner in which he derived his relative gains argument, and possible absolute gains are even suggested given the nature of pure economic market models and their corresponding link in international systems, does this mean that the neoliberals have come closer to winning the debate? The answer is likely still no because as it will be discussed in the next chapter, moderate relative gains do play a role even though bargaining and collaboration is facilitated in small-number systems. The phenomenon of balancing might still exist but there is no necessary link to the pure small number systems referred to earlier where cooperation and collaboration are facilitated. The possibility therefore exists of an alternative explanation. Which states are bargaining and collaborating in stable international settings and for what purposes? Does balancing actually exist and is this where neorealists should spend most of their attention?

The answer to these questions will be simple once the structure of international systems and the nature of international cooperation is examined more carefully. This will be done in the third chapter of this essay (first section). This analysis will reveal that the idea of balancing

⁷⁶ In contrast to the market situation which Waltz falsely correlates to international relations.

⁷⁷ As Buzan et al. note, Waltz also fails to recognize how the differentiation of products provides competitive relief in the market place. For more information on this argument see Buzan et al., p.40.

⁷⁸ Robert Axelrod and Robert O. Keohane, "Achieving Cooperation Under Anarchy: Strategies and Institutions," and Robert O. Keohane, "Institutional Theory and the Realist Challenge After the Cold War," In David A. Baldwin eds. *Neorealism and Neoliberalism: The Contemporary Debate*, New York: Columbia University Press, 1993.

behavior as it has come to be known has been inappropriately linked to structural neorealism as it has little connection to the microeconomic logic of structural neorealism. The more appropriate connection will be revealed after examining the true nature of economic markets and its correspondence in the international arena. The analysis in the third chapter will demonstrate that the ideas of balancing and their link to structural explanations (derived from microeconomics) need to be re-formulated or thrown out all together in certain instances.⁷⁹ This is because, as it will be shown, cooperation and collusion are more commonplace in the international arena than is realized by most structural neorealists and relative gains considerations are more moderate (this is why neoliberals still are not right). First, however, some final arguments concerning strategic mergers, which are overlooked by Waltz will need to be examined.

2.4 Strategic Mergers Overlooked

An important argument, which Waltz overlooks in his TIP, is related to what are termed strategic mergers in economics. These notions concerning strategic mergers are very important because as will be demonstrated below, they could have significant potential consequences for Waltz's TIP. Waltz contends that a system is composed of a structure and the interactions of the parts within that system. The interactions that Waltz refers to are interstate interactions versus more unit-level associated interhuman interactions. This has led some analysts to contend that Waltz was fundamentally confused about the differences between system and structure. Waltz, in his attempt to avoid reductionism, sacrificed the creation of real systemic theory, which includes interactions at the interhuman level (the totality of human interaction).⁸⁰ The arguments against reductionism though are decisive and more work needs to be done to demonstrate whether interactions at the interhuman level can be adequately incorporated in (non-reductionist) theoretical enterprises. Waltz's response, therefore is understandable. Criticisms of this nature

⁷⁹ As it will be discussed later, Waltz's arguments concerning balancing and extreme relative gains likely do apply in other circumstances.

⁸⁰ Buzan et al., pp.28-30.

thus are largely semantics. Where Waltz can be criticized however is in the realm of interstate (or interfirm) interactions. Waltz ignores substantial information⁸¹ in the sphere of interstate interactions and this will have substantial explanatory effects on his theory. For instance, in defining market structures, Waltz contends that

information about the particular quality of firms is not called for, nor is information about their interactions, short of the point at which the formal merger of firms significantly reduces their number. In the definition of market structure, firms are not identified and their interactions are not described. To take the quality of firms and the nature of their interactions as being parts of market structure would be to say that whether a sector of an economy is oligopolistic or not depends on how the firms are organized internally and how they deal with one another, rather than simply on how many major firms coexist.⁸²

Again, earlier in the essay Waltz makes a series of related comments concerning the behavior of firms when he notes that,

Firms interpenetrate, merge and buy each other up at a merry pace. Moreover, firms are constantly threatened and regulated by, shall we say 'nonfirm' actors. Some governments encourage concentration; others work to prevent it. The market structure of parts of an economy may move from a wider to a narrower competition or may move in the opposite direction, but whatever the extent and the frequency of change, market structures, generated by the interaction of firms, are defined in terms of them.⁸³

There is no disputing Waltz that markets are defined in terms of firms. This point is clear.

However, Waltz overlooks the phenomenon that he notes as the "interaction of firms." In the latter quote Waltz admits that market structures are generated by the interaction of firms. From his definition of structure, which was discussed earlier, it is also clear that the interactions of the parts are important, for him, interstate or interfirm interaction. From this it becomes mysterious why Waltz in the previous block quotation insists that "information [knowledge] about their interactions" is "not called for." If interfirm interaction is a crucial component for his definition of a system and if market structures are individualist in origin, generated by the interaction of

⁸¹ Information in this section does not refer to information in the hard sense but instead can be perceived of as being interchangeable with knowledge.

firms, then certain information or knowledge about such interaction becomes instrumental. There is no reason why the balance of power as represented by Waltz, should be the only major interaction between states (firms) which is deemed important. In the very same block of sentences (quoted above) oddly enough, Waltz overlooks another significant form of interfirm (and what would correspond as interstate behavior--this will be discussed later) interaction, mergers. Firms, as Waltz notes, are consistently merging at a "merry pace." If this activity of mergers has nothing to do with the internal dynamics within a firm or with information concerning the "quality of a firm" then there is no justifiable reason to exclude an analysis of this behavior when exploring the market-firm analogy. The phenomenon of the strategic merger, in other words can be considered to be an important form of interfirm/interstate interaction even if such a merger does not significantly alter the structure of the system or the number of major actors within it.⁸⁴

This, however, is precisely what Waltz does, to the detriment of his theory⁸⁵ and it all has to do with his narrow conception of self-help or survival. To recap what Waltz had to say about this, he notes how in "microtheory, whether of international politics or of economics, the motivation of the actors is assumed rather than realistically described. I assume that states seek to ensure their survival...Survival is a prerequisite to achieving any goals that states may have."⁸⁶ Thus, as already noted on several occasions in this essay, for Waltz, states exist in a system of self-help and first and foremost work to ensure their survival. The same is true for Waltz of firms in the marketplace, ensuring their survival first and foremost before any other goals are

⁸² Waltz, p.94.

⁸³ Waltz, p.88.

⁸⁴ Although such mergers could very well change the structure of the system as even Waltz acknowledges when he says, "short of the point at which the formal merger of firms significantly reduces their number." Waltz, p.94. These situations nonetheless even if they do exist are not explored by Waltz. Under this logic, balancing between states also should not be examined because it does not alter the polarity or nature of the system.

⁸⁵ Especially pertaining to the inability to explain political integration, one of the two major anomalies mentioned at the outset. Incorporating the idea of the strategic merger will therefore offer a more complete theory of international politics.

⁸⁶ Waltz, p.85.

contemplated. Thus, profit-maximization and efficiency become instrumental for firms for purposes of survival to ensure that they don't fall by the wayside, just as military emulation, balance of power and likeness in foreign policy become important for states. As Waltz notes, "whether firms survive and prosper depends on their own efforts...As economic entities, however, they live in a self-help world. All want to increase their profits. If they run undue risks in the effort to do so, they must expect to suffer the consequences."⁸⁷

For Waltz, a lot hinges on what he precisely means by survival. This, he never problematizes; survival is regarded apparently as self-explanatory matter. The matter, however, is not so self-explanatory and requires much more attention. Waltz derives from the fact that firms seek survival in the market place Waltz derives that states seek survival under anarchy. From the fact that microeconomics, however, the matter of survival is not so simple and clear cut. There are in fact, many manifestations of survival. Although there is no disputing that firms are the main units of analysis in the market place and states under anarchy, when it comes to a term such as survival, some attention has to be paid to what exactly is doing the surviving and in what ways survival can be ascertained. Take certain forms of mergers for instance. With some mergers, both companies names will be kept and the entity that was the firm and its activities still exists in one way or another (although some workers might get laid off).⁸⁸ How can such interfirm interaction be explained in the context of survival? Has Daimler survived or has Chrysler survived? Waltz ignores the possibility that survival has many manifestations and that the primary goal of survival can be met in multiple ways by firms and correspondingly by states. There are other ways to accomplish these ends. This will have substantial implications for Waltz's TIP. Of assumptions, Waltz contends that it must be asked "not whether it is true but

⁸⁷ Waltz, p.102.

⁸⁸ Also, are shareholders really concerned about survival or about profit? If mergers will increase profits then survival for the sake of survival no longer becomes an issue.

whether it is the most sensible and useful one that can be made."⁸⁹ Waltz's assumption is neither the most sensible nor the most useful, as it leads to significant information about interfirm interaction being ignored. More attention to these issues will solve some of the problems with Waltz's TIP and do much to account for previously unexplainable (by structural neorealism) behavior in international relations.

⁸⁹ Waltz, 1979, p.91.

CHAPTER III Metarealism as a Theory of International Politics

The primary purpose of this chapter is to tie together the ideas developed and problems discussed with Waltz in the two previous chapters by presenting the theory of metarealism. This theory will attempt to resolve the main problems with Waltz's work and in doing so will also help account for the two empirical anomalies that structural neorealists have not been able to deal with (thus it is my opinion that the problems noted in Waltz's theory are the very problems which make it difficult to explain the two anomalies at issue here). The theory which will be formulated has two main components. One concerns the structure of markets in microeconomics and in international relations and the other concerns the idea of strategic mergers in microeconomics and international relations. The first component of the theory will hold that international systems, like microeconomic systems could be mainly characterized as either loose or tight oligopolies. With these two different systems, come different expectations of state behavior. This reformulation makes metarealism a more accurate microeconomic theory of international relations and also helps deal with the Cold War anomaly.

The other main focus of this chapter will be with the idea of strategic mergers. It will be argued here that the strategic merger in microeconomics can in many ways be compared to political integration at the international level. This section then will set up the final chapter of this paper which is a case study of developments in the EU security sphere. This chapter will close off by recapping the theory of metarealism and by putting the theory back into Waltz's terms in the TIP.

3.1 Loose and Tight Oligopolies

With the internal inconsistencies and arguments that Waltz has overlooked in his own work apparent, the theory of metarealism will now be introduced to solve some of these problems and to offer a more complete explanatory account of international politics. The

inconsistencies and overlooked arguments with Waltz will be used as a launch pad to accomplish this task. The first major reformulation of Waltz's theory will be with the structure of markets in microeconomics and correspondingly in the international arena (the international system). It will be argued in this section that Waltz failed to make important distinctions between loose and tight oligopolistic markets.

As mentioned earlier Waltz illogically derived his extreme relative gains argument from a faulty analysis of the market-firm analogy and thus did not distinguish between different types of oligopolistic markets. This has major implications for his theory, and this mistake will be corrected first. Microeconomists not only distinguish between markets in which there is pure competition, oligopolistic competition and monopolistic competition,⁹⁰ but also clearly distinguish two major types of oligopolistic markets. These are tight oligopolies and loose oligopolies. Within tight oligopolies, the leading four firms or so have control of 60-100 percent of the market and collaboration among them is relatively easy to achieve (to fix prices).⁹¹ Loose oligopolies on the other hand are where the leading four firms combined have approximately 40 percent or less of the market share and collusion and collaboration between them is very difficult (to fix prices).⁹²

There are two categories of market structure above and below this. Below these two levels of oligopoly, there is the situation of monopolistic competition in which many effective competitors control no more than 10 percent of the market and pure competition where over 50

⁹⁰ The reference to monopolistic competition here, although may seem out of place is the correct one. The term monopolistic competition differs greatly from pure monopolistic competition and oligopolistic markets. In a pure monopoly, one firm has perfect market control while in oligopolistic markets there are number of major actors. In monopolistic markets however, there is an even greater range of major of major actors but each does not have more than 10 percent of market share--so perhaps there are 10 major actors with 9 percent each of market share. The market is not a monopoly but is monopolistic in that still, a relatively small group of actors control almost 100 percent of market share when combined. Monopolistic markets are also highly competitive.

⁹¹ William G. Shepherd, *The Economics of Industrial Organization*, New Jersey: Prentice-Hall 1985, p.4. Small number systems such as tight oligopolies facilitate cooperation because it is easier to detect cheaters (although this depends on transparency and information). For more information see Shepherd, pp.238-242.

⁹² Shepherd, p.4.

competitors have negligible market control.⁹³ Above the levels of oligopoly there is the situation of the dominant firm where one firm has control of 50-100 percent of the market and no close rival and pure monopoly where one firm has 100 percent of market share. The levels of effective competition vary greatly between these various forms of market structure. As Shepherd notes, "These last three classes from loose oligopoly on down are all effectively competitive...The other market types will frequently, or usually deviate markedly from that ideal."⁹⁴ Furthermore, as Shepherd also notes, "Each market has a structure at each point in time. The structure usually influences the behavior of the firms as they compete and/or collude with each other."⁹⁵ Thus, in tight oligopolies, competition is very limited. Firms tend to cooperate with each other and set prices collusively rather than set prices competitively. Correspondingly, competition is also extremely limited when there is a dominant firm or in situations of pure monopoly. To illustrate the difficulties involved in generating competition in tight oligopolies, the following examples can be cited:

economists note that the two rivals will constantly be tempted to collude with each other rather than compete [to maximize profits and thus to ensure their long-term survival and longevity], just as two horse races are more likely to be fixed than 8- or 12-horse races. Most economists say that at least eight or ten comparable firms in each market are needed for competition to be effective. Two firms may be strong rivals, at least some of the time, to make competition effective. But 20 or more equal-sized firms will bring fully competitive results.⁹⁶

⁹³ Shepherd, p.4.

⁹⁴ Shepherd, p.4.

⁹⁵ Shepherd, pp.5-7.

⁹⁶ Shepherd, p.9. For related and more mathematically derived arguments concerning oligopolies also see Donald A. Hay and Derek J. Morris, *Industrial Economics: Theory and Evidence*, Oxford: Oxford University Press 1979, ch.5 (who utilize Nash Equilibrium), Margaret E. Slade and Alexis Jacquemin, "Strategic Behavior and Collusion," In George Norman and Manfredi La Manna eds. *The New Industrial Economics: Recent Developments in Industrial Organization, Oligopoly and Game Theory*, Brookfield, Vermont: Edward Elgar 1992, pp.47-66, Alexis Jacquemin, *The New Industrial Organization: Market Forces and Strategic Behavior*, Cambridge: The MIT Press 1987, pp.48-79, F.M. Scherer and David Ross, *Industrial Market Structure and Economic Performance*, Boston: Houghton Mifflin Company 1990, ch.'s 7-8 and Philip W. Bell and Michael P. Todaro, *Economic Theory*, London: Oxford University Press 1969, pp.242-262. At this point it should also be noted that in microeconomics, the debate about the nature of oligopolies is ongoing and there are a variety of alternative accounts than the one offered in this paper. The sources noted above should indicate this to the reader. This account nonetheless remains more accurate than Waltz's.

From this, it is clear that when there only a few major firms within a market, the tendencies will be towards collaboration and cooperation rather than towards competition. As Shepherd astutely notes, "If there are only several firms in the market, they will often wish to collude with one another rather than compete" in order to ensure their longevity and survival. Then three supposedly "competitive firms may, in fact, exert together nearly as much monopoly power as one complete monopolist would."⁹⁷ Competition is certainly possible even in tight oligopolies between two rival firms, but this is the exception rather than the rule. There is more pressure to cooperate and collude to set prices than to engage in costly competition. As Shepherd again notes, "As with these firms, so with the common run of oligopolists: The incentive is to cooperate, not compete... The higher the concentration [in the market] the stronger the incentives and opportunities to cooperate successfully and thus to maximize joint profits."⁹⁸ A clear example of the incentives and tendencies towards cooperation would be the recently exposed Vitamin cartel in Europe.⁹⁹ In this cartel, Roche, BASF, Takeda, Daichi (which control approximately 80 percent of the Vitamin market) and a number of smaller firms, colluded in a massive price-fixing agreement which effectively eliminated competition in the markets for vitamin A, E, B1, B2, B5, B6, C D3, biotin, folic acid, beta carotene and carotinoids.¹⁰⁰ Cartels (organizations created by companies to manage cooperation) are clear indicators which demonstrate that cooperation is most likely to emerge in tight or sometimes even loose oligopolistic markets. In cartels, firms decide to team up together to avoid competition (also to suppress competition from others) and to ensure high profit levels. In such cartels, prices are

⁹⁷ Shepherd, p.10.

⁹⁸ Shepherd, p.59.

⁹⁹ In pure economic models, the cartel would have continued and would not have been subject to external factors which led to the breakdown of this cartel by the EC, for breaking the EU competition law.

¹⁰⁰ The two major companies involved, Roche and BASF were assessed a combined fine close to 800 million euros. For more information see, Pharmafocus News, November 26, 2001 at <http://www.pharmafile.com/Pharmafocus/News/story.asp?sID=2056&m=11>.

fixed and penalties could even be implemented against those that violate price-setting agreements.¹⁰¹

From this brief analysis then, the problems with Waltz are clear. When Waltz was referring to his extreme version of relative gains, he clearly could not have been referring to tight oligopolistic markets, which he himself noted promoted the fortunes of firms and facilitated cooperation and bargaining. Waltz was likely referring to loose oligopolies, where competition between firms is more intense and cooperation is much more difficult (i.e. cooperative price setting). As noted earlier, however, this is not usually the appropriate analogy in small number international systems when the number of great powers often makes the analogy of tight oligopolies more appropriate. In fact, on the basis of the argument thus far concerning tight oligopolies, a case might be made for the neoliberal argument concerning absolute gains. In tight oligopolies where there is clear evidence concerning the formation of cartels, arguments could perhaps be made that the parties involved, in pharmaceutical collusion¹⁰² for instance are concerned primarily with mutual gains.¹⁰³ Some examples concerning the mutuality of interests, shadow of the future and so forth might be searched for to explain that absolute gains are in operation.¹⁰⁴

This, however, is likely not the case, because cooperating parties will still be concerned with the relative positions of their competitors. Thus, the neorealists can be given the benefit of the doubt and it will be held that even in tight oligopolies, in accordance with Grieco's equation, k is always greater than zero where $U = V - k(W - V)$ when U is one's utility function or goal, V is one's absolute gain, W is the other's absolute gain and k is the sensitivity to gaps in absolute

¹⁰¹ Shepherd, p.61.

¹⁰² The collusion between I.G. Farbenindustrie and the Rockefeller pharmaceuticals in the 1930s is a good example.

¹⁰³ OPEC might be a rare example of a cartel or collusion in a loose oligopolistic setting. This is perhaps why historically, OPEC has had many problems with getting compliance on price setting.

¹⁰⁴ See in general Axelrod and Keohane.

gains.¹⁰⁵ Thus, in tight oligopolies, although k is greater than zero, on most occasions, k will usually only be only slightly greater than zero. This is because cooperation and bargaining is much easier to achieve in tight oligopolies. In other words relative gains are more moderate. Thus, in economics and in cartels, k might be, in actuality only at low levels above zero but cooperating parties are still concerned that others might cut prices (or be gaining on them in relative terms) and defect on agreements. They would therefore still be concerned with relative gains in some way. When levels of k are very low, it means that cooperation is easier to achieve. In tight oligopolies, this is the norm. The incentive is to cooperate and collude rather than to compete with rivals to ensure survival. The same is also true for tight oligopolies in international relations, when there are only a few major powers which have a significant share of the distribution of capabilities (the equivalence of market share in economics); all the incentives are to cooperate and collude to ensure survival rather than to compete. In economics, such cooperation is accomplished, as discussed above through collusive price-setting arrangements such as those in pharmaceutical cartels.¹⁰⁶

In international relations this is accomplished through security arrangements and arms control agreements which allow new security technology to develop (to ensure that comparative advantages over others in the system are not lost) but at a controlled pace and in a manner in which those involved can collectively ensure their survival.¹⁰⁷ As Glaser has succinctly noted, "cooperative policies are an important type of self-help."¹⁰⁸ Glaser has come to a similar conclusion when exploring the nature of competition and cooperation in the international arena.

¹⁰⁵ Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism," In David A. Baldwin eds. *Neorealism and Neoliberalism: The Contemporary Debate*, New York: Columbia University Press 1993, p.129. This is reasonable given the general consensus that Grieco basically won the debate against Keohane in the Baldwin book.

¹⁰⁶ The arguments made here in this chapter are somewhat related to an argument made by Robert Powell, "Absolute and Relative Gains in International Relations Theory," *American Political Science Review* Vol. 85 No.4, December 1991, p.1305.

¹⁰⁷ Even within cartels, external price-setting arrangements often do not compromise competitive urges to attain internal efficiency and product development.

Glaser notes that it is just as rational for a state to pursue cooperation rather than to compete and that in fact this can be considered as a part of basic survival or self-help strategies.¹⁰⁹ Just like members of tight oligopolies and those in cartels strive towards avoiding costly price wars, Glaser notes "when uncertain about the outcome of an arms race, which it would like to win, a...state could prefer an arms control agreement that accepted the current military status quo to gambling on prevailing in the arms race."¹¹⁰ Just like a firm in the tight oligopolistic market place which would find it too risky to get into a price war with competitors, a state would find it too risky to be engaged in an arms race (these risks are offset in loose oligopolies because cooperation is much more difficult to attain when there are a range of powerful actors). In loose oligopolies these measures may be attempted, but there is a tendency to revert back into competition, and to engage at some point or another in price wars (equivalent to arms and security races leading to war). In tight oligopolies, it is much more common to sustain cooperative arrangements for longer periods of time.¹¹¹

Historically speaking then, much of the conflict in international history occurred in periods in which the structure of the system could be defined as being a loose oligopoly (where Waltz's arguments concerning extreme relative gains apply the strongest). This is when there were quite a range of states (or firms) with significant power capabilities (or market share) versus the very few states in tight oligopolies. As predicted earlier, in loose oligopolies, it is

¹⁰⁸ Charles Glaser, "Realists as Optimists: Cooperation as Self-Help," *International Security* Vol.19 No.3, Winter 1994/1995, p.53.

¹⁰⁹ The analysis here can also be related to similar arguments that have been made concerning co-binding although certain forms of institutionalization (and absolute and relative gains for that matter), as it will be discussed later, are interpreted differently. For more information on these arguments, see Daniel Deudney and G. John Ikenberry, "Realism, Structural Liberalism, and the Western Order," In Ethan B. Kapstein and Michael Mastanduno eds. *Unipolar Politics: Realism and State Strategies After the Cold War*, New York: Columbia University Press, 1999.

¹¹⁰ Glaser, p.59. Glaser is more tentative in making his remarks. But it held here that a state would definitely prefer cooperative strategies in tight oligopolistic settings to costly arms races.

¹¹¹ Shepherd, p.214. Charles Glaser, in his analysis of structural neorealism, has come to the determination that the prospects for international cooperation are more favorable given the core structural neorealist assumptions. In what he terms contingent realism, Glaser contends that in certain circumstances, all the incentives are for states to cooperate to prevent arms races. Of particular relevance are the first and third sections of Glaser's article in which

much more common for price wars (arms races) and competition to break out, although there may be attempts to establish cooperation. A price war in microeconomics is a situation where firms try to get the upper hand on other firms by lowering prices and thus drawing on their (competitors') consumer base. The result is that other firms retaliate by lowering their prices and so forth. In the process of this price war all parties suffer enormously as profits suffer and competition intensifies (survival is therefore jeopardized). This behavior is most common in loose oligopolistic systems, where it is extremely difficult to establish cooperative agreements. In the international arena, a corresponding behavior is that of an arms race, in which each state tries to gain the upper hand on other states by producing more armaments which could in turn be used to gain concessions from other states. The result, however is a costly arms race if the other state is informed¹¹² and often is the prelude to a costly war.

The major wars of the twentieth century (WWI and WWII) could be characterized as periods of loose oligopolies where competition, arms races and security dilemma's could not be avoided. Although attempts were made to sustain cooperation (e.g. the Hague Disarmament Conferences, the Washington and London Naval Conferences and the Geneva Conference) these attempts ultimately failed given the competitive nature of the system. In tight oligopolies it is much easier to sustain long-term cooperation for the sake of survival but by the early 20th century the world system changed into a loose oligopoly. WWI and WWII occurred and should have been expected because the structure of the system had fundamentally changed. With the decline of British power and hegemony in the late 19th to early 20th century and with the rise of a range of new powers such as the United States, Germany, Japan and Italy the system was

cooperation as a strategy of self-help is portrayed as rational and some extreme relative gains arguments are dismissed. For more information see in general Glaser.

¹¹² Some minimal level of information and detection is required of other actors, otherwise the arms production of others will go unnoticed. The end result, however, might be the same and less costly in some ways if a poorly informed state is taken advantage of and attacked by another state which increased its relative arms capabilities.

transformed from being a tight to a loose oligopoly. Competition and conflict in the early-mid-20th century thus, became the norm.

Competition between the United States and the Soviet Union could perhaps be seen as one major exception, a deviation from the norm, occurring under special post-WWII circumstances (as noted earlier, there are always exceptions to the rule).¹¹³ However even the Cold War, was in many ways cooperative and peaceful in the new post-WWII tight oligopolistic setting. Even in the Soviet-U.S. case, all the incentives were to cooperate in that tight oligopoly and not to compete. Both Stalin and Khrushchev went to great lengths to cooperate with the Americans to ensure their survival.¹¹⁴ Both the Soviets and the United States had no real interest in seeing other powers acquire nuclear weaponry and in this sense (e.g. the Soviets withdrawing their support of the PRC), operated like cartels in which cooperating parties also try working together to prevent the entry of new competitors.¹¹⁵ Near the end of the Cold War (and even in the midst), the incentives to collude and cooperate to ensure survival were giving way, manifested by the various (and series of) arms control and security agreements that were signed by the United States and the Soviet Union (START and SALT, NPT the latter treaty in 1968 being the most indicative of this point).¹¹⁶ Thus, intense two-power rivalry gave way to systemic pressures to collude and cooperate.

¹¹³ Shepherd, p.10. This point is precisely what Glaser has picked up on. He notes as is noted here (although for different reasons) that the difficulty with structural neorealist explanations lie in explaining early Cold War competition instead of the cooperation that emerged in the latter stages of the Cold War. Contingent realism and metarealism is similar in this regard--metarealism does not expect competition to be the norm in small number systems or tight oligopolies and as expected, this competition gave way to cooperation. Glaser, p.86-87. However, claiming that the Cold War was an exception to the rule should only be a last resort explanation. This is not the main position taken here as will be seen in the paragraphs to follow. In my opinion, a strong case can be made for the argument that the Cold War was very collusive.

¹¹⁴ See Amar Athwal, "Examining the United States' Contribution to Causing the Sino-Soviet Split: The Key Role of Nuclear Superiority," Unpublished Paper, 2001. For a related argument of how the Cold War was a largely cooperative, superficial and manufactured affair, see Terrence K. Hopkins and Immanuel Wallerstein eds. *The Age of Transition: Trajectory of the World System 1945-2025*, London: Zed Books 1997, ch.8.

¹¹⁵ Bell and Todaro, p.254.

¹¹⁶ This offers a way around the end of the Cold War anomaly. The collapse of the Soviet Union was a structural and systemic change according to Waltz's criteria. But from the standpoint of metarealism, the basic structure of the system remained the same as after the collapse there still existed a tight oligopoly or a dominant firm. Cooperation or collusion could be seen as continuous from during the Cold War to the end of the Cold War

Gaddis, has made similar observations concerning the Cold War and U.S.-Soviet competition. Gaddis notes that in bipolar systems, the incentives are to cooperate and collude to ensure security and thus, he characterizes the Cold War as the "long peace." As Gaddis notes of the cooperative nature of such systems, "order evolves from mutual agreement on a set of 'rules' defining the range of behavior each side anticipates from the other. The assumption is that the particular 'game' being played promises sufficient advantages to each of its 'players' to outweigh whatever might be obtained by trying to upset it; in this way, rivalries can be pursued within an orderly framework, even in the absence of a referee."¹¹⁷ With this logic, the collapse of the Soviet Union is also no longer as problematic for (meta) realism as it was before. Two of the four problems that the Cold War posed for structural neorealism,¹¹⁸ namely that it predicted balancing (against the United States) after the Soviet collapse and failed to account for cooperative behavior during the latter stages of the Cold War and after have been resolved. Structural neorealism, properly formulated (i.e. metarealism) does not predict balancing behavior in tight oligopolies, rather collusion and cooperation are expected. In the current modern context, there still remains a tight oligopoly in place and perhaps even a situation of the dominant firm with the U.S. being the only substantial power. As expected, cooperation in this context is the norm and competition is limited (the United States is on friendly terms with many of the other major states in the system)¹¹⁹ and this can be expected to be the case until the system is

and after. U.S.-Soviet competition and rivalry is often over exaggerated as by the 1970s and 1980s (even under Reagan) both sides recognized the advantages of security and arms arrangements. This would also explain the persistence of an organization such as NATO.

¹¹⁷ John Gaddis, "The Long Peace: Elements of Stability in the Postwar International System," *International Security* Vol.10 Issue 4, Spring 1986, p.132.

¹¹⁸ Noted in footnote 9.

¹¹⁹ Thus, cooperation is easier and a state such as Japan is not much concerned with its own security as it has arrangements with the United States. These arrangements are made possible by the structure of the market. Tight oligopolies enable firms and states to collectively solve survival problems and ensure their survival through collective cooperation (as in cartels, incentives are to cooperate instead of to compete because price wars are unnecessary).

converted to a loose oligopoly.¹²⁰ Waltz's balance of power theory, fails to capture the real operation of how market structures provide incentives for cooperation and competition.¹²¹ In fact it is Waltz's balance of power theory which is the most poorly linked to microeconomic logic, with the only link being to the loose concept of survival. Metarealism offers a more accurate picture and a more comprehensive link to the microeconomic base of Waltz's theory.

It is also apparent then how metarealism can account for the other problem noted here, of explaining cooperation between the Soviet Union and the United States during the Cold War and the United States and other significant states after the Cold War. The other two of the four problems associated with the Cold War, that structural neorealism failed to anticipate change and predicted continued bipolar stability and that large-scale systemic international change is associated with (great power) war will require more complex responses. These responses will be dealt with in the final section of this chapter, which will formulate the theory of metarealism specifically in terms of Waltz's TIP.

¹²⁰ Some will dispute this fact and point to the literature on counter-hegemonic alliance formation or some may claim that this argument is a tautology. The counter-hegemonic literature can easily be disputed on the grounds that no other power in history has had the position that the United States currently has or had. The Napoleonic counter-alliance is a poor example as there were many equally powerful continental powers in Europe at the time (Napoleon's success was largely based on strategic grounds). In fact many date the starting point of British hegemony at the early 19th century. A strong argument could also be made that the period of peace experienced by the Europeans from 1815-56 (or even 1914 if the Crimean War is discounted) again points to a period in which there existed a tight oligopoly enabling cooperation between the major parties. The British were in a clear position of hegemony (see Immanuel Wallerstein, *The Politics of the World Economy*, Cambridge: Cambridge University Press, 1985 and also Philip J. Meeks, "Hegemons in History," In Tsuneo Akaha and Frank Langdon eds. *Japan in the Posthegemonic World*, Boulder: Lynne Rienner 1993) economically, financially, militarily and a case can also be made that this period (1815-56) was one of a dominant firm as could be the case with the United States today. Peace, cooperation and collusion were thus sustained until the market structure changed to one of loose oligopoly in the early 20th century, with the rise of powers such as Germany, Japan, Italy, the United States etc. This argument, however, is not a tautology, is just notes how levels of international cooperation and conflict fluctuate with different market characteristics. It is also worth noting that for the purposes of this essay, since the state is taken as the main unit of analysis, historical evidence prior to the establishment of the state system (early 18th century--Westphalia plus some time for consolidation) can generally be considered irrelevant. Another strong reason for discounting evidence prior to the 'modern' era is because of the lack of communication technology, which would obviously limit the level of interaction between units of analysis and call into question whether an international system in fact existed. For information concerning the latter point see Buzan et al. pp.69-80.

¹²¹ If this point is defended on the basis that assumptions are necessary for the creation of theory, it can nevertheless be noted again what Waltz had to say about assumptions. The position held here as mentioned in another part of the essay is that Waltz's assumption is neither the most useful or sensible, the conditions which he holds for the proper formulation of assumptions. See Waltz, 1979, p.91.

Thus, with metarealism's examination of Waltz's inconsistency concerning the nature of oligopolistic markets, a number of important conclusions were drawn. Cooperation (but not absolute gains) in the international arena (under so-called anarchy) is in fact easier to achieve than previously realized by scholars. Tight oligopolies facilitate cooperation and collusion and often, international systems could be characterized as being tight oligopolies.¹²² Waltz was right in emphasizing the important role of market structure and how small number systems are more stable than large number systems, but his balance of power argument was a stretch and has no real corresponding links to the microeconomic analogies he employed. The international arena is not as competitive as it is often implied and cooperation in fact should be the norm and is a lot easier to accomplish in instances of tight oligopolies, when there are only a few major powers in the international system.¹²³ These powers will have incentives to cooperate and collude to maintain their long-term survival and to avoid costly competition as firms in similar situations go to great lengths to avoid costly price wars. It is in loose oligopolistic systems (which I feel are less common¹²⁴) where competition and extreme relative gains are the norm and when major international conflicts transpire. The main thrust of the neorealist arguments, nonetheless have been maintained. Even in situations of tight oligopolies, relative gains are still a consideration even though the value of k might not be much greater than zero or as high as in loose oligopolistic situations. The major competitors in the system, of course, have to be totally aware of the actions of their potential opponents. Thus, Grieco's argument about how k is always

¹²² Metarealism would therefore enable much of the general predictions of hegemonic stability literature to be incorporated into its fold as increasing stability is expected in international relations when there is a situation of a tight oligopoly--in this case a situation of the dominant firm or hegemony. For more information concerning hegemonic stability theory see, Robert Gilpin, *War and Change in World Politics*, Cambridge: Cambridge University Press, 1981 as well as Robert Gilpin, *The Political Economy of International Relations*, Princeton New Jersey: Princeton University Press, 1987, Keohane, 1984, and Michael Mastanduno, "Preserving the Unipolar Moment: Realist Theories and U.S. Grand Strategy After the Cold War," In Ethan B. Kapstein and Michael Mastanduno eds. *Unipolar Politics: Realism and State Strategies After the Cold War*, New York: Columbia University Press, 1999.

¹²³ Also see Glaser, p.58.

greater than zero can be maintained--every time except in one instance. This one instance where it can be argued that k is definitely negative in microeconomics/industrial economics is the situation of the strategic merger between firms. An analysis of this phenomenon will synthesize some neoliberal institutional arguments into the form of realism presented here. It will offer a more complete theory of realism completely grounded in sound microeconomics.

3.2 Strategic Mergers and Political Integration

As noted earlier, Waltz cannot justifiably ignore the phenomenon of strategic mergers between states. This is a significant component of interfirm (and interstate) interaction which cannot be overlooked. A brief analysis of this phenomenon will demonstrate how neoliberal institutionalism in some ways is in fact compatible with neorealism. This new approach, with some changes already noted above, can be labeled metarealism.

The main reason why Waltz chose to ignore the phenomenon of mergers as interfirm interaction was (as discussed earlier) because of his narrow conception of survival. Survival, however has many manifestations and firms, as well as states sometimes decide that their ultimate survival can be met in alternate ways. One of these ways is through intensive integration or the microeconomic equivalent of the strategic merger (versus an aggressive takeover). It is only in these instances that k can be negative. When two firms merge, it makes no sense to refer to this as being behavior in which relative gains are of concern. By definition, a merger means that relative gains are of no concern, the firms combining are becoming a new entity. It is this new entity then after the merger is completed which will again be concerned with relative gains vis-à-vis other firms. This is not irrational behavior but rather an alternate strategy to ensure survival. Waltz implies that such behavior is irrational when he contends that some states may "prefer amalgamation" but that ultimately these states which do not conform to successful

¹²⁴ Even if the opposite were the case and it was determined that loose oligopolies are more common, this would not have consequences for metarealism because the predictions for each type of system would remain the same.

practices will be punished.¹²⁵ However, as elaborated on earlier, Waltz cannot come to terms with this behavior because he notes that the death rate among states is "remarkably low." In making these two statements he admits that there are instances in which relative gains do not play a role and that states which prefer to pursue amalgamation could quite possibly suffer no consequences. Waltz's logic here is illogical and does not follow from the microeconomic logic he previously employed.

This behavior of political amalgamation though can be reconciled with Waltz's TIP. Waltz unnecessarily contends that this behavior, in which states will prefer amalgamation, will be punished but this has to do with his narrow conception of survival which also does not follow from a correct market-firm analogy. To make this suggestion, the logical equivalence in microeconomics would be that firms which prefer amalgamation (mergers) would face bankruptcy/extinction. This is the equivalent in the microeconomic realm of suffering the consequences for 'irrational' behavior. In economics however, this behavior is simply not irrational and there are clear reasons why such behavior is pursued.¹²⁶ The same then must also be true for international politics. Political amalgamation or intensive integration is indeed a rational response under international systemic conditions and is one of the many manifestations and strategies for survival. Firms that strategically merge do not suffer the consequences, do not fall by the wayside and do not go bankrupt. The same then should not be expected to occur in the international arena. Rather, political amalgamation or the integration process is simply a rational response of behavior under market conditions or under conditions of anarchy.¹²⁷ This is the one instance where k can be negative. To further highlight how this will alter Waltz's theory and

¹²⁵ Refer back to chapter 2.

¹²⁶ These reasons will be discussed later in this section.

¹²⁷ Waltz does contend that mergers become important if they substantially alter the number of firms in an economic system but has nothing else to say. Waltz, p.94. However, merger activity between any major firms becomes very important if it occurs fairly frequently and on a wide scale. When major competitors merge it is also a significant phenomenon and demonstrates that there are other manifestations and manners of achieving survival. This is also true for the European Union's efforts of political, security and economic amalgamation. It is on a massive scale and demonstrates how there are many manifestations of survival.

ultimately make it more complete, let the phenomenon of mergers in economics be explored in more depth. First, however, a few more comments regarding the important issue of survival will be required.

At this point, with the arguments that have been made, a certain paradox with the issue of survival is revealed. On the one hand, it is held here that the strategic merger can be considered an alternative strategy for survival by actors. While on the other hand, after the strategic merger, the actors involved form a new entity. The obvious question then becomes whether both entities have survived or not. According to Waltz's logic, a strategic merger or amalgamation is not rational behavior and that states which pursue such behavior will suffer the consequences and fall by the wayside. In microeconomics however as noted, this does not make sense. Firms that merge do not go bankrupt and do not suffer the consequences for not failing to conform to successful practices. In fact the opposite could be the case. For example in a given horizontal market,¹²⁸ the most powerful firm has control of 30 percent of market share while the second and third most powerful firms have control of 25 percent of market share. If the second and third most powerful firms merged then all indicators point that combined, they will become the most powerful firm in the market. This then, would become the most successful policy and these firms would not suffer the consequences but reap the benefits from the consequences of their behavior. The strategy then, must be rational and cannot be considered irrational. This is what the vast majority of strategic mergers in horizontal markets aim to accomplish. This therefore does become an alternate strategy for survival because the actors involved are both better off after the strategic merger. Since actors are first and foremost concerned with their survival and since the strategic merger is a rational response to enhance market positioning then deductively it can be held that the two actors, although combine to form a new entity, have still met their goal of

¹²⁸ The various types of different markets will be discussed later in this section.

ensuring survival.¹²⁹ In fact, firms which merge together in many cases still do retain distinct functional/operational capabilities similar to previous levels before the merger with the merger more of a technical, above the surface matter.¹³⁰ The number of actors within a system can therefore change without any actor pursuing 'irrational' behavior. The conception of survival here thus is somewhat paradoxical but deductively defensible. Metarealism will hold that actors which have strategically merged have survived to form a new entity. The survival of all units forming the new entity will be maintained so long as the newly formed entity remains intact. If the newly formed entity falls by the wayside (presumably for behaving irrationally) then the units which formerly comprised the entity also fail to survive.¹³¹

Mergers can be defined as instances where two firms combine to form one entity or firm (in some cases this includes more than two firms). The firms may differ in size and capacity and the merger could occur under different conditions (amicably or under tension and conflict--the amicable or strategic merger is most relevant here¹³²--the takeover is altogether another phenomenon, perhaps equivalent to imperialism at the international level).¹³³ There are also three different types of mergers in economics, horizontal, vertical and conglomerate. Horizontal mergers are those where companies engaged in side-by-side competition in the same market, selling the same type of products merge.¹³⁴ Vertical mergers, though tie together firms in the chain of production. For instance, if a baking company were to merge with a milling and

¹²⁹ This idea of the strategic merger then, is more compatible with versions of offensive realism which contend that units will be more interested in maximizing power to ensure their survival rather than balancing power as defensive realism would hold. This in part is the rationale behind the horizontal strategic merger. For a comprehensive look at the ideas involved in offensive realism, see John J. Mearsheimer, *The Tragedy of Great Power Politics*, New York: W.W. Norton and Company, 2001.

¹³⁰ Different strategic mergers will have different levels of integration.

¹³¹ See chapter 2 for related to these arguments.

¹³² It is worth noting that in economics mergers between private firms are almost always amicable and done on friendly terms as the sellers total consent is needed. It is in the public sphere where takeover bids are made possible.

¹³³ Shepherd, p.89.

¹³⁴ For more information on horizontal mergers and a theory of horizontal mergers, also see Gérard Gaudet and Stephen W. Salant, "Towards a Theory of Horizontal Mergers," In George Norman and Manfredi La Manna eds. *The New Industrial Economics: Recent Developments in Industrial Organization, Oligopoly and Game Theory*, Brookfield, Vermont: Edward Elgar 1992, ch.6.

blending operation. A conglomerate merger, however, joins all together unrelated activities "such as bulldozers and books, or rugs and steel."¹³⁵ Thus, for the purposes of this work, it is horizontal mergers that are of primary concern as vertical and conglomerate mergers have no equivalent at the international level (states are all part of the same market, under anarchy and all have like functions in this market). The primary purpose behind horizontal mergers is that they eliminate competition from a former competitor and instead create a new entity which can reemerge with a strengthened position in the marketplace. As Shepherd notes, "Horizontal mergers invariably raise market power, for by definition they eliminate side-by-side competition between the two firms. The effects may be small or large, depending on the two firms' market shares and on other conditions of the market."¹³⁶ Horizontal mergers therefore (especially amicable ones) are a definite strategy on the part of both firms to ensure their respective survival albeit in a new, combined entity. As Ravenscraft and Scherer similarly note when answering why do mergers occur, "The simplest explanation must be that both buyers and sellers consider themselves to be better off from the merger transaction than without it."¹³⁷ Mergers, therefore, become another external strategy for survival.¹³⁸ This logic of survival and related issues of competition has also been noted by a number of other analysts. For instance, de Jong, in an intensive case/survey examination of the motives for mergers came to the overall conclusion that "The main motives were divided into those concerning the competitive position, the continued

¹³⁵ Shepherd, p.90. For similar definitions of these three different types of mergers, see Thomas Karier, *Beyond Competition: The Economics of Mergers and Monopoly Power*, London: M.E. Sharpe 1993, pp.135-147.

¹³⁶ Shepherd, p.90.

¹³⁷ David J. Ravenscraft and F.M. Scherer, *Mergers, Sell-Offs, and Economic Efficiency*, Washington D.C.: The Brookings Institution 1987, p.2.

¹³⁸ It should also be noted, like the case of oligopolies, that there is much debate between economists as to the specific motivations for mergers and about the explanations of mergers. For more information see, Ravenscraft and Scherer, pp.2-10, Nicholas A.H. Stacey, *Mergers in Modern Business*, London: Hutchinson 1966, ch.5, Walter H. Goldberg, *Mergers: Motives, Modes, Methods*, Aldershot, Hampshire: Gower 1983, pp.9-16, F.R. Jervis, *The Economics of Mergers*, London: Routledge 1971 ch.2, in general Lynn E. Browne and Eric S. Rosengren eds. *The Merger Boom*, Proceedings of a Conference Held at Melvin Village, Sponsored by Federal Reserve Bank of Boston, New Hampshire, October 1987, Terence E. Cooke, *Mergers and Acquisitions*, New York: Basil Blackwell 1986, ch.3, Karier, pp.137-44, A.P. Jacquemin and H.W. de Jong eds. *Markets, Corporate Behavior and the State: International Aspects of Industrial Organization*, The Hague: Martinus Nijhoff 1976, pp.103-141 and Scherer and Ross, ch.5.

existence of the firm and others. The main motive for acquiring firms was overwhelmingly the competitive aspect, 76 percent in 1973 (74 percent in 1972 against 80 percent in 1971) whereas the continued existence of the firm was given as the first priority by acquired firms: 64 percent in 1973 (71 percent in 1972 against 70 percent in 1971).¹³⁹ Therefore, the survival component in mergers cannot be denied. The acquired firm, on average in amicable or strategic mergers thinks that its longevity as an entity can be prolonged by merging and the acquiring firm thinks that by merging with the acquired firm it can become more competitive as a collective entity and thus more adequately ensure its survival in the market place.

As Shepherd also has noted, "A merger is only one of three main ways to get the economies [of scale]. Another is internal growth, with the firm investing its funds to create new capacity rather than" through merging.¹⁴⁰ Interestingly enough, Waltz tries to outline a similar conception of how states achieve maximum efficiency in international relations. Recall that, Waltz emphasized how states "try in more or less sensible ways to use the means available in order to achieve the ends in view. Those means fall into two categories: internal efforts (moves to increase economic capability, to increase military strength, to develop clever strategies) and external efforts (moves to strengthen and enlarge one's own alliance or to weaken and shrink an opposing one)."¹⁴¹ In the external category, Waltz ignores the phenomenon of mergers or political amalgamation (as economists note) as a means of achieving efficiency and thus survival. The balance of power is not the only external interstate or interfirm (if it even exists in interfirm interaction) area of concern. The amalgamation of firms and therefore states needs to be considered. To again highlight how mergers can be seen as a method of external efficiency maximization, another example in which Shepherd contrasts internal and external means of

¹³⁹ H.W. de Jong, "Theory and Evidence Concerning Mergers: An International Comparison," In A.P. Jacquemin and H.W. de Jong eds. *Markets, Corporate Behavior and the State: International Aspects of Industrial Organization*, The Hague: Martinus Nijhoff 1976, p.106. For related information also see, Ravenscraft and Scherer, p.2 and Scherer and Ross, pp.164-167.

¹⁴⁰ Shepherd, p.91.

efficiency can be drawn (although in the context of another argument about mergers). Shepherd notes, "Even if merger policies err toward being too strict, the harm is usually slight, for firms can always grow internally, instead of by mergers. They can build their own new factories, thereby increasing the industry's capacity and competition."¹⁴² (Horizontal) Mergers thus can be perceived as another strategy for firms to achieve efficiency, in addition to internal efforts.

The same can be claimed in international relations--political integration and amalgamation can be perceived rationally under the same microeconomic logic as a strategy for ensuring survival and efficiency. Waltz fails to consider this important aspect of interfirm interaction, to the detriment of his theory. Instead Waltz focuses solely on what has been termed by some analysts, formations of strategic alliances (balance of power). Waltz's ultimate neglect of the importance of the phenomenon of mergers, and their corresponding correlation at the international level can be illustrated from the following passage, taken from economic analysts:

Marriage is the most commonly used analogy in the popular literature of strategic alliances. This analogy is emotional and affective and speaks to a sense of unity and common purpose: in 'sickness and in health until death do us part.' Perhaps this is an apt analogy for mergers, which create a common entity, but not for alliances. Contemporary alliances maintain the separate identities and integrity of individual partners, and in so doing protect their self-interests. Better analogies for alliances are found in statecraft--in particular, the past few centuries of European diplomatic and military history. Here we observe the simultaneous management of viable coalitions built on a number of bilateral relationships, each with its own history.¹⁴³

The question for Waltz then becomes what happened to the marriage analogy? Like these analysts, Waltz places attention on statecraft, alliances and balance of power. However, unlike these analysts Waltz does not recognize that there is an alternative analogy which has separate relevance to the issues being dealt with. This is the phenomenon of mergers, what I think, can be correlated to political amalgamation or processes of integration at the international level. In

¹⁴¹ Waltz, 1979, p.118.

¹⁴² Shepherd, p.344.

amicable or strategic mergers, relative gains do not matter and this activity is all about absolute gains. The same is true for certain processes of political integration. Relative gains simply do not matter when these processes are genuine and intensive. Therefore, where extreme neoliberal institutionalist arguments apply the strongest, they can be considered right. This phenomenon is equivalent to the phenomenon of strategic, amicable horizontal mergers in microeconomics. These mergers and such integration are all about absolute gains. Outside of this realm, however, the neoliberals are wrong, and k can be considered to be greater than zero (varying with the structure of the market--mainly from loose to tight oligopolies). Therefore, relative gains and absolute gains can be simultaneously present, with a group of states or firms, pursuing absolute gains through integration or mergers and at the same time being concerned with relative gains collectively (although k will vary depending on whether it is a loose or tight oligopoly) as an entity (after integration is completed or in the process of integration when it becomes clear that the merger or integration will be finalized).

Some, however, may still have some problems with linking the analogy of the (amicable horizontal) merger to forms of political integration. It may be held for instance that although the rationale of the merger, especially for the firm being acquired is that of survival and longevity, in reality the acquired firm does not survive and is wholly taken over by the acquiring firm. Those making such points would contend that the analogy with the international arena breaks down and would make the merger something closer to the phenomenon of territorial acquisition. Often, however, especially when dealing with amicable horizontal mergers, and such mergers between relatively large operating firms of comparable size, these criticisms simply do not apply. In such cases, it is normal for chief executives and managers from the acquired firm to retain their positions and in some cases be promoted. It is also common for the acquired firm to retain some level of distinct operations. The analogy with international relations therefore holds. Take the

¹⁴³ Yves L. Doz and Gary Hamel, *Alliance Advantage: The Art of Creating Value through Partnering*,

example of the formation of the United States. The new entity, which became the United States, had representatives from each state in Congress, collectively making decisions in a new entity. The distinctiveness of each state did not disappear when the new entity known as the United States was created. Even in more federal systems, the distinctiveness of the amalgamating units remain intact in one way or another and often, directly or indirectly have some level of power within the new entity which is created. The relationship with the idea of amicable horizontal merger is therefore exact. As per the survival paradox discussed earlier, the different units decided to strategically merge--a rational response under conditions of anarchy and ensured their survival within the placement of a new entity. Their survival as noted before, is deductively defensible even though the number of actors within the system changed. To further elaborate on these points, some examples of well-known horizontal mergers will be discussed briefly below.

The automotive industry serves as a good example of the possible implications of mergers in horizontally structured markets. There are a number of good examples in the history of mergers in this industry, which help validate the claims made above. For instance, in 1968 Leyland Motor Corporation and B.M.C. (British Motor Company) reached an agreement to merge their operations, forming the British Leyland Motor Corporation. The primary reason behind the merger was to achieve some type of economy of scale and eliminate costly side-by-side competition. The statement issued to the shareholders of both companies, stressed that,

The merging of the two companies will provide the opportunity for rationalisation of products, economies of scale in production and purchasing, greater research and development capabilities, stronger dealer organisations, and, most importantly, the opportunity to combine overseas companies and marketing organisations into an immensely stronger force to promote the sale of British vehicles abroad [competing with American and Japanese manufacturers].¹⁴⁴

An intriguing aspect of this merger, and of most relevance here was that the various parts within each organization remained relatively intact after the merger and both sides had equal control in operations in the new entity that was created. As Jervis has noted, "The new company has 186,000 employees spread over sixty plants. One interesting feature of the new organization that was set up was that Sir William Lyons and Sir George Farmer remained in control of their companies, Jaguar and Rover, and this gives formal shape to the fact that Rover and Jaguar were never integrated into Leyland and B.M.C....British Leyland is a big total of a lot of rather small parts...."¹⁴⁵ In fact, as Jervis continues, although "The chairman of the new company [called British Leyland short for British Leyland Motor Corporation] [was] Sir George Harriman (of B.M.H.), the deputy chairman and managing director [was] Sir Donald Stokes [of Leyland], and the Board was drawn almost equally from the two companies."¹⁴⁶ Thus, the acquired and the acquiring firm both had substantial input and power after the merger was completed (measured here by the positioning of their executives because as one analyst put it, "while corporations formulate and implement investment strategies, it is important to keep in mind who ultimately makes the decisions."¹⁴⁷)

Another prime example of how the acquired firm retains much influence can be found in the electrical industry and G.E.C's 1961 acquisition of Radio and Allied Holdings. Radio and Allied were formerly under the leadership of M. Sobell and Arnold Weinstock. As Jervis notes, though, "After the merger, instead of being displaced, these two joined the G.E.C. Board, and in two years Mr. Weinstock's talents led to his becoming the managing director of the company which had taken him over...[and thereafter]...Weinstock followed the policies which had made

¹⁴⁵ Jervis, p.22. Jaguar was acquired earlier by B.M.C. (also known as British Motor Holdings) and Rover by the Leyland Motor Corporation. In fact the initial merger between Austin and Morris, which formed the British Motor Company was done under the same lines in 1951. William Morris became the first chairman of the new group but Leonard Lord, the chairman of Austin became the vice-chairman and managing director. There was a similar pattern when Leyland merged with Rover. For more information see Jervis, pp.91-94.

¹⁴⁶ Jervis, p.95.

¹⁴⁷ Karier, p.148.

[Radio and Allied] efficient."¹⁴⁸ Thus, it is relatively common for the acquired firm to retain and even at times enhance their position within the new entity, which is created after merging. There are countless examples where this holds true. To name a few others, A.P. Sloan became head of General Motors through being in an acquired company, which was taken over, and Leonard Lord, began his career with Morris Motors by being a manager in the acquired company Hotchkiss.¹⁴⁹ In fact some analysts have gone so far as to dismiss what were formerly considered to be mainstream arguments about how acquiring firms usually acquire poorly managed companies and replace their management with their own people (in a process of purging and promoting junior executives). As Ravenscraft and Scherer have come to realize, "In most of the...cases, the acquiring corporation saw compelling advantages in retaining existing top managers, who had knowledge, experience and a record of accomplishment...In ten [of 11 NYSE] cases [examined], the listing statements declared...explicitly...that the incumbent management team was invited to stay on."¹⁵⁰ Later, Ravenscraft and Scherer similarly note, "What does not emerge from our research is strong support for the efficiency-through-management-displacement merger motive...acquirers sought well-managed companies and tried, not always successfully, to retain their managers."¹⁵¹ The analogy of the strategic (amicable) horizontal merger therefore holds up in an important way. The strategic merger simply is not something akin to territorial acquisition at the international level, but can be justifiably compared to forms of political integration in which absolute gains dominate. The main area of concentration here is that of European integration and such an analogy of the strategic horizontal merger can be employed to explain this phenomenon of intensive integration.

¹⁴⁸ Jervis, p.87.

¹⁴⁹ Jervis, p.37.

¹⁵⁰ Ravenscraft and Scherer, p.131.

¹⁵¹ Ravenscraft and Scherer, p.212.

At this point however, a few comments regarding European integration need to be made.¹⁵² Political integration, is necessarily a more drawn out and protracted (and incremental) process when compared to integration (or mergers) at the economic level given the scale of what is being dealt with (massive states versus individual firms). This point cannot be overstated. Even the smallest states are tremendously complex entities with many facets and levels. The firm on the other hand in comparison is a straightforward entity within a purely theoretical microeconomic model. Therefore the successful completion of a strategic merger in international relations can be expected to take a significant period of time.¹⁵³ At this stage, the Europeans have not fully integrated and the transition process is complex. If specifically examined at this stage, the clear breaks between relative and absolute gains presented in this paper might not be visible. Some members at this stage are more integrated than others while some remain relatively aloof from the continuing integration process. This work thus does not make an attempt to argue that the strategic merger between the EU states at this stage is complete by any means. At this point the comparison cannot be fully made. However, metarealism does offer a prediction into the future or an appeal to the future that this process, of a strategic merger between the core EU states, will be finalized in the near future and will make the comparison with strategic mergers at the microeconomic level feasible. There may very well be better examples where the strategic merger at the international level has already been completed (some references have already been made to the formation of some federations/confederations), however the focus of this work is to explore the key debates in international relations theory and the EU is central to this debate. Furthermore, the EU (specifically the security sphere) also represents a tough case study.

¹⁵² The European integration process can be perceived as being started by Germany and France to eliminate costly side-by-side competition between them much like horizontal mergers.

¹⁵³ For example, if one were to use some type of mathematical ratio (although difficult to determine) it could be claimed that a strategic merger between states is 100 times more complicated than a strategic merger between firms given the scale of complexities. So if a merger between firms took approximately 8 months to finalize then a merger between states could be expected to last for about 800 months or 67 years or so (with the Europeans beginning their integration process in the mid-1950s this seems on line). Some mergers however are completed much quicker so there might be quite a range of comparable ratios.

Despite all of this, it is nonetheless felt that a relatively convincing absolute gains argument can be made in general for the European integration process and the 15-member states of the EU which will indicate that the strategic merger process will be finalized in the near future. Metarealism offers a way in which the main thrust of these arguments could be cohesively incorporated into a broader materialist neorealist/neoliberal paradigm. Some may question that the European Union represents the equivalent to mergers as outlined in this paper but as noted above the political integration process is much more drawn out. Therefore it can only be projected that as time passes, the analogy between mergers at the economic level and political integration at the international level, as best represented by the European Union will get stronger and stronger.¹⁵⁴ The following chapter therefore represents a tough case study for the theory of metarealism. It would have been easy to support this theory using obvious examples of integration such as Economic and Monetary Union (EMU)¹⁵⁵ but rather this paper will look at

¹⁵⁴ There is nonetheless a fall back position if European integration fails and collapses and does not reach intensive levels. Over time, mergers (or the process of consolidation) can also fall apart and companies can be split up after previously being cohesively united (i.e. something like the breakup of Standard Oil perhaps). Also, if the analogy with the merger is held to be incomplete then this does not necessarily go against the theory of metarealism because European cooperation could be explained in terms of the structure of markets. Namely that tight oligopolistic systems facilitate cooperation. The component of the theory concerning mergers then would nonetheless remain an important theoretical contribution in need of alternate empirical evidence.

¹⁵⁵ Before the issue of EMU is dismissed, two points of relevance should be noted here. First, economic and monetary union entails the transfer of certain sovereignty which has implications in the security realm. The main problem is that EMU and specifically the manner in which the ECB (European Central Bank) is structured can have a substantial impact on how a member state is able to fight and finance a war. The problems arising with the separation of fiscal and monetary policy demonstrate that EU states will have to surrender ultimate control over taxation and government expenditure to a new central government with total fiscal sovereignty to make EMU viable. The problems are a result of the attempt to incorporate several sovereign governments into EMU. The fact that there are limited examples in history of sovereign nation states sharing a single currency to such an extent, can be explained by what are referred to as free rider problems. When there is one government, one central bank and one currency, it is clear where the responsibility for inflation lies, with the government (even if it is the result of central bank incompetence). However, when there are several governments where national central banks are subordinate to a single European Central Bank, then it is difficult to determine who is to blame. Consequently, no single government remains under the same obligation to behave in a financially responsible manner. Moreover, there is every incentive to misbehave. For instance, the larger the budget deficit of a state, then the higher the proportion of Europe's resources it can capture for the benefit of its own citizens without paying for it by taxation. The EU has anticipated this problem and tried to counter it by placing limits on the size of total public debt and budget deficits. The larger the number of participating countries which have a debt, then the harder it will become to enforce the policies. The limits though, whether they work or not, clearly erode national fiscal sovereignty. The second free rider problem is that the higher the proportion of short-term monetary financing (of the budget deficit to non-monetary financing), then the cheaper the cost of debt services to governments. Again, the greater the amount of short-term monetary financing by all governments then the higher the risk of inflation. The EU recognized this problem and thus prohibited overdraft finance for governments at the ECB. However, if Europe's governments all

the difficult security sphere (where neorealists and neoliberals expect relative gains considerations to dominate)¹⁵⁶ to prove that relative gains will no longer persist in this sphere between the Europeans, indicating genuine political amalgamation, in correspondence with mergers at the economic level. However, before this case study is presented, it will be theoretically useful to recap the theory of metarealism and to put it in the original terms of Waltz's TIP.

3.3 Metarealism in terms of Waltz's Theory of International Politics

So far, in this chapter, the two major components of metarealism, concerning the nature of markets and the notion of strategic mergers have been presented as major improvements of Waltz's TIP. These corrections in Waltz's theory have had major implications thus far, enabling structural neorealism to come to terms with two major empirical anomalies and synthesizing structural neorealism and neoliberal institutionalism in important ways in the process. There still however may be some confusion as to what the tenets of the theory of metarealism are and more specifically how the new components introduced as corrections of Waltz will go back to and relate to Waltz's original theory. This section will help address these issues and therefore help theoretically conceptualize the theory of metarealism. This will be primarily accomplished by linking the two major developments introduced earlier in this chapter to Waltz's three

wanted to borrow at the short end to save interest costs, monetary control would likely breakdown and the EMU would collapse. What this entails is the need for greater ECB control on relevant factors (i.e. maturity profiles of a governments debt). This could result in a real conflict between the ECB and national governments though. For instance, if the UK were to decide to go to war then it would normally go to the Bank of England and borrow money. If they joined EMU, they wouldn't be able to do so without any restrictions since the ECB's permission to borrow at the short end would be needed. Consequently, the British government's ability to finance and fight a war would be undermined and national sovereignty would be greatly compromised. Problems of this nature would surely disappear if there was one central government and central bank, or at least be limited if there was greater political union. As long as governments wish to remain sovereign, these will be likely problems as the EMU progresses (therefore EMU entails and necessitates further political and security integration). For more information see Paul Temperton eds. *The euro*, New York: John Wiley and Sons 1997, pp.93-94, Andre Szasz, *The Road to European Monetary Union*, London: Macmillan Press 1999, p.163, John Redwood, *Our Currency, Our Country*, London: Penguin Books 1996, pp.213-214 and Amar Athwal, "Britain and the EMU: Isolation or Integration?" Unpublished Paper, 2002, p.24.

¹⁵⁶ Glaser, who suggests that relative gains might not be as dominant in the security sphere as has been previously suggested, has challenged this viewpoint.

components of structure: anarchy, unit functions and the distribution of capabilities. The implications of making such links will also be explored.

Metarealism, as a theory of international relations, generally abides by Waltz's three components of structure, although, with some very important changes. The first component of structure was that of anarchy as an ordering principle, comparable to markets as the ordering principle of firms in microeconomics. This will obviously remain a key component of the theory of metarealism, in keeping with the logic of microeconomics (and the individualist solution to the agent-structure problem) but it is with the consequences of anarchy that major changes will be made. Recall that, Waltz contended that because of anarchy, states first and foremost sought to ensure their own survival or face the consequences (of extinction, the equivalence of bankruptcy). For Waltz because of this basic concern for survival, balancing behavior, likeness in foreign policy, military emulation and extreme relative gains considerations (through processes of systemic socialization and competition) follow. Because of the many problems associated with some of these contentions, discussed at length earlier and because of the introduction of the main components of metarealism, some of these results or consequences of anarchy can be altered. Instead it can be held that in instances where the system can be characterized as a small number tight oligopoly (most common in my opinion) anarchy induces states to be concerned with military and foreign policy simulation,¹⁵⁷ moderate relative gains considerations, provides the option of strategic mergers as an alternative strategy for survival and promotes systemic cooperation and collaboration (as a means of ensuring survival--cooperation as self-help to prevent costly arms competition). In instances where the system can be characterized as a loose oligopoly, anarchy induces states to be concerned with military and foreign policy simulation, extreme relative gains (Waltz's original argument applies here), still

¹⁵⁷ No real problems were found with this and its relationship to the logic of the market-firm analogy so it can be left within the theory.

provides the option of strategic mergers as an alternative strategy for survival and is likely very competitive (it may be more appropriate to discuss balancing behavior in these systems).

The second component of structure, concerning the sameness of units within the system remains unchanged, although some problems related to this which might arise will be discussed further below. The third component of structure, concerning the distribution of capabilities essentially remains the same as the number of major actors in systems still determine the polarity of the system and changes in this distribution are structural (and systemic) changes. However, this component of structure, under the tenets of metarealism has alternative implications. It is deemed here that the only significant changes in distribution, in terms of their systemic effects, are those which convert systems from tight to loose oligopolies or vice-versa. This is the only significant way in which changes in the distribution of capabilities will significantly have an impact across the entire system. This will impact what behavior is induced under conditions of anarchy and whether the system is cooperative or conflictual. In other words if a tight or loose oligopoly remains intact after a change in the distribution of capabilities (polarity) then the system effect of this change in the distribution of capabilities will not be significant if the nature of the system, either tight or loose, remains the same (e.g. from a polarity of 1 to 2 or from 7 to 8).¹⁵⁸ The only significance such a transition, say from unipolarity to bipolarity (still remains a tight oligopolistic system) would have would be in the context of the actual transition itself. You can say that state X has increased its capabilities or state Y has declined, but short of creating a transition from a tight oligopolistic system to a loose oligopolistic system (or vice-versa), these changes have little systemic consequences. Only the change in itself can be considered of any importance, the specific rise or decline of state X or state Y. Thus, the specific shift in the distribution of capabilities is irrelevant for systemic consequences short of the point where the nature of the system is transformed. Previous distinctions between unipolar, bipolar and

multipolar systems therefore fall short of the mark and just like balancing theory, fail to distinguish the real causal mechanisms in play at the systemic level for explaining levels of international cooperation and conflict (and thus state behavior). Although seemingly very important, the Cold War's importance in causing significant systemic change has been overestimated. The change in itself from a bipolarity to unipolarity (for instance, with the end of the Cold War) can be considered to be a systemic change, but the nature of the system (tight oligopoly) remained the same. Such transitions, therefore have limited systemic explanatory power, other than the importance of the actual transition itself.

At this point then, some problems become apparent in attempting to explain the remaining two problems noted earlier with the Cold War anomaly. Adequate attention to problems 1 (failed to anticipate change and predicted continued bipolar stability) and 3 (large-scale systemic international change associated with war)¹⁵⁹ requires problematizing the concept of the distribution of capabilities and introducing further unit-level distinctions concerning capabilities. This problem has been well noted by critics of structural neorealism. For instance, Gaddis notes that, "[t]he failure to account for structural change has always been the weakest point in Waltz's theory. For if systemic structures do in fact reflect the distribution of capabilities across units, and if shifts in this distribution can in fact alter such structures, then it is difficult to see where those shifts might come from except from changes in the capabilities of states within the system."¹⁶⁰ If it is desirable to resolve the remaining two problems related to the Cold War then this is precisely what will have to be analyzed. This, however, will be done carefully, so as to avoid the problems of reductionism, associated with unit-level analysis and to keep these arguments within the confines of the theory. To precisely explain/predict these specific shifts

¹⁵⁸ A systemic could still occur from tight to loose or vice-versa even if the polarity remains the same. This is if levels of market share (capabilities) are sharply altered.

¹⁵⁹ The numbers noted here refer to the original numbers noted with these problems earlier in the essay (footnote 11).

¹⁶⁰ Gaddis, 1992/1993, p.34.

(structural/systemic change) then information regarding changes in the capabilities of states in the system is required, as suggested by Gaddis. In other words, if shifts in the distribution of capabilities alter structure (and system) then it must be determined what leads to changes in the capabilities of states, or what these capabilities consist of more precisely.

Although some would like to suggest that this would require the construction of a social theory of the state,¹⁶¹ this does not necessarily have to be the case, as long as the components of capabilities can be established and changes within these capabilities between states can be established. It must be remembered that Waltz himself clearly insists that changes in capabilities of states are changes in structure and system. If the main components of capability can be determined, then it can be ascertained how changes in capabilities are specifically involved in causing systemic transitions. More information concerning the nature of these capabilities is required given that this is the only explanatory variable in the component of structure.¹⁶² It is unclear why Waltz was not more specific about the nature of these capabilities; perhaps due to his apprehensions about reductionism. Since capabilities are already a unit-level criterion/attribute in the sense that it measures the capabilities of units within the system (the distribution of these capabilities makes it a system wide concept), more information concerning these capabilities does not necessarily violate any principles of Waltz's TIP or metarealism. As Waltz notes, "structure is a highly but not entirely abstract concept. The maximum of abstraction allows a minimum of content, and that minimum is what is needed to enable one to say how the units stand in relation to one another. States are differently placed by their power."¹⁶³ Waltz's minimum of content, though is not enough. Some form of measuring capabilities needs to be determined to explain changes in the distribution of capabilities and specific instances of systemic change. This solution is not reductionist and a theory of capabilities will suffice, instead

¹⁶¹ See for instance, Alexander Wendt, 1987.

¹⁶² Loose and tight oligopolies could be considered another type of explanatory mechanism now because these two systems have different expectations for state behavior.

of a total social theory of the state, which is unnecessary to explain how changes in the distribution of capabilities lead to changes in system. As Wendt has noted, concerning the issue of reductionism,

The kind of reductionism which neorealists oppose is defined as theory which tries to explain behavior in terms of strictly agent-level properties. This rejection of what might be called explanatory reductionism does not in itself, however, impose any particular restriction on the ontological issue of how system structures should be defined, since an opposition to agent-level explanations is analytically independent of how system structures, once recognized as causally significant, should be theorized. Thus, neorealists' individualist definition of the structure of the international system as reducible to the properties of states--to the distribution of capabilities--is perfectly consistent with the important role that system structures play in neorealist explanations of state behavior.

Thus, with this in mind, more information concerning the nature of capabilities is justified within the confines of an individualist, structural theory of international relations. Changes in these capabilities, or the onset of inefficiencies which setback relative positioning vis-à-vis other states in the system will therefore become the explanatory element. Before the specific nature of these capabilities is dealt with, it will be useful to set this debate in the microeconomic logic used throughout this paper and show how the Cold War and the Soviet decline could be related to this. Thereafter, some of the specific features of capabilities will be examined to further highlight these arguments.

The international system during the period of the Cold War could be characterized as cooperative and the main reason behind the collapse of the Soviet Union was the result of internal inefficiencies. The Soviet Union lost its position in the generally cooperative (tight oligopolistic) international system because they failed to achieve internal efficiency to the extent the United States had. Consequently, the United States was able to benefit more from cooperation and collusion than the Soviet Union. Just as firms can lose their position in tight

¹⁶³ Waltz, pp.92-93.

oligopolistic markets if they are too internally inefficient so can states in international systems. After the collapse of the Soviet Union, however and as expected under the tenets of metarealism, international cooperation continued because the fundamental characteristics of the international system remained unchanged--a tight oligopoly remained in place. Internal inefficiencies can lead to firms and states losing their positioning in the market structure or international system. This, however, does not necessarily have to lead to the elimination of the firm but scaling back and decline. The British for instance lost their position in the system because of international inefficiencies, which had set in well before World War I. Competing states became more efficient and Britain's position in the international system declined in relation. Britain however, did not face extinction. Firms which lose their comparative advantage or edge in internal efficiency do not always face bankruptcy, extinction and disappear as Waltz would suggest. Rather their positioning in the system simply declines, their operations are scaled back. Firms which lose their internal competitive edge (compared to their competitors), enable competitors to take over their market share. Since the declining firm (of importance here) however, was previously a major competitor in the system/market, even a decline in its efficiency relative to other major competitors within the system will still ensure that it is still sufficiently and comparatively better off than most of the others within the system/market--ensuring that its own survival will continue. These declining firms or states, which were formerly major competitors within the system, still remain large and powerful enough to resume their operation, albeit at a reduced level.

It is in these terms in which problems 1 and 3, noted before, pertaining to the Cold War can be explained. Soviet decline was the result of internal inefficiencies. Externally, the context was cooperative, in a tight oligopoly. The struggle therefore shifted to achieving internal efficiency for the purposes of survival and longevity. The Soviet Union could not maintain the same level of international efficiency as the United States, and therefore their position within the

system declined. Their operations had to be scaled back. Therefore, the U.S. was able to remain as the sole superpower without the occurrence of an external war or conflict. In fact this is not surprising, firms rise and fall all the time on the basis internal efficiency rather than through open external competition, price wars and the like. Non-violent systemic change is therefore to be expected, especially in tight oligopolies, where the external environment facilitates cooperation and collaboration between states. Therefore, when internal inefficiencies begin to appear and develop within major actors in the system, it can be expected that a systemic change will likely occur. If the context of the international system is relatively peaceful as under tight oligopolies, then the transition or specific systemic change can be expected to be non-violent. This was precisely the case with the Soviet Union.¹⁶⁴

The next logical question with this line of reasoning then becomes how to specifically measure changes in levels of internal efficiency or capability. Although often, this can be generally determined from observing the situation, some indicators would be useful and will be briefly noted here. To help with this some Wallerstenian-like arguments concerning the rise of hegemonies can be employed. As Wallerstein notes of hegemonies, "The material base of such power lies in the ability of enterprises domiciled in that power to operate more efficiently in all three major economic areas--agro-industrial production, commerce, and finance."¹⁶⁵ According to Wallerstein, clear and competitive edges in all of these categories over all others within the system are instances of hegemony. For this reason Wallerstein also notes that the "situation of

¹⁶⁴ One point which should be noted, which has not often been raised when dealing the inability of structural neorealists to explain the Cold War anomaly has to do with the lack of transparency with the Soviet Union. When paradigms are charged with failing to predict this or that outcome, such charges often assume that information about situation X or Y is readily available. Throughout the Cold War years, information concerning the United States which helped determine where they stood in the international system was readily available to political analysts. The same however cannot be claimed for the Soviet Union, due to the secretive nature of their political system. This is why the collapse of the Soviet Union came as such a surprise to a range of different analysts. It was not until after the Cold War that a score of different documents were released which indicated the precise problems existing in the Soviet Union in the years before their collapse (Gorbachev's reforms aside). This is perhaps why many neorealists predicted continued bipolar stability because, the internal inefficiencies rampant in the Soviet Union for many years could not be detected at the time. Everything was made to appear normal in the Soviet Union

hegemony" is "rare and unstable." If, according to Wallerstein,¹⁶⁶ these are the factors which determine hegemony or unipolarity (in some form) then relative positions in these criteria would also determine the positioning of others within the system. Capabilities, in these terms, can be seen as a continuum, with states that have a total edge achieve the status of hegemony, while two states having similar capabilities and well ahead of others, create a bipolar system. Declines in these criteria would therefore result in systemic change. To this list of terms, agro-industrial production, commerce and finance capabilities can be added the factor of military capabilities. Undoubtedly levels of agro-industrial production, commerce and finance capabilities will have much to do with determining military prowess. However, it is important to recognize military capabilities (with nuclear weaponry as the greatest or highest form of military capabilities) as a separate category for determining overall capabilities of states within international systems. Without these military capabilities, as Wallerstein himself suggests, it is impossible to achieve hegemony (and to measure the power of a state). As Wallerstein notes, "Hegemonic powers were primarily sea (now sea/air) powers. In the long ascent to hegemony, they seemed very reluctant to develop their armies, discussing openly the potentially weakening drain on state revenues and manpower... Yet each found finally that it had to develop a strong land army as well..."¹⁶⁷

Expressed as a continuum then, some level of military capabilities will be important to bring states closer to the high end of the continuum in addition to the other factors. If two states therefore have equivalent levels in all four categories, while well ahead of the rest of the states, a system can be characterized as bipolar. A system could also be characterized as bipolar if one state has great industrial, commercial, and financial power and limited military power while another state has medium industrial, commercial and financial power and great military power.

until as of out of nowhere the Berlin Wall started to crumble. Perhaps with greater transparency, more accurate arguments concerning the Soviet Union could have been made.

¹⁶⁵ Wallerstein, pp.38-39.

¹⁶⁶ Who has been fairly successful in his attempts to characterize hegemonies.

¹⁶⁷ Wallerstein, p.41.

With these factors and such a continuum, the notion of capabilities becomes clearer and gains more explanatory power. The Cold War now, can be characterized in these terms to help solve the remaining problems with structuralist explanations (i.e. problems 1 and 3).

Analysts of the Cold War, have come to suspect that although a bipolar affair, the United States seemed to have an edge throughout the whole period. This was precisely the case from 1945 to the mid-1960s when the United States enjoyed a clear industrial, commercial, financial and military edge over the (post-WWII) re-cooperating Soviet Union. This has in fact led many analysts to characterize this period as one of American hegemony.¹⁶⁸ The U.S.' edge in industry, commerce and finance during this period (approximately 1945-1960 but especially 1953-1960) cannot be denied. However since some may disagree specifically with the level of Soviet military capabilities represented here, let this be explored in greater depth before moving on.

For the years that Stalin was in power after World War II from 1945-1953 the atomic bomb posed a great strategic threat to the USSR but there were not enough in the U.S. and later the USSR inventories for the two countries to threaten each other with national extinction. During these years, Soviet conventional military power facing Western Europe was probably enough to counter the West's edge in atomic bombs and delivery systems. However in the years immediately following the death of Stalin, numerous developments enabled the United States to decisively take a lead over the USSR in military and nuclear technological capabilities. The most significant development in the post-Stalinist period was that in 1953-54 both the United States and the Soviet Union developed and tested thermonuclear weapons (hydrogen bombs).¹⁶⁹

¹⁶⁸ Wallerstein, p.40 and also see Athwal, 2001.

¹⁶⁹ Thermonuclear weapons are hundreds and thousands of times more powerful than the atomic bombs used in World War II. The bombs dropped on Hiroshima and Nagasaki were equivalent to 20 kilotons of TNT whereas even the thermonuclear weapons of the early 1950s were equivalent to several megatons of TNT. It should also be noted that although it is claimed that thermonuclear weapons were a major development in the post-Stalinist period, the United States had actually started experimenting with fusion weapons in 1951 and conducted a successful test code-named Mike, as a part of Operation Ivy, in November 1952. This 1952 fusion bomb though only had the power equivalent to one or two megatons of TNT whereas the U.S. test bomb in March 1954 had the power of 15 megatons of TNT. The Soviets detonated their first megaton range thermonuclear bomb in August 1953. Thus, this is why these developments are referred to as post-Stalinist as Stalin died in March 1953 and the

However, the United States by this time had far superior means of delivery in comparison to the USSR. For instance the B-36 Peacemaker bombers of the Strategic Air Command could attack targets almost anywhere in the USSR and return to their bases in the United States.¹⁷⁰

Furthermore, the more numerous Boeing B-47 medium range bombers based throughout Western Europe, though carried fewer nuclear weapons, drastically reduced the warning time of an air attack because they were the first strategic jet propulsion bombers.¹⁷¹ The Soviets, on the other hand, could not match the strategic nuclear capabilities of the United States. The USSR did not have a single heavy bomber until 1955 and thereafter, heavy bombers were only produced in small numbers. Furthermore this new Soviet heavy bomber, the Bison which was displayed at the 1955 Moscow air show to heighten U.S. fears, only caused the United States to speed up its production of the B-52 Stratofortress bomber.¹⁷² As Harvey Nelson has noted, "While a few [Soviet heavy bombers] could undoubtedly have reached their targets in the United States, they could not have crippled the U.S. war-making potential even if thermonuclear weapons were used."¹⁷³ Although Soviet bombers could also easily reach targets in Japan and in Western Europe, such an attack would result in devastating U.S. retaliation. Therefore, the United States was still confident that it attained strategic superiority in nuclear weaponry especially considering its superior strategic bombers and its Medium-range and Intermediate-range Ballistic

U.S. really didn't test a bomb in the high megaton range until 1954. For more information see, Encarta 96 "Nuclear Weapons." Microsoft Encyclopedia Encarta 1996.

¹⁷⁰ The B-36 Peacemaker as it was known replaced the B-29 and B-50 bombers of the U.S. Air Force. The B-36 was a ten-engine, six piston, four jet aircraft, capable of sustained long-range flight. For more information on the B-36 and how it improved U.S. striking capabilities see Encarta 96 "Military Aircraft." Microsoft Encyclopedia Encarta 1996 and Harvey W. Nelson, *Power and Insecurity: Beijing, Moscow and Washington, 1949-1988*, London: Lynne Rienner Publishers 1989, p.16.

¹⁷¹ The B-47 bombers had a new and revolutionary swept-wing design, making jet propulsion feasible. For more information on U.S. aircraft and relative USSR and U.S. capabilities see Jie Chen, *Ideology in U.S. Foreign Policy: Case Studies in U.S. Foreign Policy*, London: Praeger 1992, pp.33-34, Robert W. Krauskopf, "The Army and the Strategic Bomber," *Military Affairs* Summer 1958, p.83-87, Thomas Larson, *Soviet-American Rivalry*, New York: W.W. Norton 1978, pp.36-37, 170-180 as well as Thomas Paterson, *Meeting the Communist Threat*, New York: Oxford University Press 1988, pp.21-44.

¹⁷² The B-52 bomber was one of the most remarkable military airplanes of all-time and remained in service in the U.S. air force even 40 years after it was first developed in October 1952. Efforts to find a supersonic replacement for the B-52 continuously failed throughout the years of the Cold War. For more information see, Chen, pp.33-34 as well as Krauskopf, p.83-87.

Missiles (MRBMs and IRBMs) deployed in Europe and Turkey. In fact the U.S. was so confident of this fact that the National Security Council (NSC) declared in early 1956 that the United States had achieved a pre-emptive nuclear-attack capability against the USSR.¹⁷⁴ Furthermore, by 1956 U-2 reconnaissance aircraft also began over-flying the USSR, attempting to locate military airfields and missile bases (Moscow started testing MRBMs in 1955-56). Soviet radar could detect the planes but were unable to shoot them down because of their high altitude. Thus, the United States had developed a first-strike capability and was rapidly developing the intelligence needed to make such a strike possible.¹⁷⁵

In late August 1957, the Soviets announced the world's first successful test of an ICBM (Intercontinental Ballistic Missile) and only a few months later launched the first man-made satellite, Sputnik, into space.¹⁷⁶ By 1959, Khrushchev was boasting that a single factory was capable of producing 250 ICBMs annually.¹⁷⁷ However, in reality the apparent technological advances that the USSR had made did little to change the strategic superiority of the United States in nuclear weaponry. The first generation ICBMs were too unreliable and inaccurate to be a usable weapon system and by 1960-61 it was determined by the Western states through reconnaissance that the Soviets had only a handful of ICBMs deployed.¹⁷⁸ Although Khrushchev's bluff inflated official U.S. national intelligence estimates on Soviet strategic forces, President Eisenhower remained skeptical of the apparent missile gap as Soviet ICBMs

¹⁷³ Nelson, p.16.

¹⁷⁴ See in general, Larson, and Paterson.

¹⁷⁵ Correspondingly, The Eisenhower administration led by Secretary of State John Foster Dulles, declared the doctrine of massive retaliation or their so-called New Look Policy which sought to take advantage of the United States' nuclear superiority (for instance, in the Korean War and the Taiwan Straits Crisis of 1954-55).

¹⁷⁶ Lowell Dittmer, *Sino-Soviet Normalization and Its International Implications 1945-1990*, Seattle: University of Washington Press 1992, p.176.

¹⁷⁷ John Prados, *The Soviet Estimate*, New York: Dial Press 1982, p.77.

¹⁷⁸ Prados, pp.116-120.

were more than offset by U.S. IRBMs (Intermediate-range Ballistic Missiles) deployed in Italy and England.¹⁷⁹

The situation however began to change in the late-mid-1960s as the Soviets began to even the edge in terms of military capabilities (with a new class of missiles) and also in terms of industrial production (because of the communist system, the issue of commerce and finance become slightly problematic and were largely internal bloc activities). From the 1960s onwards, the Soviets essentially evened the score with the United States in terms of industrial output and military capabilities. Therefore the system became, semi-bipolar, the Soviets were on an equal playing field in 2 of the 4 important categories but the U.S. maintained the overall edge as its commercial and financial abilities far surpassed the Soviet Union. Given the nature of the Soviet Union's military and industrial capabilities from the 1960s-1970s, however, this edge the United States enjoyed was temporarily offset and some form of bipolarity remained in place. Beginning in the 1980s however, the Soviet Union entered serious decline, industrial production began to lag, and the maintenance of military capabilities was becoming ever more problematic (resulting in serious cutbacks in military expenditures and deployments). During the 1980s, at best then, the Soviet Union could only match the United States in the area of military capabilities, primarily due to their nuclear capabilities. A superficial level of nuclear bipolarity therefore continued, but because the Soviets only at best matched the United States in one of the four categories, their decline should have been expected and the emergence of a unipolar system was likely.

Economic decline, or decline in the other components of capabilities should indicate a decline in the overall capabilities of states regardless of the numbers of nuclear missiles available. This is because at the top-end of the scale of polarity, states such as the United States will always have sufficient military and nuclear capabilities to offset the capabilities of other

¹⁷⁹ Later, the Kennedy administration started to deploy solid-fuel (versus cryogenic) ICBMs in unprecedented numbers even though they realized that the missile gap was non-existent. For more information see, Nelson, p.27.

states (i.e. nuclear deterrence). Military capabilities alone therefore become insufficient indicators of polar shifts, the other components of capabilities will have more significance in such situations. Even if Soviet military capabilities declined and they had lost the operational ability of thousands of missiles, this would not have affected their polar status, as their nuclear capabilities remained sufficient to deter (possible) U.S. aggression. The other indicators of capability therefore become important as well, and have not really been stressed by theorists like Waltz. A state such as India, Pakistan or even North Korea might have greater military capabilities (nuclear at least) than a state such as Japan, but nobody would argue that these states have greater capabilities and are more powerful than Japan. This is because the other components of capabilities matter and must be used as indicators of polarity or where states lie on the continuum of power. Each component of capabilities has its own advantages which must be realized. Japan's financial power (at least before the 1990s) enabled it to forge strong international relationships with other powerful states and became the world's creditor nation. This power made it worthwhile for a state such as the United States to ensure Japan's security. Thus, in this example, Japan's financial abilities and economic importance has enabled it to surpass states such as India on the capabilities scale despite the latter's possession of nuclear weapons. A similar argument concerning the industrial/commercial importance of Germany can also be forwarded.

Although discussed in a very broad sense, simple elaboration of the concept of capabilities helped account for the other two problems associated with the Cold War. In tight oligopolies especially, military capabilities (although still a key power indicator) become less important because the overall nature of the system is likely to be cooperative and collusive (military capabilities might have more importance in loose oligopolies). Thus, when Soviet industrial capabilities began to decline, their decline from superpower status should have been expected. Similarly, if the United States today, loses its industrial, commercial and financial edge

and if the system is still a tight oligopoly, their decline can be expected regardless of their military capabilities (any rising power will have nuclear deterrent capabilities to offset the U.S. military/nuclear capability). This minimum of content, concerning the four major components of capabilities, therefore is clearly more useful than what Waltz had developed and helps explain previous problems without resorting to 'reductionism.' With these problems solved, the European Security case study can now be examined to exemplify some of the arguments made earlier about strategic mergers.

CHAPTER IV 1990-2000 The Emergence of An Independent European Security Entity?

The purpose of this final chapter is to examine developments in the European Security sphere after the Cold War in order to determine whether the strategic merger analogy will come to fruition in the near future. This case study, is presented in the form of an analytical narrative, the most appropriate approach, since the case study is largely historically oriented and deals with chronological and incremental developments within the EU security sphere. This can also demonstrate that the theory of metarealism is not ahistorical, as many have charged Waltz's theory of structural neorealism. The case study will illustrate specifically that the European Union has been steadily progressing towards the creation of its own independent security force. The key indicator of this is the definite shift in the late 1990s from reliance on NATO for European security to the initial steps towards creating an independent European security capability.

This has been a French goal since the commencement of the integration process. Traditionally however, the Germans generally maintained a middle-ground position on the issue and the British favored the arrangements with the U.S. and NATO. In the late 1990's though, this all changed. The British and the Germans came in line with the long held French position and a number of important steps were taken to realize the creation of an independent European Security force.

As of now, the Europeans still remain heavily dependent upon NATO for their security needs. This work does not dispute that fact. However it does call into question whether this will be the case for the future. As it will be seen in the latter part of this case study, the necessary infrastructure is already in place for the EU states to realize their independent security needs. What will unfold in the years to come will be the steady realization of these goals and elimination of any reliance upon NATO or the United States for European security. Metarealism

thus looks to the future when dealing with the issue of strategic mergers and the EU. The purpose of this case study is to simply demonstrate that even in the 'tough' security sphere, EU members collectively are increasingly less concerned about relative gains and more interested in the pursuit of absolute gains. It is difficult to pinpoint exactly what would be a relative gain or absolute gain when dealing with such matters--but nonetheless a shift away from NATO towards the creation of an independent European Security force (parallel to what has already been accomplished with the Economic and Monetary Union) including, increasing integration of defense industries and European security policies should be indication enough of the operation of absolute gains over relative gains.

During the Cold War, realists generally explained European cooperation and any European cooperation in the security sphere as being a product of the U.S.-Soviet antagonism. It was held that the East versus West alliance was the main reason why the Europeans were cooperating in the security sphere, largely in the context of NATO. With the collapse of the Soviet Union, many realists predicted that Europe would go "back to the future,"¹⁸⁰ and once again face the type of conflict witnessed earlier in the 20th century. Nothing, however, 12 years after the collapse of the Soviet Union could be further from the fact. It was actually not until after the end of the Cold War that European cooperation and the European security initiative intensified, beginning in 1991 with the Maastricht Treaty. The Europeans steadily developed various security initiatives in the 1990s and by the late 1990s were moving their efforts towards developing security capabilities outside the context of NATO. Realists are finding it difficult to come to terms with such behavior especially in light of continued good relations between the EU and the U.S. (calling balancing arguments into question). Why has security cooperation continued and in actuality become more comprehensive and complete after the collapse of the Soviet Union? One answer could lie with a shift towards pursuing absolute security gains. This

chapter will examine developments in European security since the end of the Cold War in this context.

4.1 1989-2000, Post-Cold War Developments

With the end of the Cold War in 1989, the collapse of the Eastern European Soviet bloc and the reunification of Germany in 1990, the nature of European Security had clearly changed entering into the 1990s. There was increasing optimism in Europe that under the new environment, the European order that had been characterized by conflicting interests and bipolarity could give way to a more cooperative security framework based on common interests and interlocking institutions.¹⁸¹ As Mary McKenzie noted, "The end of the cold war opened the possibility of intensified European security cooperation and integration, even on a pan-European scale."¹⁸² The negotiations for the Maastricht Treaty in 1990-1991 (also known as the Treaty on European Union or TEU) in fact resulted from the transformation of the European Security environment. The changes in the Soviet Union and fear of U.S. disengagement in Europe, gave many the perceptions that it was time to include European Security in the integration process. Consequently, the European defense component was made one of the three foundations or pillars of the European Union.¹⁸³ The Common Foreign and Security Policy (CFSP) as it was known, was designed to eventually lead to a common defense policy or a European security initiative under the umbrella of the WEU.¹⁸⁴ However, the Treaty on European Union also stressed that any arrangement should be compatible with NATO. Under this "hinge principle," the WEU was

¹⁸⁰ See Mearsheimer, 1991.

¹⁸¹ For an in depth discussion on the fundamental changes that occurred in the Post-Cold War security thinking in Europe see William Park and G. Wyn Rees eds. *Rethinking Security in Post-Cold War Europe*, London: Longman 1998, pp.1-23, Przemyslaw Grudzinski and Peter van Ham, *A Critical Approach to European Security*, London: Pinter 1999, pp.154-156 and also Holy Wyatt Walter, *The European Community and the Security Dilemma 1979-92*, New York: St. Martin's Press 1997, pp.137-182.

¹⁸² Peter Loedel and Mary McKenzie eds. *The Promise and Reality of European Security Cooperation*, London: Praeger 1998, p.101.

¹⁸³ The other two pillars were justice and home affairs and an EC pillar, which was to include economic and monetary union. For more information see Desmond Dinan, *Ever Closer Union*, Boulder, Colorado: Lynne Rienner 1999, pp.142-150.

¹⁸⁴ Loedel and McKenzie, p.105 and also Walter, p.222.

to become the defense component of the EU, while at the same time being the instrument for strengthening the European pillar of NATO.¹⁸⁵

This new role for the WEU, to act as a middle organization between NATO and the EU was largely the result of diverging viewpoints about ESDI (European Security and Defense Initiative) within Europe.¹⁸⁶ Britain wanted the ESDI in accordance with US viewpoints, to be subordinated to NATO. However, France wanted the ESDI to be fully independent of NATO. In other words, France sought substantial autonomy for the WEU/ESDI, a lessening of the American role (in leadership terms rather than in the presence of forces) and a greater binding in of Germany in EU integration and thus, an organic link between the WEU and the EU.¹⁸⁷ Germany sought to reconcile both views. For instance, Germany wanted to Europeanize NATO through a strengthened WEU/ESDI, attempt a more equal partnership between the Europeans and the U.S. in NATO and foster EU political integration through an upgraded WEU, which would be formally linked to the EU.¹⁸⁸ Although there was consensus in Europe for the need of an ESDI, the diverging viewpoints noted above resulted in the compromise at Maastricht.¹⁸⁹ The EU members agreed that "The common foreign and security policy shall include all questions related to the security of the European Union, including the eventual framing of a common defense policy, which might in time lead to a common defense."¹⁹⁰ The Maastricht Treaty did not create a formal tie between the EU and the WEU as the French and Germans had wanted.

¹⁸⁵ James Sperling eds. *Two Tiers or Two Speeds? The European Security Order and the Enlargement of the EU and NATO*, Manchester: Manchester University Press 1999, p.48 and also the *Declaration on the Role of the Western European Union and Its Relations with the European Union and with the Atlantic Alliance*, Maastricht, Netherlands, December 10, 1991. As it will be seen however, eventually these attitudes changed to favoring European Security independent of NATO.

¹⁸⁶ It should be noted that when ESDI is referred to it is in the context of WEU discussions because at this point the WEU is seen as the most likely conduit for an ESDI. For more information see Sean Kay, *NATO and the Future of European Security*, Boston: Rowman and Littlefield 1998, p.127.

¹⁸⁷ Sperling, p.47.

¹⁸⁸ The other EU countries with the exception of the neutral states of Austria, Finland, Ireland and Sweden reflected or combined the perspectives of France, Germany and Britain. It should also be noted that in 1992 Greece joined the WEU, Iceland, Norway and Turkey have become associate members and Denmark, Sweden, Austria and Ireland are observers. For more information see Sperling, p.48 and Kay, p.127.

¹⁸⁹ Walter, p.221-222.

¹⁹⁰ *Maastricht Treaty on European Union*, J.4.1.

However, it did identify the WEU as an integral part of the development of the EU and its defense component.¹⁹¹ The EU members agreed that they may request the WEU to implement decisions made and actions desired by the EU that have defense implications.¹⁹² In another separate statement, the 9 WEU ministers at Maastricht confirmed the need for a genuine ESDI and a greater European responsibility on defense matters. EU members hoped that the WEU might develop through an evolutionary process, beginning with a loose contribution to the development of the EU, complementary to NATO and eventually leading to a common EU defense.

The Maastricht Treaty compromise though produced a disparity between the EU's foreign policy goals and its organized military capabilities. To compensate for this disparity, the French President Mitterand and the German Chancellor Kohl announced the creation of a Franco-German Corps on May 21, 1992.¹⁹³ The Eurocorps, as it became known, enlarged an existing Franco-German brigade force to the corps level with 35,000 troops. France and Germany wanted to use the Eurocorps to enable the WEU to act in accordance with the directives of the EU by aiding in the defense of NATO territory, assisting in peacekeeping activities outside the NATO area and assisting in humanitarian operations.¹⁹⁴ At first, France hoped that Germany would assign specific forces to be solely Eurocorps assets. Germany though asserted that the Eurocorps be transparent and complimentary to NATO command structures. France, wishing the Eurocorps to provide momentum toward the ESDI, had no choice but to accept the German position regarding NATO. Thus, on December 22, 1992 Germany and France signed an agreement with

¹⁹¹ It should also be noted that non-WEU members of the EU were invited to join or become observers and European members of NATO not belonging to the WEU were offered the same opportunity. It is also worthwhile to note that keeping the WEU informally linked to the European Union avoided the problem of neutral countries such as Ireland using veto authority over WEU activities. Similarly, Denmark which is an EU member in NATO but not in the WEU could not impede the WEU's development either. For more information see Kay, p.127

¹⁹² *Treaty on European Union*, Article J.4.2.

¹⁹³ Trine Flockhart eds. *From Vision to Reality: Implementing Europe's New Security Order*, Boulder, Colorado: Westview Press 1998, p.91 and also Wilfried von Bredow, Thomas Jager and Gerhard Kummel, *European Security*, New York: St. Martin's Press 1997, p.111.

¹⁹⁴ Kay, p.127.

SACEUR (Supreme Allied Commander for Europe) to place the Eurocorps under NATO command in the event of a crisis but in peacetime the Eurocorps remained outside of NATO. Belgium, Luxembourg and Spain joined the Eurocorps in 1995, however, as Peter Schmidt observed, the perception of the organization remained skeptical and the Eurocorps, according to NATO officials, was little more than a "parade army."¹⁹⁵

The WEU also faced similar constraints as those faced by the Eurocorps. However, the members hoped to give it a greater operational role. At the Petersberg meetings on June 19, 1992, the WEU leadership agreed that while contributing to NATO's common defense in accordance with Article 5 of the Washington Treaty,¹⁹⁶ military units of WEU member states acting under the authority of WEU could be employed for humanitarian and rescue tasks, peacekeeping and tasks of combat forces in crisis management. The WEU also endorsed a proposal made by the British Minister of Defense, Malcolm Rifkind. The proposal guaranteed that the WEU would not create its own independent military command structure. The WEU instead tasked its military officials to identify a variety of assets that could be made available on a case to case basis (such as the Eurocorps). This proposal was clearly designed to avoid overlap between WEU and NATO member state commitments.¹⁹⁷ The WEU was also remaining active politically. Like NATO, the WEU was reluctant to expand any formal security guarantees to Eastern States, nonetheless it did reach out to the Eastern European states. The Petersburg Declaration created a Forum for Consultation to bring interested countries from the former Warsaw Pact into discussions and dialogue with the WEU. In a 1994 meeting in Luxembourg, the WEU ministers invited Central and Eastern European countries to join the WEU as associate

¹⁹⁵ Peter Schmidt, "ESDI: A German Analysis," In Charles Barry eds. *Reforging the Transatlantic Relationship*, Washington: National Defense University Press 1996, p.p.40-43.

¹⁹⁶ For the specifics of the Washington Treaty see Anton Bebler eds. *The Challenge of NATO Enlargement*, London: Praeger 1999, p.38.

¹⁹⁷ For more information see, Kay, p.129.

partners. Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, Romania, Lithuania, Latvia and Estonia all became associate partners of WEU as the result of the meetings.¹⁹⁸

By 1995, the WEU was still not a credible institution for organizing significant military operations. Recognizing this weakness, the WEU foreign ministers met in Lisbon in May 1995 and attempted to increase the operational role of the WEU.¹⁹⁹ At the meeting, the WEU established a politico-military group to support the WEU council and created Situation and Intelligence Centers. Moreover, the ministers accepted a proposal to advance planning for a WEU intervention force in humanitarian crises but failed to agree on a financial framework for such operations. The WEU also approved a White Paper, which assessed security threats to Europe and included unresolved border disputes, terrorism, organized crime and the proliferation of nuclear weapons.²⁰⁰

However, as noted by Sean Kay, the WEU failed to include the sort of conflict that was immediately challenging European security at the time, the crisis in the Balkans.²⁰¹ Furthermore, the meeting did little to solve the fundamental problems that were facing the WEU. For instance, the WEU was still a security institution without a military infrastructure. Like NATO, peacetime forces, which might be made available to the WEU (i.e. the Eurocorps) remained national. However, unlike NATO, the WEU had no peacetime commander, no peacetime military headquarters and no standing command or control structure. In addition, without training and major military exercises, the WEU still had no capability to project power or promote stability in a crisis situation. The absence of sufficient transportation, satellite and other logistical

¹⁹⁸ Associate partners had no security guarantees and could not veto decisions taken by the WEU. However, associate partners could express security concerns at ambassador sessions in Brussels and could contribute troops to WEU missions. For more information see Kay p.129.

¹⁹⁹ Park and Rees, pp.62-71 and also Kay, p.129.

²⁰⁰ Flockhart, pp.80-83 and Stuart Croft, John Redmond, G. Wyn Rees and Mark Webber, *The Enlargement of Europe*, Manchester: Manchester University Press 1999, pp.89-100.

²⁰¹ Kay, p.130.

capabilities, common language and compatible communication arrangements made the WEU a fundamentally weak institution.

As Sean Kay has pointed out, an ESDI/WEU standing alone against a revitalized Russian Challenge at current force levels would prove a destabilizing force. This is because at the conventional level the relationship between Russia and the combined British, German and French forces is 4:1 for heavy tanks, 1.5:1 for light tanks, 2:1 for armored vehicles, 7:1 for multiple warhead rocket launchers and 2.6:1 for combat aircraft.²⁰² Another major problem that the ESDI/WEU faced was the general inability of the European countries to form a Europe-wide military industrial base. In fact, Article 223 of the EU's founding Treaty of Rome prohibited trade in arms, munitions and war material specifically when essential security interests were involved. Consequently, instead of integrating their arms industries, the European states have continued to buy from their national industries. This limitation however, has been recognized by the WEU and the EU and steps have been made to improve the situation. For instance the EU and the WEU have incorporated the Independent European Programme Group (IEPG) into the WEU and renamed it the Western European Armaments Group (WEAG). In addition, an armaments secretariat has been created within the WEU and the French and Germans created a joint armaments agency to focus on procurement for the Eurocorps.²⁰³

Political and military cooperation within NATO evolved over a period of almost 5 decades and even then, mobilizing NATO, for the use of force in Bosnia-Herzegovina, proved extremely difficult. Recreating the same institutional culture within the WEU, in the absence of a threat and in the presence of an alternative NATO, will admittedly require a substantial level of convergence of national interests in Europe. As it will be discussed, however, this is precisely the direction the EU is heading towards.

²⁰² Charles Barry, "ESDI: Toward a Bi-Polar Alliance?" In Charles Barry eds. *Reforging the Transatlantic Relationship*, Washington: National Defense University Press 1996, p.77.

²⁰³ Kay, p.131.

The problems experienced in the early years of the Balkan Crisis prompted the US to initiate proposals that would realign NATO's operational functions in late 1993. The United States clearly recognized that NATO could no longer survive and be viable if it was solely limited to dealing with Article 5 missions.²⁰⁴ Conversely though, the US recognized that there might be occasions when the US would decline to participate in non-Article 5 missions. Consequently, the Clinton Administration recommended a reorganization of NATO command structures based on Command Joint Task Forces (CJTF) that would permit the creation of an ESDI that was separable but not separate from NATO. A CJTF would be a multinational and multiservice task force consisting of NATO and possibly non-NATO forces. CJTFs were designed to be capable of rapid deployment to conduct limited peacetime operations beyond alliance borders and would be under the control of NATO's integrated military command structure or the Western European Union.²⁰⁵ Thus, the CJTF would make it possible to open up multinational command and control outside of the traditional NATO structures. As Sean Kay describes it, "coalitions of the willing could use assets from the NATO command structure once a political consensus was reached in the NAC. Therefore, as the WEU acted as a bridge between the EU and NATO, CJTFs acted as a further bridge between the WEU and NATO."²⁰⁶ CJTFs would give NATO the flexibility to respond to new missions in or around Europe, facilitate the dual use of NATO command structures for NATO or WEU operations and permit PfP (Partnership for Peace, this includes numerous central and eastern European states) countries to integrate into NATO run operations.²⁰⁷ Through the CJTF, full contributions by all NATO members to a NAC mandated or WEU operation would not be required. Henceforth,

²⁰⁴ Bebler, p.38.

²⁰⁵ Charles Barry, "NATO's Combined Joint Task Forces in Theory and Practice," *Survival* Vol.38 No.1, Spring 1996, p.84.

²⁰⁶ NATO could use Article 4 consultative functions as a framework for organizing non-Article 5 operations. For article 4 operations to succeed within the context of a shared NATO/WEU framework though it would be necessary to lower the transaction costs of building coalitions for peace by institutionalizing command and control arrangements that could be easily adapted to specific operations.

states with the most immediate interests in resolving a particular security crisis could take the lead with the support and if necessary, assistance from NATO allies.²⁰⁸

The CJTF proposal, however, still faced numerous obstacles going into the 1994 Brussels Summit as competing viewpoints were threatening the process of approval. As Sean Kay noted, "Although it initially appeared that a compromise on the ESDI had been reached, the CJTF quickly stalled."²⁰⁹ Political differences on the WEU role emerged over defining the support role of NATO commanders in WEU-led CJTF operations, the potential for the WEU to select its own headquarters to function as a CJTF and the WEU's access to NATO's assets.²¹⁰ The US was especially concerned that NATO's infrastructure for Article 5 missions remain intact and that no duplication take place. Additionally the US worried that while formulated under an article 4 mission (i.e. humanitarian relief or peacekeeping) a CJTF could come under attack and possibly involve Article 5 of the NATO treaty. Washington also wanted assurances that CJTFs, particularly those under the leadership of the WEU would not pull the US into conflicts that it did not desire to be in. France however, continued to insist on the creation of a separate command structure for non-Article 5 missions, and raised questions about the continued relevance of the NATO integrated military structure.²¹¹

Nonetheless, by 1996, the NATO Military Committee agreed to six key principles that a CJTF had to meet. These principles included: preserving the integrated military structure, providing separable but not separate forces in support of the EDSI, the maintenance of a single command structure for Article 5 and non-Article 5 missions, retaining the role of the Military Committee Authorities, avoiding ad hoc participation in NATO bodies and to preserve the ability

²⁰⁷ Stanley Sloan, "Combined Joint Task Forces and New Missions for NATO," *CRS Report for Congress* 94-249 S (March 17) pp.2-3.

²⁰⁸ For more information see, Andrew Cottey eds. *Subregional Cooperation in the New Europe*, New York: St. Martin's Press 1999, p.206.

²⁰⁹ Kay, p. 134.

²¹⁰ Cottey, p.206.

²¹¹ Kay, p.135.

of major NATO Commands to do timely contingency planning.²¹² Then in late February 1996, the Assistant Secretary of State for European and Canadian affairs, John Kornblum and the Director of the European Directorate at the US National Security Council, Alexander Vershbow, traveled to Paris to broker a deal on the CJTF. The ensuing agreement that was reached reinforced the principle that future European peacekeeping and security operations could draw on NATO force structures, equipment and logistical support even if US forces were not involved. France on the other hand acknowledged that the ESDI must occur within NATO and the US accepted the possibility that NATO assets could be used for WEU operations in which the US would not participate.²¹³ Any WEU command arrangement though would have to comply with NATO standards, use equipment completely compatible with that of the alliance and receive the prior approval of the NAC.²¹⁴ The CJTF compromise was finalized and approved at the Berlin Accord on June 3, 1996²¹⁵, making the development of an ESDI under NATO official policy.²¹⁶ As, Paul Cornish notes, "At the June 1996 ministerial meeting of the North Atlantic Council in Berlin, the idea was finally adopted of establishing ESDI within NATO, and the further development of the CJTF concept was authorized."²¹⁷ This policy, however, would change quickly and the French would come closer to realizing their original position on an independent ESDI. The other European states began to come around on this point first at the Amsterdam

²¹² Daniel Christman, "NATO's Military Future," *Joint Forces Quarterly*, Spring 1996, p.79.

²¹³ Kay, p.137 and also James Wyllie, *European Security in the New Political Environment*, London: Longman 1997, pp.21-32 and 112-120.

²¹⁴ Bebler, p.3 and Kay, p.137.

²¹⁵ It should be noted that the discussions to make CJTF a reality were done in the background context of the crisis in Bosnia. NATO officials were increasingly concerned that the one-year time limit for the IFOR (Bosnia Peace Implementation Force) mission could bring about renewed war after the scheduled withdrawal in December 1996. See Wyllie, p.112.

²¹⁶ NATO foreign ministers directed the Military Committee to make recommendations for the implementation of the CJTF and a Policy Coordination Group (PCG) was established to help facilitate the process. For more information see, Kay, pp. 137-39, Wyllie, p.112-120. It should also be noted that the Berlin Accord left a number of key issues regarding the CJTF and NATO unsettled. This included: ensuring that the CJTF development complements any revisions of NATO's command structure, taking account of the WEU via full development of separable but not separate capabilities, providing for the possible involvement of non-NATO nations in a CJTF and maximizing cost-effectiveness and duplication. Kay, pp.138-139.

Summit and thereafter steadily moved towards integrating their security policies in important ways.

Significant developments in European security relations took place at the 1996-1997 Amsterdam IGC (Intergovernmental Conference). One of the central tasks of the summit was to determine the fate of the WEU and its relationship to the EU. The initial perceptions of WEU-EU relations were a reflection of the Maastricht Treaty in which, as noted in the discussion earlier, the WEU was perceived to act as a bridge between NATO and the EU. However, there was also a growing and competing conception of the EU-WEU relationship. This conception envisioned the synthesis or even merger of the two institutions. Although this could be considered to be the viewpoint of the French all along, the conception was gaining ground in other European states as well. This will become especially evident when the specifics of the Amsterdam Treaty pertaining to security developments are examined. In this second conception of the EU-WEU relationship there would be a full merger of the WEU with the institutional mechanisms of the European Union. This would imply the strengthening of a truly independent European defense capability.²¹⁸ As it will be examined next, the European states clearly began to progress from the Maastricht security model to an EU takeover of the WEU at Amsterdam in 1997 (confirming the absolute gains argument and the thus the merger analogy).

At the Amsterdam Summit in 1997, several changes were made to the Maastricht Treaty in an attempt to strengthen the second pillar of a CFSP. Article J.4 of the Maastricht Treaty had the foreign policy objective of an "eventual framing of a common defense policy."²¹⁹ Article J.7, the replacing article of J.4 at Amsterdam, changed the wording of the previous article as the

²¹⁷ Paul Cornish, "European Security: The End of Architecture and the New NATO." *International Affairs* Vol.72, No.4, Oct. 1996, p.754. For an in depth analysis, see Cornish, pp.751-769 and also North Atlantic Council Communiqué, Berlin, June 3 1996 ('Berlin Communiqué): *NATO Review* Vol.44 No.4, July 1996, pp. 30-35.

²¹⁸ Loedel and McKenzie, p.107.

²¹⁹ *Maastricht Treaty on European Union*, J.4.

objective became to work towards a "progressive framing of a common defense policy."²²⁰ This change in terminology clearly indicated that the Europeans wanted to become more active and progressive in bringing about a common defense policy in Europe. The manner in which the final outcome was to be achieved was also modified as the clause in article J.4 of "which might lead to a common defense" was changed to "which might lead to a common defense, should the European Council so decide." Other changes that were made to the Maastricht Treaty at Amsterdam also indicated that the Europeans were attempting to strengthen the second pillar of the EU. The EU also bolstered its hold over the WEU by changing some key phrases in the Maastricht Treaty. Previously, the European Union "may ask the WEU to elaborate and implement" any security initiatives. After the Amsterdam Treaty, the European Union will "avail itself of the WEU to elaborate and implement" security initiatives. Furthermore, the Petersberg Tasks from the 1992 meeting in Germany which stated that the WEU could conduct humanitarian and rescue operations and peacekeeping missions and crisis management tasks were also incorporated into the Amsterdam Treaty. The inclusion of the Petersberg Tasks in the 1997 Amsterdam Treaty were a significant step towards helping the WEU fulfill its role as the defense arm of the EU and to define the WEU's emerging role as it developed the modalities for WEU-led missions for these tasks.²²¹ The EU also took other significant steps to strengthen the CFSP. The European Council, in addition to receiving more power over the WEU, was given the mandate to set common security strategies, including situations with defense implications.²²² The principle of constructive abstentionism was also

²²⁰ All quotations are from Article J, title v, including annexed protocols and declarations from the Draft Treaty of Amsterdam, Brussels, June 19, 1997.

²²¹ Loedel and McKenzie, p.107.

²²² Article, J.3.1 For more information see Dinan, pp.522-525 and Alex Moens, "Developing a European Intervention Force," *International Journal*, Spring 2000, p.256.

adopted in the realm of CFSP. Constructive abstention would allow member states to conduct common security missions without being vetoed by neutral states such as Ireland.²²³

Other key features were also added to the European Pillar at Amsterdam. An early warning and policy planning unit was established to help identify possible security threats and unstable areas in which intervention might be required and to prepare position papers on developing situations. Another significant development in European Security was the creation of a secretary general and high representative for the European Union on CFSP.²²⁴ The position was not occupied until 1999 when former NATO secretary general Javier Solana took the job. Shortly thereafter, Solana was also given the task of heading the WEU, bringing the WEU even closer to a merger with the EU.²²⁵ Thus, the Amsterdam Treaty clearly moved the CFSP and the European Security initiative in a new and more independent direction. The WEU was seeming less and less like a bridge between NATO and the EU and more like an instrument or the defense arm of the EU. This trend in European Security continued into the closing years of the 20th century at the summits in St. Malo in late 1998, Toulouse in May 1999, Cologne in June 1999 and Helsinki in December 1999.

At the Anglo-French Summit in December 1998 at St. Malo, significant steps were taken towards establishing an (independent) ESDI. The British relinquished their long held position of using the WEU as a bridge between NATO and the EU and proposed to merge the WEU into a new pillar of the EU for defense.²²⁶ The British became increasingly concerned that the United States would continue to dominate Europe politically and militarily. Therefore the British under the leadership of Blair and the French under the leadership of Chirac agreed to quickly

²²³ If one-third of the members vote for constructive abstention though then the actions can not be carried out, Article J.13.1.

²²⁴ Article J.13.2.

²²⁵ The secretary-general was to assist the council in the formulation, preparation and implementation of policy decisions.

²²⁶ Margarita Mathiopoulos and Istvan Gyarmati, "Saint Malo and beyond: Toward European defense," *Washington Quarterly*, Vol. 22 No.4, Autumn 1999, p.65.

implement the new changes that were agreed upon at the Amsterdam Treaty. The British and French were interested in creating a capacity for the EU to act autonomously in security matters and have the ability to carry out any actions decided upon. These requirements could be met by bolstering European capabilities within the NATO framework or outside the NATO framework. While the British and the French insisted that their proposals would correspond with NATO obligations and its collective defense commitments, radical changes were nonetheless made to the European security and defense initiative. The phrase that was created by Washington in the development of the CJTFs, "separable but not separate (from NATO)" was changed to the ESDI having "autonomous but not separate action (from NATO)."²²⁷ More importantly, Washington's phrase, necessitating that there be no 'duplication' between a proposed ESDI and NATO was changed by the Europeans to state there be no 'unnecessary duplication.'²²⁸ This new terminology left the door open for both NATO forces and EU forces to be simultaneously involved in the same security crisis if it was deemed that such duplication was necessary. Thus, the groundwork was laid for the EU to develop its own autonomous defense capability and to pursue its foreign policy objectives.

The summit at St. Malo also had the important result of bringing about some type of consensus between the major European powers, Britain, France and Germany on European Defense and Security issues.²²⁹ The significance of the St. Malo summit in this regard cannot be overemphasized. St. Malo is perhaps the best indicator of the shift in the EU from concerns about relative gains in issues of security to an increasing shift towards setting security issues in absolute gains terms. Before the summit for instance, the British and the French remained divided on the most general issues concerning the security of Europe. Since the defeat of the Gaullists in France, a fundamental change in French security perceptions were underway.

²²⁷ Mathiopoulos and Gyarmati, pp.65-70.

²²⁸ Moens, p.258-260.

Security was no longer perceived to be a sphere where France should act entirely independently and autonomously. As R.E. Utley has noted, "The traditional watchwords of autonomy and independence in external affairs were more shelved than scuppered, but the emphasis was firmly shifted towards multilateral and cooperative approaches to the management of international security challenges."²³⁰ In the 1990s, particularly at Maastricht and at Amsterdam the French sought to solidify European cooperation. Although both treaties were steps in the right direction, they both fell short of the mark. As one analyst noted, "if integration in general, and a unified common security policy in particular, was to succeed, 'France...must convince her partners and give them her vision of future European status.'"²³¹ In their strategy to meet these ends of a common security policy, France first attempted to work through NATO with the ESDI/CJTF process. However, after Kosovo there was a definitive change in policy outlook for all the major states involved making the French task of creating an independent security entity easier.

The British always had remained aloof from ideas of collective or independent European security as they thought that it would jeopardize relations with the United States and NATO. Thus, they always insisted that European security should be developed in the context of NATO. With the Blair government coming in power in June 1997, however all of this began to change. After Kosovo, Blair realized the importance of developing European security capabilities independent of NATO and the United States (realizing that the British and the United States might not see eye to eye on all issues). The Saint Malo declaration of December 1998 was therefore a milestone and significantly altered long-held British positions on security issues in Europe. With St. Malo, the British finally came in line with the French viewpoint as the declaration called for an "autonomous capacity for action, supported by credible military forces,

²²⁹ It should be noted that in April 1999, at a NATO summit, NATO gave its approval of the EU's plan to develop a military and security operations force outside of NATO. For more information see Moens p.259.

²³⁰ R.E. Utley, "France: Willing the Means to the End?" In Martin A. Smith and Graham Timmins eds. *Uncertain Europe: Building a new European Security Order?* London: Routledge 2001, pp.138-139.

²³¹ In Utley, p.141.

with the means to decide to use them, and a readiness to do so in order to respond to international crises."²³² As another analyst has noted, "The Saint Malo Declaration was a watershed. It removed long-standing British objections to the absorption, by the EU, of the WEU's putative military tasks and planning structures. It also called upon the EU to 'have recourse to suitable military means' to respond to international crises."²³³ As the declaration also goes on to note, "In order for the European Union to take decisions and approve military action where the Alliance [NATO] as a whole is not engaged, the Union must be given appropriate structure...."²³⁴

St. Malo, therefore, for essentially the first time, raised the possibility of actions being taken outside of the NATO umbrella. The declaration also made clear that the EU Council would have to be prepared to take action on the whole range of activities set out in Title V of the Maastricht Treaty. What this indicated was that although cooperation in the security sphere had largely been progressing at the intergovernmental and multilateral level, there remained the possibility for a more institutional and federal approach. For instance, article two of Title V requires signatories to refrain from "any action which is contrary to the interests of the Union or likely to impair its effectiveness as a cohesive force in international relations." This implied a requirement of foreign policy and security consultation between member states. Moreover, article fourteen held that the European Commission would ensure the "implementation of joint action" while article eighteen called on the presidency to "represent the Union" and be "responsible for the implementation of decisions." Finally, article twenty-one identified that the European Parliament had a right to be notified by the presidency of decisions with foreign policy

²³² Quoted in Utley, p.148.

²³³ Stuart Gordon, "The United Kingdom: Between a Rock and a Soft Place?" In Martin A. Smith and Graham Timmins eds. *Uncertain Europe: Building a new European Security Order?* London: Routledge 2001, p.163.

²³⁴ See <http://www.fco.gov.uk/news/news>, the UK Foreign and Commonwealth Website for the full text of the document.

and security implications.²³⁵ Therefore, from this it is apparent that St. Malo, by emphasizing the importance of Title V, could be perceived as a signal towards a more institutional or federal approach to EU security policy.

Although up until this point, cooperation at the security level has largely been intergovernmental and multilateral--this should not necessarily mean that relative gains are predominant. With St. Malo, there was increasing consensus between the British and the French that security gains could be pursued collectively. Admittedly, this alone does not rule out entirely arguments concerning relative gains. Critics perhaps will only be satisfied when a fully integrated institutional structure is put in place like with Economic and Monetary Union to indicate that absolute gains are in operation. This is a long way from being realized in the security sphere. For such critics only an appeal to the future can be made. Nonetheless, the St. Malo declaration can still be considered a milestone in signaling the beginning of such a process--towards the full integration of European security policy (as will be seen with other developments closing off the 20th century). The value of this declaration, in terms of creating an independent European security entity were further enhanced when the third major European power, Germany, came on board at Toulouse.

This occurred in May of 1999 and the French and the Germans also made additional announcements at their meeting at Toulouse that they would be remodeling the Eurocorps. It was decided that the Eurocorps would be turned into a rapid reaction force with a new defense role in the EU.²³⁶ This was another step towards establishing European defense capabilities outside of NATO. These plans that were made at Toulouse, were formally adopted at the EU summit in June 1999 at Cologne. The EU leaders proclaimed at the summit that they were committed to a

²³⁵ See the Treaty on European Union, Title V. Also see Gordon, p.164.

²³⁶ It should be noted the WEU continued to refine the list of forces that were answerable to the EU. By this time the forces so far included various national forces as well multinational forces such as the Eurocorps, EUROFOR (European [land] force) and EUROMARFOR (European Maritime Force). For more information see

common policy on security and defense that would give the EU a capacity for autonomous action backed by credible military forces. The European Council also issued a declaration on the development of a "Common European Policy on Security and Defense" that reiterated the need for credible military forces if the EU was to carry out its security policies (such as the Petersberg tasks). As noted by Alex Moens, such a capacity would serve two objectives, "it would provide competence and the wherewithal for military crisis management within the framework of the CFSP and it would be part of the progressive framing of a common defense policy."²³⁷ At the Cologne Summit, the EU leaders also emphasized the importance of having political and strategic direction with regards to EU-led Petersberg security policies and identified the need for sources of intelligence, a capability of strategic planning, regular meetings of the General Affairs Council, the establishment of a permanent body in Brussels with representatives that have military and political expertise, an EU military committee of military representatives and an EU military staff.²³⁸ The Americans though expressed concern in the upcoming months about the creation of this European security force outside of NATO. The Americans did not want to see an ESDI that starts out of NATO and eventually ends up competing with NATO and thus leaving the possibility open for unnecessary duplication.²³⁹ Then in November 1999, US officials demanded that NATO have the right of first refusal in any future European intervention in order to ensure that no duplication take place between NATO and any ESDI. Also in November, the EU foreign and Defense ministers discussed the creation of an Euroforce, which would have up to 60,000 troops from European NATO and EU members. The force would have its own logistical and command capabilities; however, it was not designed to be a standing European army. Instead, the force would only be assembled if there were a looming security crisis.

Jose Cutileiro, "WEU's Operational Development and Its Relationship to NATO," *NATO Review* 43, no.2, February 1995, web edition.

²³⁷ Moens, p.261.

²³⁸ Stanley R. Sloan, "The United States and European Defence," *Institute for Security Studies WEU*, Chaillot paper 39, April 2000, p.15-20.

The Helsinki Summit in December of 1999 adopted the proposals forwarded at Cologne and also incorporated the propositions made in November of an Euroforce. At Helsinki, it was established that by 2003, the EU would meet its so called "headline goal." The headline goal was to improve military capabilities by possessing a multinational army of up to 60,000 troops on a 2 month readiness backed by air and naval forces and have: its own planning staff and satellite reconnaissance system, the ability to be rapidly deployed and carry out the full range of the Petersberg Tasks and the capacity to sustain the forces within an autonomous or NATO context.²⁴⁰ All 15 of the EU members agreed to the plans, which just fell short of creating a European standing army. Recent projections indicate that the headline goal force would be composed of a reserve force consisting of more than 100,000 men and an air and naval component consisting of an estimated 400 planes and 100 ships.²⁴¹ The demand by the United States of guaranteeing NATO the first right of refusal though was not established. This might be explained by the fact that there is much overlap between EU and NATO membership and in reality, any security crisis that requires intervention would have to be coordinated between the EU and NATO. This would make any type of first right of refusal an informal arrangement.²⁴² The alternative explanation, however, would be that this was a bold move on the part of the EU to separate themselves from the United States and NATO. Both Cologne and Helsinki were steps in this direction. As one analyst has noted, "These two meetings...had the effect of foreshadowing the end of the WEU as a separate political organization and the setting, for the first time, of concrete targets for the development of an EU military capability."²⁴³ Furthermore, as Cogan has put it, "The Cologne language had seemed to indicate that the EU and NATO

²³⁹ Moens, p.262 and also Mathiopoulos and Gyarmati, pp.65-70.

²⁴⁰ Francois Heisbourg, "Europe's Strategic Ambitions: The Limits of Strategic Ambiguity," *Survival* Vol.42 No.2, Summer 2000, p.1.

²⁴¹ See Charles Cogan, *The Third Option: The Emancipation of European Defense 1989-2000*, London: Praeger 2001, p.119.

²⁴² Moens, p.265.

would act independently of each other."²⁴⁴ The importance of these summits therefore should not be underestimated, as they are clear indicators of where the Europeans are heading with regards to their security policies.²⁴⁵

The Europeans came under criticism though for saying too much and doing very little. Many critics have pointed to the substantial capabilities gap between the United States and the Europeans and note that any European security arrangement independent of the U.S. (NATO) is far-fetched.²⁴⁶ However, the Europeans have been attempting to rapidly address such concerns. At the Washington summit in 1999, the member states of the alliance signed the Defense Capabilities Initiative (DCI), which attempts to provide a common concept of operations for the future battlefield. The initiative points to a future in which force postures are less dependent on overly large standing armies, with more emphasis on deployability and sustainability. The document notes that it is important that all nations are able to make a fair contribution to the full range of alliance missions regardless of differences in national defense structures. NATO defense ministers met in December 1999 and discussed this plan in further detail.²⁴⁷

Related to this, the Europeans have also been moving towards addressing problems in their defense industries. Until recently, European defense industries have remained protected national entities operating in close cooperation with national governments. This however is

²⁴³ Martin A. Smith and Graham Timmins, "The EU: Coming of age as a Security Actor?" In Martin A. Smith and Graham Timmins eds. *Uncertain Europe: Building a new European Security Order?* London: Routledge 2001, p.85.

²⁴⁴ Cogan, p.118. For a related argument also see Jolyon Howorth, "Britain France and the European Defense Initiative," *Survival* Vol.42 No.2, Summer 2000, p.39.

²⁴⁵ Also, after Helsinki, ESDI, within the NATO context was shifted into ESDP (European Security and Defense Policy) whose relationship to NATO is still yet to be fully determined.

²⁴⁶ For instance, see David Yost, "The NATO Capabilities Gap and the European Union," *Survival* Vol.42 No.4, Winter 2000-01, Charles Kupchan, "In Defense of European Defense: An American Perspective," *Survival* Vol.2 No.2, Summer 2000, Paul Hazell, "Beyond 2015: The NATO Way Forward," *Jane's Navy International* Vol. 104, December 1999, Jonathon Marcus "Kosovo and After: American Primacy in the Twenty-First Century," *Washington Quarterly* Vol.23 No.1, Winter 2000 and John Hulsman "The Guns of Brussels," *Policy Review* 101, June/July 2000.

²⁴⁷ Hulsman, p.44-49.

changing rapidly and will totally change in the near future.²⁴⁸ Several improvements in this respect can be illustrated over the last few years. For instance Dasa sold 30 percent of its missile company to Matra BAe and Dynamics and Matra Macroni Space merged their satellites businesses and later there was a BAe GEC Macroni merger.²⁴⁹ The Europeans realized that a lot more had to be done in this field if they were to realize any type of aspirations for an ESDP (European Security and Defense Policy). Evidence of this was the July 1998 signing by Britain, France, Germany, Italy, Spain and Sweden for defense industries in Europe to create the European Aerospace and Defense Company (EADC).²⁵⁰ The aim of the EADC was to gain control of half of the world's export market for fighters estimated to be over 100 billion within 10 to 15 years.²⁵¹

Other initiatives to improve the cohesion of their defense industries have also been launched. The most important step thus far has been the OCCAR (*Organisme Conjoint de Cooperation en maitere d'Armaments*). OCCAR was signed by Britain, France, Germany and Italy in September 1998 and ratified in early 2000. The OCCAR treaty, between the four countries representing 80 percent of the EU's defense expenditure had many key provisions. The first was that *juste retour* was no longer required at the level of specific armaments programs but only at an overall level where it was to be in net financial terms.²⁵² As Heisbourg has noted, this would help "to make it possible to give priority to economic efficiency versus a 'social-security'

²⁴⁸ For more information on arguments stressing problems with the European intelligence and defense industries, see Marcus, pp.93-94, Mathiopoulos and Gyarmati, p.68, Francois de Rose, "A Future Perspective for the Alliance," *NATO Review* Vol.43 No.4, July 1995, Simon Duke, *The Elusive Quest for European Security*, New York: St. Martin's Press 2000, pp.250-55, Peter van Ham, "The Prospects for a European Security and Defense Identity," *European Security* Vol.4 No.4, Winter 1995, Burkard Schmitt, "From Cooperation to Integration: Defense and Aerospace Industries in Europe," *Institute For Security Studies Western European Union*, Chaillot Paper 40, Paris, July 2000 and Alessandro Politi, "On the Necessity of a European Defense Industry," In Wilfried von Bredow, Thomas Jager and Gerhard Kummel eds. *European Security*, New York: St. Martin's Press, 1997.

²⁴⁹ Politi, p.108-109 and Schmitt, p.5.

²⁵⁰ Duke, p.269.

²⁵¹ Alexander Nicoll, "Eurofighter tempts Norway in bid to win key contract," *Financial Times*, July 23 1998, p.6.

²⁵² Francois Heisbourg, "European Defense: making it work," *Institute of Security Studies Western European Union* Chaillot paper 42, Paris September 2000, p.103. All subsequent references to Heisbourg refer to this work.

entitlement-based approach to arms procurement.”²⁵³ OCCAR, also has the power to run programs, including the exercise of contract responsibilities. Therefore, OCCAR has a supranational element to it and could enable the Europeans to achieve greater efficiency in their defense industries and reduce duplication. Although OCCAR’s primary objective is to run cooperative programs, nothing prevents member states from handing over such national responsibilities to OCCAR. Thus, OCCAR has great potential in this regard.²⁵⁴

The other major innovation achieved with regards to improving the European Defense industries is the so-called LoI process (Letter of Intent), which includes Spain and Sweden as well as the OCCAR states. This agreement was signed in July 1998 and involves states that have more than 90 percent of the EU’s defense capabilities. The LoI process’ purpose is to harmonize procedures and policies ranging from, defense acquisition planning, security and clearance processes to export procedures. This agreement’s ultimate objective then becomes the establishment of a politically and bureaucratically permissive plan for defense industrial restructuring on both the demand and supply sides. The OCCAR and the LoI process are steps in the right direction towards creating, as outlined in the Maastricht Treaty, an European Armaments Agency.²⁵⁵ Although the Europeans are still a ways off from creating any type of unified agency given the protracted process of creating such an agency, OCCAR and the LoI process have substantial potential and again demonstrate the direction European Security policy is heading (and the operation of absolute gains in the security sphere).²⁵⁶

In November of 2000, the headline goal was again on the agenda at the Capabilities Pledging Conference. The contributions that various EU member states would make to the headline goals were established at the conference. Although NATO wanted to avoid unnecessary

²⁵³ Heisbourg, p.103.

²⁵⁴ Some key cooperative programs so far have been the creation of the Tiger combat helicopter, the Cobra counter battery radar and the Future Surface to air missile. For more information see Heisbourg, p.105.

²⁵⁵ Heisbourg, p.105

²⁵⁶ This has to do with the Amsterdam Treaty rules, for more information see, Heisbourg, p.105.

duplication, their position relative to the headline goal was left unclear. The foreign and defense ministers of the EU at the conference in Brussels decided that the following contributions would be made by each member state: Austria--2,000 troops; Belgium--1,000 troops, 3,000 for a 6-month period and 25 aircraft and 9 ships; Finland--2,000 troops; France--12,000 troops, 75 combat aircraft, 15 ships and Helios spy satellites; Germany--13,500 troops, 93 aircraft and 20 ships; Great Britain--12,500 troops, 72 aircraft and 18 ships; Greece--3,000 troops; Ireland--1,000 troops; Italy--6,000 troops; Luxembourg--100 troops; Netherlands--5,000 troops; Portugal--1,000 troops; Spain--6,000 troops, 40 aircraft and special marine forces; and Sweden 1,500 troops.²⁵⁷ The headline goal and the Petersberg Tasks were, therefore, coming closer to realization, with all of the EU members (except for Denmark) committed to making specific contributions by 2003.

By the close of the century then, the EU had taken serious steps towards the creation of a continent-based security capability which could very well be independent from NATO. This precise point has been picked up on by a number of different analysts of European Security. Charles Cogan, for instance, has called this the emergence of the "Third Option."²⁵⁸ Cogan contends that the first security option for the Europeans is that of NATO action, while the second option is of European use of NATO command and assets. However, Cogan notes that with recent developments, a third option has emerged, in which there is the increasing possibility for the development of an independent and distinct European military capability. As Cogan notes, "Now there is a third option...a purely European action, using European assets only, and with a separate and completely European chain of command."²⁵⁹ Cogan also notes,

It was not just logical to expect that the EMU would lead ineluctably to an autonomous European defense: the very size of the European Union, which finally committed itself in principle to a major expansion with

²⁵⁷ In the Amsterdam Treaty Denmark allowed itself not to partake in defense matters. In Cogan, pp.122-123.

²⁵⁸ See Cogan.

²⁵⁹ Cogan, p.119.

the decision of its Helsinki Summit in December 1999, seems to demand it. The EU eventually will reach the point where its economic and demographic weight will far exceed that of the United States.²⁶⁰

As other analysts have also noted, the "fifty-year old French dream," of the establishment of an independent European security identity appears closer to reality than ever before.²⁶¹ By the year 2000 then, the Europeans had taken important steps towards being able to project a distinct military capability in the near future. Cornish and Edwards have noted that this increasingly independent move towards the creation of an independent European security capability has been accompanied by the creation of a strategic culture in the EU. The importance of this development is that regardless of the pace at which security goals are met, the emergence of a strategic culture solidifies the EU as an institution with power over security matters. As Cornish and Edwards note,

promises have been made about force commitments. Whether these constitute a 'revolution in the EU and in military affairs' is a moot point...important changes are already afoot...the Union [EU] has--or is developing--something like a 'strategic culture', defined as the institutional confidence and processes to manage and deploy military force as part of the accepted range of legitimate and effective policy instruments, together with general recognition of the EU's legitimacy as an international actor with military capabilities.²⁶²

Cornish and Edwards argue that there is no real reason why the idea of a European strategic culture should be rejected. They note that since the Helsinki summit the agreements reached have accelerated the creation of such a strategic culture and have solidified the EU's control over the domain of security policy. For these analysts, the setbacks that the Europeans experienced in dealing with Kosovo, provided increasing impetus to speed up the process of security integration

²⁶⁰ Cogan, p.9.

²⁶¹ Jolyon Howorth, "Renegotiating the Marriage Contract: Franco-American Relations Since 1981," In Sabrina Ramet and Christine Ingebritsen eds. *U.S. European Interactions Since the end of the Cold War*, Boulder: Rowman and Littlefield 2000, p.8 and in Cogan, p.9.

²⁶² Paul Cornish and Geoffrey Edwards, "Beyond the EU/NATO dichotomy: the beginnings of a European Strategic Culture," *International Affairs* Vol.77 No.3, 2001, p.587.

and institutionalization.²⁶³ Cornish and Edwards stress how the EU has in some ways been quietly advancing to incorporate military options as a range of policy instruments. They emphasize for instance the creation of various military and civil committees geared towards this. For instance at Cologne and Helsinki, the EU agreed not only to absorb the WEU but also to create the Political and Security Committee (PSC) at the ambassadorial level responsible for the CFSP and "with competence in all aspects of the EU's foreign, security and defense policies."²⁶⁴ An EUMC Military Committee was also created comprised of representatives from the national Chiefs of Defense (of member states), which was responsible for providing the PSC and the EUMS (European Union Military Staff) with advice and guidance.²⁶⁵ The EUMS was also created to provide early warning and strategic assessment planning in accordance with the Petersberg Tasks. These new structures were incorporated into the framework of the Council (Council of Ministers) and therefore the "opportunities for a more integrated foreign and security policy" were "significantly enhanced."²⁶⁶ For Cornish and Edwards, the EU is developing the organizational capabilities to include military capabilities within its range of policy options and in this sense is simultaneously moving away from "civilian power" status.²⁶⁷ The issue of strategic culture according to these analysts, can therefore be seen as means towards strengthening the ESDP process instead of as being a by-product of the process.

From this analysis of the European Security initiative since 1989, it appears as if focus is shifting in Europe towards concerns for absolute gains, instead of concerns for relative gains. Although this progression has been gradual, St. Malo was the key as it brought the British and the French and the Germans shortly thereafter, generally on the same page. Even in the tough security sector where neorealists and neoliberals would expect competition and conflict, it would

²⁶³ Cornish and Edwards, pp.588-89.

²⁶⁴ Cornish and Edwards, p.594.

²⁶⁵ Cornish and Edwards, pp.594-595.

²⁶⁶ Cornish and Edwards, p.595.

²⁶⁷ Cornish and Edwards, pp.597-598.

be difficult to make a significant moderate relative gains argument let alone an extreme relative gains argument. At this point however, it is acknowledged, that if one were inclined, some type of minimal relative gains argument could likely be made with European security developments in recent years. However, it is judged here that the level of relative gains in operation are in general lower than one would expect even in the context of a tight oligopolistic market. This would indicate that something akin to the strategic merger is beginning to develop. The full institutionalization of the security sphere or of the EU in general however is likely a number of decades away so a full scale strategic merger analogy would not apply for quite some time. Metarealism, nonetheless predicts that in the future a strategic merger will be realized and the minimal relative gains detected today will all but disappear in a federal Europe.

The Europeans are increasingly acting collectively to resolve their security concerns and are working towards eliminating (national) duplication in their defense industries (economies of scale) and creating a distinct and independent European security capability. The EU's activities in the security sphere over the last decade and especially in the last few years seem to extend beyond the behaviors prescribed by balancing theory and traditional realist explanations. Why would the Europeans go through so much trouble and negotiations if all they were trying to accomplish, as Waltz and other realists might suggest was balancing. Furthermore who are the Europeans balancing against if realist arguments could be held to apply. Strategic alliances are created for certain purposes and with some type of threat in mind. In other words, as Waltz and realists would stress, for balancing different threats. There, however, is no clear threat in the international system as the Europeans remain on friendly terms with other major powers. Moreover, the lengths (e.g. attempts to institutionalize security policy) that the Europeans have gone to would seem extreme for balancing. For states to balance power, the sort of things the Europeans are proposing, such as the headline goal and an independent ESDP are simply

unnecessary (Simple alliances are all that is really needed.).²⁶⁸ The main explanation is likely that of the beginning of the pursuit of absolute gains in the realm of security and with development of the strategic horizontal merger at its initial stages.²⁶⁹ Neoliberal arguments concerning absolute gains and the EU can therefore in some ways be incorporated into the fold of metarealism. This is because even in the tough case of security, the evidence to date is sufficient to determine that moderate to extreme relative gains were no longer of any real concern between EU member states. As Cornish and Edwards correspondingly have noted, "in the absence of an unambiguous, common external military threat...the members of the community move from their founding commitment not to consider or prepare for military activity against each other, to preparing for precisely such activity, albeit...with third parties in mind...[marking the end] of the EU as a 'Civilian Power.'"²⁷⁰ A possible way that this behavior can be explained is through the analogy of the strategic horizontal merger. The Europeans are beginning the process of combining to form a single entity to emerge in a collective sense in the new market/system as a comparatively stronger force. Just like firms will merge to eliminate costly side-by-side competition and to reappear collectively with a strengthened position in the market place so will states--in this case the EU member states. This is what the EMU and the creation of the euro was all about and this is where the EU as a whole, security policy included, is heading.

The road to this point, as seen above, was a protracted one. However, it is becoming easier to believe that the EU could be conceived of as a separate political, economic and security entity much like when two or a group of firms merge to form a new entity. Such integration in

²⁶⁸ See for instance, Stephen M. Walt, *The Origins of Alliances*, London: Cornell University Press, 1987.

²⁶⁹ Even if it is held that relative gains are in operation, it is still metarealism which will provide the necessary answers because most realists would not even come to expect these levels of cooperation and collusion in the absence of balancing against a common threat. In this case, such cooperation, with low levels of relative gains could be explained in the context of tight oligopolies. It is in my opinion however that absolute gains are in operation and therefore that the analogy of the strategic merger is justified.

²⁷⁰ Cornish and Edwards, p.597.

Europe will only grow stronger in the years to come and will further strengthen this argument. In the absence of a significant threat, with the collapse of the Soviet Union, European cooperation has persisted and has in fact intensified to new levels. Neorealists find it difficult to account for this behavior in their current paradigm. Attempts to do so have lead to internal contradictions. Take Joseph Grieco's response to European integration in his "binding-thesis." He contends that the EU phenomenon can be explained by the binding-thesis, in which weaker partners ensure that the construction of rules in institutions will "provide for effective voice opportunities" and "ameliorate their domination by stronger partners."²⁷¹ For neorealists, however, weaker partners should not matter and should not be able to construct such arrangements. Grieco's argument thus cuts at the heart of the neorealist conception of the fungibility of power (and is in direct opposition to Krasner's findings in the same volume).²⁷² Metarealism offers an alternate solution. Instead of denying such integration or being forced into internal contradictions, these arguments can be incorporated into a single materialist framework grounded in microeconomic logic, salvaging some of the strongest arguments from both sides. Waltz, in the formulation of his TIP made a number of key mistakes in his use of the market-firm analogy. This in part, led to the formation of two separate accounts of international relations: structural neorealism and neoliberal institutionalism. Correcting the market-firm analogy though enables a type of synthesis between these approaches.

²⁷¹ Grieco, 1993, p.331.

²⁷² Stephen Krasner, "Global Communications and National Power: Life on the Pareto Frontier," In David A. Baldwin eds. *Neorealism and Neoliberalism: The Contemporary Debate*, New York: Columbia University Press, 1993.

Conclusion: Prospects for the Future and Theoretical Implications

Ultimately, it is evident that the schools of international relations theory known as neorealism and neoliberalism may in fact be compatible and can be incorporated into the same theoretical framework, labeled here metarealism.²⁷³ This new approach offers hope to structural neorealists who have found it increasingly difficult to explain major anomalies in the past decade or so. Much of the ground that competing international relations theories were able to gain were largely due to the poverty of neorealist explanations of the late Cold War and post-Cold War world. This, though, did not necessarily have to be the case. Waltz's theory of international relations had tremendous insight and formulated the theory of structural neorealism in an ingenious way. Waltz, however, did not come to terms with certain problems and his theory had a number of internal inconsistencies. A reformulation of the market-firm analogy allows for many of the major problems with Waltz's theory to be resolved. A more precise market-firm analogy, more specifically helps address the more adequately the two main anomalies discussed, the Cold War and European Integration. Metarealism, for this reason alone should be taken very seriously.

The origins of structural neorealist arguments have to be carefully considered. By acknowledging the origins of structural neorealism, the flaws in those origins then must also be recognized--namely the flaws in Waltz's use of microeconomic logic. Often times, in the generalizing sciences, discoveries are made which indicate that previous theories were mistaken in important ways. Correspondingly, future theorists incorporate the new views and do not revert back to the use of the flawed model. The problems with structural neorealism and solutions forwarded should therefore be taken into account. New developments might be looked on with suspicion but the merits of these new developments should speak for themselves. Metarealism is

²⁷³ At a pure theoretical level, it is indeed possible to synthesize these approaches in important ways.

precisely a new development in this regard. It offers a way in which certain theoretical deadlocks can be broken and the theoretical debate within international relations can progress. Normative and critical theories of international relations seem poised to take over the position that neorealism once occupied at its apex, if they already have not done so. Such a jump, however, is premature and is only made possible by the divisiveness in materialist explanations of international relations. If this position is altered so is the state of the debate in international relations and the position of normative and critical theory within that debate. Metarealism attempts to make such a radical change and permanently alter the state of international relations theory.

BIBLIOGRAPHY

- Ashley, Richard. "The Poverty of Neorealism." In Robert O. Keohane eds. Neorealism and Its Critics. New York: Columbia University Press, 1986.
- Athwal, Amar. "Examining the United States' Contribution to Causing the Sino-Soviet Split: The Key Role of Nuclear Superiority." Unpublished Paper, 2001.
- Athwal, Amar. "Britain and the EMU: Isolation or Integration?" Unpublished Paper, 2002.
- Axelrod, Robert and Robert O. Keohane. "Achieving Cooperation Under Anarchy: Strategies and Institutions." In David A. Baldwin eds. Neorealism and Neoliberalism: The Contemporary Debate. New York: Columbia University Press, 1993.
- Baldwin, David A. Neorealism and Neoliberalism: The Contemporary Debate. New York: Columbia University Press, 1993.
- Barry, Charles. "ESDI: Toward a Bi-Polar Alliance?" In Charles Barry eds. Reforging the Transatlantic Relationship. Washington: National Defense University Press, 1996.
- Barry, Charles. "NATO's Combined Joint Task Forces in Theory and Practice." Survival Vol.38 No.1, Spring 1996.
- Bebler, Anton eds. The Challenge of NATO Enlargement. London: Praeger, 1999.
- Bell Philip W. and Michael P. Todaro. Economic Theory. London: Oxford University Press, 1969.
- Bredow, Wilfried von, Thomas Jager and Gerhard Kummel. European Security. New York: St. Martin's Press, 1997.
- Browne, Lynn E. and Eric S. Rosengren eds. The Merger Boom. Proceedings of a Conference Held at Melvin Village, Sponsored by Federal Reserve Bank of Boston. New Hampshire, October 1987.
- Buzan, Barry, Charles Jones and Richard Little. The Logic of Anarchy: Neorealism to Structural Realism. New York: Columbia University Press, 1993.
- Carr, E.H. The Twenty Years Crisis 1919-1939. London: Macmillan, 1939.
- Chen, Jie. Ideology in U.S. Foreign Policy: Case Studies in U.S. Foreign Policy. London: Praeger, 1992.
- Christman, Daniel. "NATO's Military Future." Joint Forces Quarterly. Spring 1996.

- Cogan, Charles G. The Third Option: The Emancipation of European Defense, 1989-2000. London: Praeger, 2001.
- Cooke, Terence E. Mergers and Acquisitions. New York: Basil Blackwell, 1986.
- Cornish, Paul. "European Security: The End of Architecture and the New NATO." International Affairs Vol.72, No.4, Oct. 1996.
- Cornish, Paul and Geoffrey Edwards, "Beyond the EU/NATO dichotomy: the beginnings of a European Strategic Culture." International Affairs Vol.77 No.3, 2001.
- Croft, Stuart, John Redmond, G. Wyn Rees and Mark Webber. The Enlargement of Europe. Manchester: Manchester University Press, 1999.
- Deudney, Daniel and G. John Ikenberry. "Realism, Structural Liberalism, and the Western Order." In Ethan B. Kapstein and Michael Mastanduno eds. Unipolar Politics: Realism and State Strategies After the Cold War. New York: Columbia University Press, 1999.
- Dinan, Desmond. Ever Closer Union. Boulder, Colorado: Lynne Rienner, 1999.
- Dittmer, Lowell. Sino-Soviet Normalization and Its International Implications 1945-1990. Seattle: University of Washington Press, 1992.
- Doyle, Michael. Ways of War and Peace: Realism, Liberalism and Socialism. New York: Norton and Co., 1997.
- Doyle, Michael. "Kant, Liberal Legacies and Foreign Affairs." In Michael Brown, Sean Lynn-Jones and Steven Miller eds. Debating the Democratic Peace. Cambridge: MIT Press, 2001.
- Doz, Yves L. and Gary Hamel. Alliance Advantage: The Art of Creating Value through Partnering. Boston: Harvard Business School Press, 1998.
- Duke, Simon. The Elusive Quest for European Security. New York: St. Martin's Press, 2000.
- Fellner, William. Competition Among the Few. New York: Alfred A. Knopf, 1949.
- Flockhart, Trine eds. From Vision to Reality: Implementing Europe's New Security Order. Boulder, Colorado: Westview Press, 1998.
- Gaddis, John. "The Long Peace: Elements of Stability in the Postwar International System." International Security Vol.10 Issue 4, Spring 1986.
- Gaddis, John Lewis. "International Relations Theory and the End of the Cold War." International Security, Vol.17 No.3, Winter 1992/1993.

- Gaudet, Gérard and Stephen W. Salant. "Towards a Theory of Horizontal Mergers." In George Norman and Manfredi La Manna eds. The New Industrial Economics: Recent Developments in Industrial Organization, Oligopoly and Game Theory. Brookfield, Vermont: Edward Elgar, 1992.
- Gilpin, Robert. War and Change in World Politics. Cambridge: Cambridge University Press, 1981.
- Gilpin, Robert. The Political Economy of International Relations. Princeton New Jersey: Princeton University Press, 1987.
- Glaser, Charles. "Realists as Optimists: Cooperation as Self-Help." International Security Vol.19 No.3, Winter 1994/1995.
- Goldberg, Walter H. Mergers: Motives, Modes, Methods. Aldershot, Hampshire: Gower, 1983.
- Gordon, Stuart. "The United Kingdom: Between a Rock and a Soft Place?" In Martin A. Smith and Graham Timmins eds. Uncertain Europe: Building a new European Security Order? London: Routledge 2001.
- Grieco, Joseph M. "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism." In David A. Baldwin eds. Neorealism and Neoliberalism: The Contemporary Debate. New York: Columbia University Press, 1993.
- Grudzinski, Przemyslaw and Peter van Ham. A Critical Approach to European Security. London: Pinter, 1999.
- Ham, Peter van. "The Prospects for a European Security and Defense Identity." European Security Vol.4 No.4, Winter 1995.
- Hay, Donald A. and Derek J. Morris. Industrial Economics: Theory and Evidence. Oxford: Oxford University Press, 1979.
- Hazell, Paul. "Beyond 2015: The NATO Way Forward." Jane's Navy International Vol. 104, December 1999.
- Heisbourg, Francois. "Europe's Strategic Ambitions: The Limits of Strategic Ambiguity." Survival Vol.42 No.2, Summer 2000.
- Heisbourg, Francois. "European Defense: making it work." Institute of Security Studies Western European Union. Chaillot Paper 42, Paris, September 2000.
- Hopkins, Terrence K. and Immanuel Wallerstein eds. The Age of Transition: The Trajectory of the World System 1945-2025. London: Zed Books, 1997.

- Howorth, Jolyon. "Renegotiating the Marriage Contract: Franco-American Relations Since 1981." In Sabrina Ramet and Christine Ingebritsen eds. U.S. European Interactions Since the end of the Cold War. Boulder: Rowman and Littlefield, 2000.
- Howorth, Jolyon. "Britain France and the European Defense Initiative." Survival Vol.42 No.2, Summer 2000.
- Hulsman, John. "The Guns of Brussels." Policy Review 101, June/July 2000.
Cottey, Andrew eds. Subregional Cooperation in the New Europe. New York: St. Martin's Press, 1999.
- Jacquemin, A.P. and H.W. de Jong eds. Markets, Corporate Behavior and the State: International Aspects of Industrial Organization. The Hague: Martinus Nijhoff, 1976.
- Jacquemin, Alexis. The New Industrial Organization: Market Forces and Strategic Behavior. Cambridge: The MIT Press, 1987.
- Jervis, F.R. The Economics of Mergers. London: Routledge, 1971.
- Jong, H.W. de. "Theory and Evidence Concerning Mergers: An International Comparison." In A.P. Jacquemin and H.W. de Jong eds. Markets, Corporate Behavior and the State: International Aspects of Industrial Organization. The Hague: Martinus Nijhoff, 1976.
- Kapstein Ethan B. and Michael Mastanduno eds. Unipolar Politics: Realism and State Strategies After the Cold War. New York: Columbia University Press, 1999.
- Karier, Thomas. Beyond Competition: The Economics of Mergers and Monopoly Power. London: M.E. Sharpe, 1993.
- Kay, Sean. NATO and the Future of European Security. Boston: Rowman and Littlefield, 1998.
- Kegley, Charles W. "The Neoidealist Moment in International Studies? Realist Myths and the New International Realities." International Studies Quarterly Vol.37 No.2, June 1993.
- Keohane, Robert. After Hegemony: Cooperation and Discord in the World Political Economy. Princeton: Princeton University Press, 1984.
- Keohane, Robert O. "Theory of World Politics: Structural Realism and Beyond." In Robert O. Keohane eds. Neorealism and its Critics. New York: Columbia University Press, 1986.
- Keohane Robert O. and Joseph S. Nye. Power and Interdependence: World Politics in Transition. Glenview, IL.: Scott Foresman, 1989.

- Keohane, Robert O. "Institutional Theory and the Realist Challenge After the Cold War." In David A. Baldwin eds. Neorealism and Neoliberalism: The Contemporary Debate. New York: Columbia University Press, 1993.
- Krasner, Stephen. "Global Communications and National Power: Life on the Pareto Frontier." In David A. Baldwin eds. Neorealism and Neoliberalism: The Contemporary Debate. New York: Columbia University Press, 1993.
- Kratochwil, Friedrich. "The Embarrassment of Changes: Neorealism as the Science of Realpolitik without Politics." Review of International Studies Vol.19 No.1, January 1993.
- Kratochwil, Friedrich. "Understanding Change in International Relations: The Soviet Empire's Demise and the International System." International Organization Vol.48 No.2, Spring 1994.
- Krauskopf, Robert W. "The Army and the Strategic Bomber." Military Affairs, Summer 1958.
- Kupchan, Charles. "In Defense of European Defense: An American Perspective." Survival Vol.2 No.2, Summer 2000.
- Larson, Thomas. Soviet-American Rivalry. New York: W.W. Norton, 1978.
- Lebow, Richard Ned. "The Long Peace, the End of the Cold War, and the Failure of Realism." International Organization Vol.48 No.2, Spring 1994.
- Lebow, Richard Ned. "Cold War Lessons for Political Theorists." The Chronicle of Higher Education Vol.42 No.20, January 26, 1996.
- Legro, Jeffrey and Andrew Moravcsik. "Is Andybody Still a Realist?" International Security Vol.24 No.2, Fall 1999.
- Loedel, Peter and Mary McKenzie eds. The Promise and Reality of European Security Cooperation. London: Praeger, 1998.
- Marcus, Jonathon. "Kosovo and After: American Primacy in the Twenty-First Century." Washington Quarterly Vol.23 No.1, Winter 2000.
- Mastanduno, Michael. "Preserving the Unipolar Moment: Realist Theories and U.S. Grand Strategy After the Cold War." In Ethan B. Kapstein and Michael Mastanduno eds. Unipolar Politics: Realism and State Strategies After the Cold War. New York: Columbia University Press, 1999.
- Mathiopoulos, Margarita and Istvan Gyarmati. "Saint Malo and beyond: Toward European defense." Washington Quarterly. Vol. 22 No.4, Autumn 1999.

- Mearsheimer, John J. "Back to the Future: Instability in Europe After the Cold War." International Security Vol.15 No.1, Summer 1990.
- Mearsheimer, John J. The Tragedy of Great Power Politics. New York: W.W. Norton and Company, 2001.
- Meeks, Philip J. "Hegemons in History." In Tsuneo Akaha and Frank Langdon eds. Japan in the Posthegemonic World. Boulder: Lynne Rienner, 1993.
- Moens, Alex. "Developing a European Intervention Force." International Journal. Spring 2000.
- Morgenthau, Hans. Politics Among Nations. New York: Knopf, 1948.
- Nelson, Harvey W. Power and Insecurity: Beijing, Moscow and Washington, 1949-1988. London: Lynne Rienner Publishers, 1989.
- Nicoll, Alexander. "Eurofighter tempts Norway in bid to win key contract." Financial Times, July 23, 1998.
- Park, William and G. Wyn Rees eds. Rethinking Security in Post-Cold War Europe. London: Longman, 1998.
- Paterson, Thomas. Meeting the Communist Threat. New York: Oxford University Press, 1988.
- Politi, Alessandro. "On the Necessity of a European Defense Industry." In Wilfried von Bredow, Thomas Jager and Gerhard Kummel eds. European Security. New York: St. Martin's Press, 1997.
- Powell, Robert. "Absolute and Relative Gains in International Relations Theory." American Political Science Review Vol. 85 No.4, December 1991.
- Prados, John. The Soviet Estimate. New York: Dial Press, 1982.
- Ravenscraft, David J. and F.M. Scherer. Mergers, Sell-Offs, and Economic Efficiency. Washington D.C.: The Brookings Institution, 1987.
- Redwood, John. Our Currency, Our Country. London: Penguin Books, 1996.
- Rose, Francois de. "A Future Perspective for the Alliance." NATO Review Vol.43 No.4, July 1995.
- Rosencrance, Richard. The Rise of the Trading State: Commerce and Conquest in the Modern World. New York: Basic Books, 1986.
- Ruggie, John Gerard. "Continuity and Transformation in the World Polity: Toward a Neorealist Synthesis." In Robert O. Keohane eds. Neorealism and Its

Critics. New York: Columbia University Press, 1986.

Scherer F.M. and David Ross. Industrial Market Structure and Economic Performance. Boston: Houghton Mifflin Company, 1990.

Schmitt, Burkard. "From Cooperation to Integration: Defense and Aerospace Industries in Europe." Institute For Security Studies Western European Union. Chaillot Paper 40, Paris, July 2000.

Schmidt, Peter. "ESDI: A German Analysis." In Charles Barry eds. Reforging the Transatlantic Relationship. Washington: National Defense University Press, 1996.

Schroder, Paul. "Historical Reality vs. Neorealist Theory." International Security Vol.19 No.1, Summer 1994.

Shepherd, William G. The Economics of Industrial Organization. New Jersey: Prentice-Hall, 1985.

Slade, Margaret E. and Alexis Jacquemin. "Strategic Behavior and Collusion." In George Norman and Manfredi La Manna eds. The New Industrial Economics: Recent Developments in Industrial Organization, Oligopoly and Game Theory. Brookfield, Vermont: Edward Elgar, 1992.

Sloan, Stanley R. "The United States and European Defence." Institute for Security Studies WEU. Chaillot Paper 39, April 2000.

Smith, Martin A. and Graham Timmins, "The EU: Coming of Age as a Security Actor?" In Martin A. Smith and Graham Timmins eds. Uncertain Europe: Building A New European Security Order? London: Routledge, 2001.

Sperling, James eds. Two Tiers or Two Speeds? The European Security Order and the Enlargement of the EU and NATO, Manchester: Manchester University Press, 1999.

Stacey, Nicholas A.H. Mergers in Modern Business. London: Hutchinson, 1966.

Szasz, Andre. The Road to European Monetary Union. London: Macmillan Press, 1999.

Temperton, Paul eds. The euro. New York: John Wiley and Sons, 1997.

Utley, R.E. "France: Willing the Means to the End?" In Martin A. Smith and Graham Timmins eds. Uncertain Europe: Building a new European Security Order? London: Routledge, 2001.

Vasquez, John A. "The Realist Paradigm and Degenerative versus Progressive Research Programs: An Appraisal of Neotraditional Research on Waltz's

Balancing Proposition." American Political Science Review Vol.91
No.4, December 1997.

Wallerstein, Immanuel. The Politics of the World Economy. Cambridge: Cambridge
University Press, 1985.

Walt, Stephen M. The Origins of Alliances. London: Cornell University Press, 1987.

Walter, Holy Wyatt. The European Community and the Security Dilemma 1979-92. New
York: St. Martin's Press, 1997.

Waltz, Kenneth N. Theory of International Politics. New York: McGraw Hill, 1979.

Waltz, Kenneth N. "Theory of International Politics." Ch.'s 1,4,5,6 in Robert O. Keohane
eds. Neorealism and its Critics. New York: Columbia University
Press, 1986.

Waltz, Kenneth N. "The Emerging Structure of International Politics." International
Security Vol.18 No.2, Fall 1993.

Wendt, Alexander. "The Agent-Structure Problem in International Relations Theory."
International Organisation Vol.41 No.3, 1987.

Wendt, Alexander. Social Theory of International Politics. Cambridge: Cambridge
University Press, 1999.

Wohlforth, William. "Realism and the End of the Cold War." International Security Vol.19
No.3, Winter 1994/1995.

Wyllie, James. European Security in the New Political Environment. London: Longman,
1997.

Yost, David. "The NATO Capabilities Gap and the European Union." Survival Vol.42
No.4, Winter 2000-01.