# CHAPTER 1

# *Introduction*

The field of international relations is built on a conception of autonomous and self-interested states interacting in an anarchic environment. And yet the history of international politics is replete with cooperative arrangements that are hierarchical, that is, that require the curtailment of some freedom of action, and that display different degrees of institutionalization.[1] In fact, the last couple of centuries provide numerous examples of international cooperative structures like the Concert of Europe, the League of Nations, various wartime and postwar alliances, or the vast array of regional trading blocs (EFTA, NAFTA, ASEAN, MERCOSUR, etc.). Whether one looks at Europe, North and South America, Africa, or the Pacific region, there is evidence of institution-building around the globe. And, as the latest debates concerning NATO and the European Union make clear, such cooperative international structures continue to be of great importance today.

Hierarchy clearly exists in the international arena, and our challenge as scholars is not only to explain why states cooperate, but, just as important, what form their cooperation takes. Because different degrees of institutionalization are possible at the founding moment of cooperative security and economic structures, it does not suffice to point to the existence of hierarchy amidst anarchy. One also needs to explain why international actors choose the specific type of arrangements they do. Why did NATO, at its outset, resemble a traditional guarantee pact and not take the form of a confederation? Why were the Swiss and the Germans, following the Napoleonic Wars, much more willing to curtail their sovereignty than Russia, Prussia, Austria, or Britain? Or why did several West European countries in the 1950s give rise to a free trade area rather than to seek a common currency as recently adopted by eleven European Union members?

The main schools of thought in the field cannot explain the emergence of such hierarchical arrangements, they cannot explain why states choose to confederate or even why they develop very institutionalized and binding alliances.

On the one hand, there are realists who argue that, since the international system is anarchic—that is, lacks a central authority capable of

imposing order on the individual states—countries have to rely on self-help, and thus cooperation is rare and at best temporary.[2] In fact, for many scholars within the realist tradition, world politics, despite the end of the Cold War (the disintegration of the Soviet empire, the restructuring of East European governments, German reunification, etc.), has not fundamentally changed. John Mearsheimer, for instance, predicts that, due to the demise of bipolarity, the end of a rough military equality between the two superpowers, and the danger of mismanaged nuclear proliferation, we should see a return to greater instability and expect a decline in the number of international institutions.[3] Similarly, Kenneth Waltz continues to view the world in terms of power politics. He argues that, as a result of the collapse of the Soviet Union, the power of the United States is no longer held in check and he predicts that—as we have witnessed repeatedly in the past—other countries will assume Great Power status (Germany, Japan, China, Russia) to restore a balance. Or, put differently, Waltz suggests that we will see a return to multipolarity, since there are several countries whose interests dictate that they take on system-wide tasks and, in particular, balance against the preponderant power of the United States.[4]

On the other hand, there are functionalists, integrationists, and institutionalists who fault realists for being too pessimistic about the prospects of cooperation and who do see change.[5] Scholars like Robert Keohane and Charles Lipson, for instance, argued even before the end of the Cold War that institutions provide opportunities for further cooperation and predicted that, as long as interdependence is increasing, we should see greater institutionalization.[6] Although scholars within the institutionalist camp[7] have developed numerous theories to account for the emergence of cooperation, they have no clear conceptual basis for understanding different degrees of institutionalization. These scholars can explain how shared interests,[8] increasing interdependence,[9] informational problems, and transaction costs[10] lead to the creation of international organizations or international regimes,[11] yet they cannot account for why international actors choose the type of institutional arrangements they do.

To understand world politics one must recognize the importance of emerging hierarchies—with nation-states as their constituent elements and institutional structures that take substantial autonomy from the state.[12] Some such hierarchical arrangements are economic (free trade areas, customs unions, etc.), others are military (ententes, formal alliances, confederations).

This book studies countries' international institutional choices and seeks answers to questions such as these: Why do states create the type of cooperative international structures they do? What causes states to

choose an entente over a confederation, a nonaggression pact over a more formal alliance, or a free trade area over a customs union? In short, what determines the varying degrees of hierarchy found amidst anarchy?

More specifically, the book highlights the importance of the founding moment of institutional structures. Assuming that states have decided to cooperate (rather than to engage in self-help), it seeks to explain the initial choice that leads to particular degrees of institutionalization.

Clearly, once cooperative arrangements have been formed, some dissolve quickly, others last for decades, and still others evolve into much more binding structures. However, since the causal connections between the initial choice to cooperate and the institutions that evolve over time are largely speculative, and considerations other than those that give rise to particular cooperative structures most likely would have to be factored into the equation to account for evolutionary developments (frequency of interactions, institutional inertia, organizational costs), it does not appear theoretically tractable to examine the founding moment and evolutionary consequences simultaneously.

The main purpose of this book thus is to account for the creation of different degrees of hierarchy in the international system. Having developed a theoretical framework that can shed light on the institutionalization "puzzle," in the conclusion, I then take up the issue of evolution. Specifically, I discuss how the variables scrutinized in this study can be expected to change over time, and thus how the argument developed can serve as a building block for examining the evolution of cooperative arrangements.

Although the framework put forth below has broad applicability to any voluntary curtailment of a state's freedom of action, regardless of whether cooperation is sought in the security, economic, environmental, or human rights domain, in the following, I will focus on security issues since they constitute the "hard case" for the theoretical approach employed in this study. However, in the conclusion, I will examine recent integrative moves within the European Union to test how my argument fares in the economic realm.
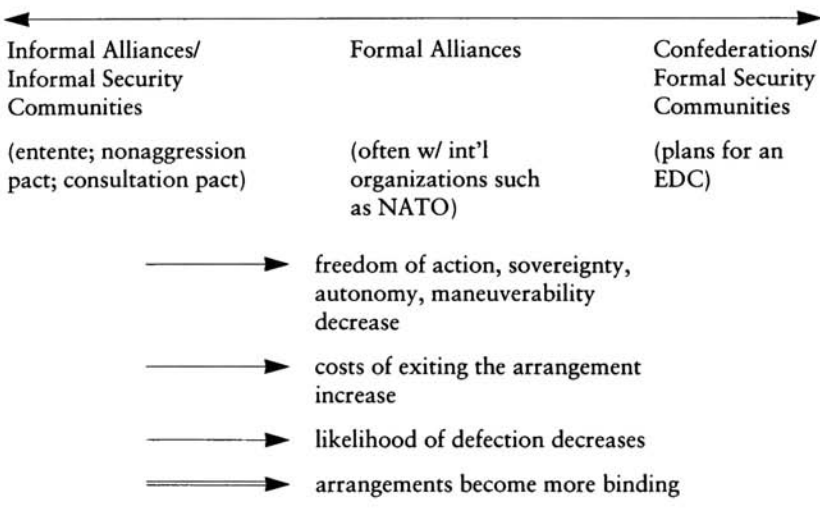
The remainder of this chapter takes a closer look at a continuum of cooperative security arrangements with different degrees of bindingness. It argues that realism barely recognizes such hierarchical arrangements and that, although it points us in the right direction, ultimately, is inadequate to explain them. The classical argument for the emergence of larger entities, that of economies of scale, explains size rather than "bindingness." But, recognizing that economists account for the creation of hierarchical arrangements like firms by focusing on transaction

costs, the next chapter uses this insight to develop an autonomous inter-est-based explanation for cooperative governance structures in international politics. The chapter then discusses the operationalization of the main variables and explains the case selection. Subsequent chapters test the argument.

## CONTINUUM OF INTERNATIONAL SECURITY ARRANGEMENTS

The history of international politics is replete with different security arrangements. These arrangements should be viewed as occupying various positions on a continuum that ranges from relationships characterized by high maneuverability or autonomy to highly structured relationships with significantly restricted maneuverability or autonomy (see Figure 1.1). The further a country moves away from arrangements that allow for a high degree of maneuverability toward the more restrictive arrangements, the more limited its freedom of action, the greater its delegation of authority to a centralized political structure, and the higher the costs of exiting the arrangement become. Thus, the closer countries move on the continuum toward the arrangements that curtail their freedom of action, the more "binding" their commitment will be, since the

FIGURE 1.1
Continuum of Cooperative Security Arrangements

| Informal Alliances/ Informal Security Communities | Formal Alliances | Confederations/ Formal Security Communities |
|---|---|---|
| (entente; nonaggression pact; consultation pact) | (often w/ int'l organizations such as NATO) | (plans for an EDC) |

→ freedom of action, sovereignty, autonomy, maneuverability decrease

→ costs of exiting the arrangement increase

→ likelihood of defection decreases

⇒ arrangements become more binding

costs of defecting from a highly structured arrangement are higher, and since the likelihood of defection is reduced. Or, put differently, binding-ness—which entails the voluntary curtailment of sovereignty in exchange for greater institutionalization—is likely to decrease oppor-tunistic behavior, since it would be difficult, as well as costly, in terms of reputation and security for cheaters or defectors to find a replacement for a structurally sophisticated security apparatus.

Given this conceptualization, *alliances* constitute security arrange-ments on the less binding side of the continuum and *confederations* (or security arrangements like institutionally sophisticated security commu-nities) represent arrangements on the more binding side. An alliance is a formal or informal relationship between two or more sovereign states that involves some measure of commitment to act jointly to bring about greater security and that assumes that a violation of any agreement would cost something.[13] A confederation, in contrast, entails a deliber-ate banding together of states to create a central, permanent, and state-like political structure that is capable of acting like a state, yet is not a single state but a union of states.[14] Hence, it is important to stress that in both alliances and more binding organizational structures like con-federations states retain their sovereignty, in a nominal sense, but that in the latter arrangements states are bound much more significantly, due to an elaborate structural makeup that often includes a diet, a confederate army, and arbitration mechanisms.[15]

Moreover, it is imperative to distinguish between a confederation and a federation. Members of a confederation act as if they were a sin-gle state and curtail their freedom of action, but they never surrender their autonomy completely. In a federation sovereignty is surrendered to a higher authority so that the coordination found in a confederation gives way to subordination in a federation.[16] In other words, restricting the range of the continuum to confederations permits a focus on politi-cal units equal in status that continue to exist as independent (sovereign) political entities even after they have joined an alliance or a confedera-tion. An extension of the continuum to federations would force one also to examine political units in which power is divided unevenly between "central" and "regional" authorities.[17] Put differently still, extending the continuum to include federations would require one to abandon the exclusive focus on *interstate* relations and to move into the *intrastate* world.[18]

Alliances and structurally binding security arrangements like con-federations or formal security communities,[19] then, are the outer bound-aries of the continuum under consideration here. But countries that have decided to cooperate do not only choose whether to ally or to confeder-ate (face a dichotomous choice); they choose among a variety of security

arrangements such as informal alliances (ententes, nonaggression pacts), more formal alliances, security communities with varying degrees of centralization,[20] or confederations. Stated differently, on this continuum ranging from security arrangements with great maneuverability and freedom of action to relatively binding security structures *intermediate* types of security arrangements exist as, for instance, alliances in which the members agree to found international organizations such as NATO.

Again, what needs to be stressed is that bindingness, as used in this essay, measures the degree of *structural commitment* allies agree to make. In that regard, this study differs significantly from the work of scholars like Sandler and Forbes, who examine states' financial commitments (military spending) as an indicator of bindingness,[21] or Sandler and Cauley, who rely on a combination of "tightness" measures such as "bindingness of decisions," "number of participants," "decision rule," and "scale of communication network."[22]

An understanding of bindingness requires scrutiny of the specific *institutional makeup* of security arrangements to ascertain how committed allies are to curtailing their discretionary powers. States that, for example, have agreed to forgo independent armies and instead have created a confederate army make a much stronger commitment than states that merely verbally commit to come to each others' aid or to provide financial support in the event of an attack by a third party. Likewise, cooperative arrangements with elaborate arbitration mechanisms, decision-making structures, and integrated military apparati are much more likely to be binding than arrangements lacking these components.

The literature has commonly treated alliances and confederations separately. Those who write of alliances do not address confederations and vice versa. Indeed, despite numerous studies in the field of international security, only a few scholars have treated security arrangements as matters of *choice*. Russett, Morgenthau, and Holsti, Hopmann, and Sullivan, for instance, all claim that states, when confronted with a threat, often align; thus they presume that states have a choice between a strategy of "going it alone" and allying.[23] Barnett and Levy focus on domestic sources of international alliances to account for a state's decision to ally or not to ally.[24] Similarly, Altfeld and Morrow develop a model of alliance choices by examining the trade-offs between autonomy and security;[25] Snyder compares the costs and risks of abandonment and entrapment to account for alliance strategies;[26] and Morrow focuses on the tightness of alliances as a signal of intentions.[27] Yet these scholars do not tell us why states choose one type of alliance over another, that is, they do not link the different types of alliances with their varying degrees of institutionalization to the issue of choice.

Some functionalists, integrationists, and institutionalists do allow for the fact that states can choose from a wide spectrum of institutional forms, but these scholars fail to offer a general argument for understanding different organizational outcomes. For example, Martin views institutions as solutions to dilemmas of strategic interaction, yet stresses that a functional approach leaves one ill-equipped to account for specific organizational outcomes.[28] As she puts it herself, her type of analysis, at best, "provid[es] rational-choice baseline expectations about behavior."[29] Similarly, Garrett warns that, although transaction costs economics holds that cooperative security arrangements represent uniquely efficient solutions to problems, often it is impossible to discriminate between different potential outcomes in terms of their efficiency.[30]

Finally, there are scholars who are interested in accounting for one particular type of political structure. For instance, classical political theorists like Rousseau, Abbé de Saint Pierre, Kant, and List[31] try to distinguish confederations from other types of political unions. Sandler and Cauley engage in a cost-benefit analysis to design an optimal supranational structure.[32] Breton and Scott focus on organizational costs to explain the origin of federal states.[33] Sandler and Forbes examine the relationship between defense burden-sharing and NATO's structure.[34] And Weber analyzes political ideas of U.S. decision-makers to shed light on the specific institutional form NATO took in the postwar period.[35]

The argument developed here departs from the studies just mentioned. Beginning with realist premises, that is, accepting that the international system is anarchic,[36] it arrives at an explanation of international hierarchy that is rooted in the choices of sovereign states. More specifically, it begins with the standard realist assumption of self-interested states in an anarchic environment, acting to assure their survival. It claims that states (as rational, unitary actors)[37] choose whether to ally or not, with whom to ally, and, very important, what degree of commitment and what kind of relationship they desire.

Of course there are many scholars who reject the economistic view of realists. Constructivists, in particular, argue that to understand international relations one must adopt a sociological or social/psychological approach and recognize that "the fundamental structures of international politics are *social* rather than strictly material."[38] As Wendt explains, "these structures shape [states'] identities and interests, rather than just their behavior," and thus realists are wrong in claiming that identities and interests are "exogenously given."[39] Similarly, Dessler finds fault with the realist conceptualization of structure and proposes that, rather than to view structure as "an environment or 'container' in which behavior takes place," structure should be seen as a "medium, a

means to social action."[40] In sum, what matters most in obtaining a better understanding of international politics, constructivists tell us, is a focus on ideational forces to ascertain how ideas, norms, rules, learning, and so on, affect states' behavior and their interests.[41]

However, as Waltz correctly points out, assumptions are neither true nor false, but merely more or less "sensible."[42] One relies on assumptions for the purpose of theory development and then asks how useful specific assumptions are in explaining a particular puzzle under investigation. Thus, despite the objections raised by members of the English school, constructivists, and others,[43] this study builds onto realist propositions and, as will be developed below, argues that the basic assumptions of realism provide an excellent basis for examining the determinants of states' institutional choices.

## REALISTS AND HIERARCHY

Realists like Hans Morgenthau and Kenneth Waltz tell us that, in a self-help world, self-interested states either act to assure their survival or perish.[44] The need to rely on themselves "leads states to value autonomy and independence."[45] It is clear that, if all states pursued their self-interest, the creation of alliances—which indicate the existence of convergent interests—would be unlikely. At best, alliances would be temporary and would function as signaling devices with which states would inform each other of their individual interests.[46]

Yet situations do arise in which unilateral action cannot assure the survival of states, that is, in which a strategy of "going it alone" would be inferior to cooperation.[47] Common interests often do exist, particularly in cases of high (external) threat.[48] As Stephen Walt convincingly shows, states ally against threats rather than to balance against power alone.[49] And states are much more likely to balance than to bandwagon, since the latter (joining the stronger side) would leave an ally "vulnerable to the whims of its partners."[50]

The problem, however, is that even states that ally against a threatening power have to fear opportunistic behavior on the part of others; that is, their allies could defect or cheat. States thus seek to devise institutions that facilitate cooperation by safeguarding against opportunism.[51] Or, put differently, states seek hierarchical arrangements to decrease chances that their allies will defect when cooperation is needed to offset relative weaknesses vis-à-vis enemies. Hence, even in an anarchic environment that stresses survival and autonomy, self-interested actors voluntarily reduce their freedom of action to obtain necessary assurances.

In the military realm, the level of threat is instrumental in determining the nature and degree of states' commitment. That is, if the level of external threat countries face is low, there is no need for a strong commitment, and therefore if countries choose to cooperate, an alliance might be chosen over a more binding security arrangement. On the other hand, if the level of external threat is high, countries are likely to prefer an arrangement that gives them greater assurance (that is, one that is more binding, thereby reducing the risk of defection), and thus to opt for a formal security community or a confederation.[52]

In sum, what extant international relations theory by itself can tell us is that threat leads to alliances, since alliances are viewed as political structures that are militarily capable of dealing with a security problem. Moreover, realists like Walt can explain who is likely to ally with whom and, by pointing to the centrality of threat, realists make an important contribution to finding an explanation for states' institutional choices.

However, realism cannot definitively tell us how binding a relationship countries will enter into. That is, even if we try to use the degree of threat to explain various gradations of bindingness, such an explanation is incomplete since it cannot account for a case like NATO where external threat was high yet the countries did not confederate. And, in fact, it is likely that reactions to threat may include hierarchical structures not at all envisaged by realism. Put differently, given that alliances offer a presumptive organizational solution to security issues, what we need is a theory of alliances that links institutional structures to the issue of providing security. More specifically, what needs to be articulated is the exact relationship between increased security and different organizational arrangements. Absent such knowledge, all international relations theory currently can explain is that a high level of threat might be a *necessary* condition for a confederation to come about but that it is not sufficient.[53]

The following section turns to the classical argument made for the emergence of larger entities, for hierarchy, and for integration, namely, that of economies of scale.

## ECONOMIES OF SCALE AND INTERNATIONAL INTEGRATION

Security arrangements between states are mechanisms for aggregating the capabilities of states in situations in which individually the states have inadequate capability to deal with threats that confront them. In fact, the scale required to generate the capability to assure survival often

exceeds any one state, so that cooperation becomes necessary.

Focusing on European military history, Richard Bean, for instance, argues that changes in the art of warfare (military technology) can alter the efficient size of political units.[54] More specifically, he claims that, just as gains from specialization in different activities can give rise to economies of scale for firms, there are advantages of large size among political organizations. Defense costs, for example, should decrease for individual members as organizations increase in size, since "doubling the area of a state usually less than doubles the border needing defense and so more resources are available per linear mile." But, as Bean puts it, "economies of scale are checked at some point by decreasing returns"; that is, the larger political units become, the greater their problems of command and control, so that there is an "optimal range of size."[55] States that exceed this optimal range are likely to break apart, whereas those that are smaller are likely to be integrated into other political units.

A good example of how technological innovation can bring about change in the relative size of states is provided by the development of gunpowder weapons in the fifteenth century. As William McNeill explains, prior to the manufacture of the cannon, numerous castles were spread throughout Western Europe that were almost immune from attack. Then, in the middle of the fifteenth century, the introduction of heavy artillery pieces not only rendered existing fortifications useless, but also greatly diminished the power of smaller states (like the Italian city-states) that could not afford these costly new weapons. The new gunpowder arms began to favor larger, centralized states that possessed the means to extract resources from their populations.[56] Or, more general, as increasingly powerful and mobile weapons were being developed that made it possible for countries to express their military power over greater distances, the necessity to defend larger territories led to the need for larger armies, and hence bigger states.

In short, what Bean, McNeill, and many of their colleagues suggest is that institutions are created to allow individual members to reap the benefits inherent in economies of scale. If we can pinpoint the factors that force political or economic actors to merge or collaborate to attain a sufficient size to assure their survival, we then can account for institutional change.[57]

It is important to stress that the economies-of-scale approach (much like the traditional realist model) focuses on *size* rather than bindingness. Thus, all economies-of-scale proponents can tell us is that size considerations may lead to institutional change, but they cannot specify the exact nature (structural makeup) of the new institutional arrangements.[58]

The next chapter extends the realist argument by adding transaction costs as a further explanatory variable and, in doing so, provides an alternative to economies-of-scale approaches. As will become clear, the application of a transaction costs argument to international relations is not new. Building onto the work of others, I develop several indicators of transaction costs and then test them in what constitutes the "hard case"—the security realm.