

**TRANSACTION COSTS IN THE EUROPEAN SECURITY AND DEFENCE POLICY (ESDP):
UNDERSTANDING THE UNITED STATES' IMPACT ON EUROPEAN SECURITY**

Paper submitted to the EUSA Eleventh Biennial International Conference in Los Angeles (California), April 23-25, 2009.

ABSTRACT

The objective of the paper is to introduce a comprehensive approach to the emergence of the European Union's security and defence policy (ESDP) in 1998/9. In particular, the - direct and indirect - impact of the United States is the focus of the examinations. It is demonstrated that the prominently promoted Realist emphasis of structural power conditions, such as unipolarity and German reunification, is misleading. More importantly, the conceptual lenses of (soft) balancing against and bandwagoning with power cannot grasp the differentiated nature of ESDP and provide, therefore, a flawed approach.

In contrast, the paper argues that liberal-institutionalist thought and 'transaction costs economics' offer a heuristically promising point of departure. More specifically, it focuses not only on uncertainty and the resulting risks of opportunism, but also on the specificity of those assets that the ESDP has ultimately created. Empirically, it is argued that Britain and France were increasingly confronted with high risks of opportunism within NATO to provide European security. The American commitment to all kinds of security problems had suffered credibility and, therefore, the medium powers had searched for another institutional option to perform this task on a long-term basis. While this assessment of ex post transaction costs triggered the initial establishment of ESDP, ex ante transaction costs were responsible for its more specific design. After all, the superpower and most influential NATO member would not stand aside to watch the creation of a competitor to the Alliance. Hence ESDP had to be compatible with NATO, which was assured by all participants and was subsequently incorporated into the EU's agreements. *General*, and thus redeployable, military assets represented the institutional solution to the conflict between European autonomy and NATO's primacy.

(Draft version - please do not quote without permission!)

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INTRODUCTION

For one decade, Europe's medium powers have been promoting a security and defence pillar within the European Union (EU), after several attempts had failed in and immediately after the Cold War. The Franco-British Declaration of St Malo (1998) set a process in motion, which subsequently gathered increased attention by scholars of International Relations.¹ The European Security and Defence Policy (ESDP) represents a challenge to scholars not only because it is a novel security institution, but also because of its ambivalent nature. First, it did not replace NATO under American leadership, but emerged in parallel. Second, the United States' reaction has nonetheless been hesitant and sometimes even hostile. Finally, the sole superpowers' 'special partner', namely the United Kingdom (UK), was one of the main architects of the newly established security institution. Therefore, the general question arises of how one could make sense of the emergence of ESDP and, in particular, how could one explain it from the perspective of existing mainstream theories?

Not surprisingly, the keepers of the Grail of security studies were among the first to develop systematic explanations of recent developments. Realist scholars primarily inferred their explanations of these novel alliance strategies from changing structural power constellations, such as unipolarity or German reunification (Posen 2004, 2006; Jones 2003, 2007). Though to different degrees, the general message was that the establishment of ESDP represented a form of weak or soft balancing - not directly related against US power, but, at least, prompted by it (e.g. Posen 2006: 186; Art 2005/6: 184; Jones 2007: 8-10). This paper addresses the Realists' responses to both questions: why ESDP emerged; and what ESDP is ultimately about. It is argued that the Realist lenses of 'balancing' and 'bandwagoning' are not a helpful device to understand and explain the security institution. In particular, the American impact on institution-building processes in ESDP cannot be adequately captured.

¹ *Joint Declaration by the French and British Government*, (St Malo: 3/4 December 1998), cited from: Rutten 2001: 8-9.

Liberal-institutionalist thought, in general, and transaction costs economics, in particular, offer a much more promising point of departure (e.g. Keohane 1984; Lake 1999; Weber 2000). More specifically, a transaction costs framework focuses not only on uncertainty and the resulting risks of opportunism, but also on the specificity of those assets that the security institution ultimately creates (Williamson 1985). While the former is able to explain why the EU members initiated ESDP at all, the latter provides a conceptual lens to understand better the specific design of ESDP. When we aim to understand and explain why the main EU members established ESDP rather than a 'European Security and Defence *Identity*' *within NATO*, we need to focus on how the United States actively contributed to the Europeans' risks of opportunism and thus transaction costs that they were faced with. The paper demonstrates empirically how isolationist concerns increased the fears of opportunism among the key European governments. Their ex post transaction costs – particularly within NATO – to provide for European security were growing decisively and entailed them to establish the ESDP *within the Union*. This enterprise, however, was explicitly *not* directed against the United States or NATO. Nevertheless, it prompted concerns among the Americans and they formulated - at least, implicitly - a threat to withdraw completely from European security crises. This had a sustainable impact on the Europeans' assessment of ex ante transaction costs for the future provision of security.

This contested nature of ESDP was particularly based on the dilemma between autonomous military capabilities and NATO's historically evolved primacy. Britain and France, the two initiators of ESDP, have traditionally represented these diametrically opposed positions. The key to, nonetheless, establish a EU security and defence pillar was ultimately the creation of non-specific, *general* military assets. These were redeployable to other purposes - also to NATO. This sustainably reconciled American concerns about European autonomy and could, nevertheless, equip the Europeans with more capabilities to project force. Although general assets facilitated less efficiency gains, they contributed to a long-term reduction of transaction costs that the EU members were faced with.

The paper proceeds as follows. First of all, I focus on recent Realists' attempts to explain the emergence of ESDP. More specifically, this approach is applied to the question of why the European Union has acquired a security and defence policy since 1998/9 and in how far we may understand this development through the lenses of 'soft balancing'. After this critical review, the paper develops an own approach to the problematique building on 'transaction costs economics'. It applies the concepts of 'uncertainty' and 'asset specificity' to the key European states, namely France and Britain. It is empirically demonstrated that the United States had a significant impact on its European partners, but not in a way supposed by Realists. The most crucial aspects are (1) their assessment in how far the United States would (not) further contribute to the general provision of European security and (2) the nature of the assets at stake. A 'structured, focused comparison' of the signalling processes between the main actors will provide the empirical evidence for this argument.²

ESDP AS A SECURITY INSTITUTION

After diplomatic preparations in Pörschach and St Malo in 1998, two European Councils in 1999 laid the groundwork for the European Security and Defence Policy.³ While the governments created the institutional arrangements in Cologne, they beefed them up in terms of military capabilities by agreeing on the Helsinki Headline Goal (e.g. IISS 2001: 283-91). The Treaty of Nice ultimately integrated these cooperative steps into the European Union in 2000.⁴ After the first ESDP missions, a new military component was added to the catalogue system of the Headline Goal, namely the 'battlegroups' in

² The paper builds thereby on different sources of data, such as strategic documents, speeches, media reports, and some expert interviews.

³ "Declaration of the European Council on Strengthening the Common European Policy on Security and Defence", (Cologne: European Council, 3-4 June 1999); General Affairs Council, (Brussels: 15 November 1999); "Presidency Conclusions: II. Common European Policy on Security and Defence", (Helsinki: European Council, 10-11 December 1999), cited from: Rutten 2001: 41-5, 66; 82-91.

⁴ For the most relevant components of the Nice Treaty (Presidency Conclusions with numerous annexes, treaty amendment, report of Mr CFSP, etc.), see, Rutten 2001: 168-221. See for the establishment of the EU's political-military structures, Council Decisions 2001/78-80/CFSP, 22 January 2001.

2003. Their focus was more on *rapid* reaction, however, at a smaller scale than the European Rapid Reaction Forces established in Helsinki (Lindstrom 2007).

These political developments represent a puzzle in empirical logic since the observable expansion in European security policy could be considered a major surprise for contemporary witnesses: significant progress of a European security and defence pillar *within the EU* rather than NATO, as all commentators had expected. A retrospective view of the two most important players in the mid-1990s illustrates the puzzling nature of ESDP – even though meanwhile we perceive its existence as normal. On the one hand, it was evident for several reasons that the United Kingdom (UK) would never opt for a genuinely European solution to defence issues. Instead, it would always stick to the ‘special relationship’ with the United States (e.g. McInnes 1998: 835): if a European pillar in security and defence issues was to be strengthened, it would be located within NATO. This had been American policy since Kennedy, British policy even before that, German policy most of the time and would have to become French policy, too. In other words, there were some uncontested parameters in the European security architecture. On the other hand, France had just elected Jacques Chirac as new President of the Republic. He immediately began one of the most prestigious projects in French politics, namely a massive transformation of the armed forces coupled with a new defence policy (Chirac 1996). Apart from the end of the Cold War, two developments, in particular, made French defence reforms seem inevitable: firstly, the quasi-failure to project their own forces into the Gulf region in 1991; secondly, the close cooperation with the United Kingdom on the ground in Bosnia. What could we expect from these two developments emerging at the same time? The answer is clear: French rapprochement with the Atlantic Alliance (Millon 1996; Grant 1996).

At first glance, thus, a strengthened European pillar within NATO would have been the allegedly obvious path to European security and defence policy. However, the actual development differed significantly to the extent that the pillar exists, in fact, outside the Alliance and inside the EU. In Henry Kissinger’s words: "the distinctive feature of the European Union military force (...) is to create a capacity to act outside the NATO

framework" (Kissinger 2001: 34). This puzzle requires a comprehensive explanation from International Relations Theory and Realist proponents were among the first to account for these developments (e.g. Jones 2003; Posen 2004). Before I go into detail of their approaches, however, the 'explanandum' needs to be precisely defined.

In terms of political sciences concepts, we observe policy adjustment or simply cooperation between several states with the purpose to work together in a certain issue-area (e.g. Keohane 1984: 51). More specifically, the EU governments adjust in the security domain to establish common political-military structures in the Union's framework. They are building *security institutions*, which are "structures or agreements for governing cooperation between partners" (Lake 1999: 38).⁵ They are designed "to guard states' autonomy against the political effects of the threat of (...) force; and to prevent the emergence of situations that could endanger states' vital interests as they define them" (Wallander et al. 1999: 2).⁶ From a Realist point of view, which is in this respect fully compatible with the paper's conceptualisation, ESDP is designed to protect the Europeans' security interests - largely independent from US military assets and, in particular, without Washington's approval. For that purpose, they establish political and military assets on a common basis (e.g. Posen 2004; Jones 2007). The core question of this paper is therefore what drove these puzzling developments? Was it primarily a response to both unipolarity and a potential security dilemma in Europe, as Realists argue? Or was it rather the attempt to reduce - ex post and ex ante - transaction costs for the provision of European security?

Before we ultimately confront these competing explanations at a theoretical and empirical level, some brief methodological remarks are required. The paper's explanatory strategy develops a 'processual perspective' of institution-building in

⁵ This definition is fully compatible with Realists' understanding of institutions. John Mearsheimer defines "institutions as a set of rules that stipulate the ways in which states should cooperate and compete with each other. They prescribe acceptable forms of state behaviour, and proscribe unacceptable kinds of behavior" (Mearsheimer 1994/5: 8).

⁶ In particular, this latter function, which is practically synonymous with what Arnold Wolfers had labelled 'milieu goals' (Wolfers 1962: 73-76), will be of interest in the context of the paper because it represents the core of the EU's efforts.

European security (Walt 2009: 91).⁷ Therefore, a 'structured, focused comparison'⁸ systematically analyses the institutional development according to a process-tracing logic (George and McKeown 1985; George and Bennett 2005). This kind of comparison mainly suggests that the qualitatively analysed case will not become arbitrarily combined with each other, but compared in a formal and systematic way. Finally, the primary empirical evidence consists of documentary sources: firstly, strategies, position papers, reports, speeches and other official sources; secondly, a comprehensive newspaper search (Factiva and Lexis/Nexis); thirdly, some policy papers and secondary literature of historians and political scientists.⁹

ESDP AS 'SOFT BALANCING' AND 'BINDING' IN A UNIPOLAR WORLD?

Realist thought still dominates thinking in International Relations about security. This is particularly applicable to American Political Science, which has increasingly become interested in the EU's recent efforts to institutionalise defence in the previous years (Art 1996; Art 2005/6; Jones 2003, 2007; Posen 2004, 2006). Realist scholars infer the primary determinant of the emergence and development of security institutions from anarchy and the distribution of material capabilities (i.e. power). In short, institutions "largely mirror the distribution of power in the system" (Mearsheimer 1994/5: 13). Based on this premise, Barry Posen and Seth Jones attempted to explain the emergence of ESDP by a combination of the international and the European system.

⁷ This paper is part of a larger project that systematically compared the sources of German, British and French preferences for institution-building since the mid-1990s. Even though the presented evidence refers merely to some selected sources, the foundation is normally much more comprehensive. This is primarily due to space constraints.

⁸ "A comparison of two or more cases is 'focused' insofar as the researcher deals selectively with only those aspects of each case that are believed to be relevant to the research objectives and data requirements of the study. Similarly, controlled comparison is 'structured' when the researcher, in designing the study, defines and standardizes the data requirements of the case studies. This is accomplished by formulating theoretically relevant general questions to guide the examination of each case" (George/McKeown 1985: 41).

⁹ Furthermore, I conducted some structured, open-ended interviews with several senior officials and policy experts. Most of the interviews were face-to-face, a few per e-mail and/or telephone. All of them were conducted under the 'Chatham House Rules'. A qualitative content analysis examined this broad range of data according to theoretically inferred categories.

Theory

Firstly, the global power shift from bi- to unipolarity accounts for the initial emergence and further development of ESDP in the end of the 1990s. Without a major threat from the East, the EU states wanted to project power abroad and become more autonomous from the United States (Posen 2004: 15; 2006: 166-182; Jones 2007: 24-32; 81-92; 197-202).¹⁰ Realist scholars labelled this alliance strategy 'weak' or 'soft balancing' (Posen 2006: 186; Jones 2007: 9-10) that is largely understood as "constraining U.S. power by other (diplomatic) means" (Paul 2005: 58-59). This kind of soft balancing does neither perceive the US as a military threat nor aims to change the overall balance of power. Instead, it strives for more desired outcomes in the international system. In short, it is argued that the building of ESDP represents an act of soft balancing on behalf of the EU governments and is primarily caused by the structural condition of unipolarity (Art 2005/6: 184; Posen 2006: 159; Jones 2007: 24).

Secondly, "structural shifts in Europe at the end of the Cold War triggered an increase in security cooperation through the European Union. Cooperation allowed European states to bind Germany and ensure long-term peace on the continent" (Jones 2007: 11). Two (rare) conditions lead to such a 'binding' strategy: (1) a potential security dilemma; and (2) a status quo attitude of the threatening state. Again, power or - more specifically - the extent of the superpower's military presence serves as an important background condition because it determines in how far a security dilemma is likely to arise (Jones 2007: 59-62). In other words, the distribution of European capabilities entailed Germany's partners - France and Britain, in particular - to promote security cooperation within the EU because this would bind Germany on a long-term basis. In combination with concerns about an American withdrawal, it was ultimately the far-sighted identification of a possibly arising security dilemma on behalf of the German leaders and their willingness to mitigate it that led to the establishment of security

¹⁰ According to Stephen Walt, this alliance strategy could also be termed 'leash-slipping' - that is an alignment intended to enhance autonomy (Walt 2009: 107-8). Nevertheless, this paper refers more directly to the Realist literature on ESDP, which usually coins it as 'soft', 'weak' or 'moderate balancing' (Posen, Art, Jones etc.).

institutions within the EU in the 1990s (Jones 2003: 143). In short, it is argued that - after German reunification - the structure of the European system entailed the risk of an emerging security dilemma, which was recognised by European leaders. Therefore, they established ESDP as a forum to ameliorate the dilemma. After having presented the two primary determinants of the paper's 'explanans' at a theoretical level, the next step seeks for empirical evidence.

Empirical evidence

Firstly, let us consider the material distribution of capabilities. In contrast to the bipolar system of the Cold War, the 1990s were undoubtedly characterised by unipolarity (Wolforth 1999). From the perspective of military capabilities, in particular, the United States largely possesses "command of the commons" and this will supposedly not change in the near future (Posen 2003). At first glance, therefore, it appears plausible that the European medium powers, such as France or Great Britain, pursue distinct alliance strategies in a uni- than in a bipolar system. Furthermore, it is simply striking that there was no ESDP under bipolarity; and there is ESDP under unipolarity. The building of the EU's military forces "has been caused by the structural shift to unipolarity in the post-Cold War era. In a unipolar system, EU states have been motivated by a desire to decrease reliance on the US and increase power abroad" (Jones 2007: 217). According to that, the broad timing of the ESDP's establishment makes sense and, therefore, the distribution of power serves as a persuasive point of departure.

If we take, however, a closer look and compare the distribution of capabilities of the mid-1990s, when France promoted rapprochement with the *Alliance* (e.g. Millon 1996) and Britain vehemently *opposed* a defence pillar for the EU in Amsterdam (e.g. Government of the UK 1995a, 1995b), first doubts will arise (Weiss forthcoming). ESDP was not proposed in 1998/9 for the first time. The Intergovernmental Conference in Amsterdam (1996/7) has already had these issues on the agenda (EU Reflection Group.

1995).¹¹ However, Britain - under the Blair government - refused to discuss defence matters and the initiative consequently failed. The distribution of material capabilities had not changed between the mid-1990s and 1999, when ESDP was established. This suggests that some additional factors must have been effective. Therefore, Realists argue that unipolarity does not dictate a choice, but leaves sufficient room for manoeuvre (e.g. incentives, constraints etc.) (Posen 2006: 160). In other words, it must have been the diverging intervening variable - the distinct perception of unipolarity by political leaders - that led to the creation of a security institution within the EU. Due to the fact that France and the United Kingdom were the two critical players to establish ESDP, the paper focuses in more detail on empirical evidence from the two countries.¹²

On the one hand, French support for the establishment of ESDP in the end of the 1990s is hardly puzzling. The government had always been a strong supporter of a more autonomous Europe with respect to defence issues. Even under supposedly less intriguing conditions of bipolarity, France promoted defence cooperation among Europeans and without the United States (Posen 2004: 15). This search for autonomy entailed American opposition and might be categorised as a 'balancing act' against the sole superpower. At the same time, the government has never been willing to 'exit' completely from bandwagoning within NATO.¹³ It always made clear that the Alliance should co-exist (Juppé 1996; Richard 2000a). Therefore, Paris was also among the strongest supporters of the NATO Response Force in 2003 (Rynning 2005), which should represent the Europeans' key contribution to the Alliance's crisis management. In short, France seemed to have a more differentiated strategy towards NATO and the EU than

¹¹ See also, "EU-WEU: Text of the Document of France, Germany, Italy, Spain, Belgium and Luxembourg on the Gradual Integration of the WEU into the European Union", No. 2906, *Atlantic News*, 3 April 1997.

¹² From a Realist perspective, the alliance strategies of Europe's great powers are so enlightening since the governments have simultaneously two options: either bandwagoning with NATO or balancing via the EU. While France and the UK are neither sufficiently powerful in terms of material capabilities to expect undoubtedly balancing, nor are they so small that they must clearly bandwagon from a structural realist perspective (Posen 2006: 158).

¹³ See also, "M. Chirac S'Exprimera Deux Fois sur la Politique Européenne – Les Principaux Points de la Position Française", *Le Monde*, 21 February 1996; and, "EU/Defence/France/Germany", *Agence Europe*, 28 January 1997; and, "UK 'To Veto' EU Defence Bid – France and Germany Push for Closer Ties" by Caroline Southey and Lionel Barber, *Financial Times*, 24 March 1997.

the balancing concept indicates. This primarily suggests that there is more to the French position than simply countervailing the United States in some way or the other. Nevertheless, in terms of the two competing options from a Realist perspective, the French had always tended towards the 'balancing via the EU'. However, it is vital that this has largely been independent from the polarity of the international system.

On the other hand, Great Britain constitutes the more challenging case from the perspective of competing alliance strategies. It maintained its 'special relationship' with the sole superpower, which makes the identification of a (soft) balancing strategy inherently difficult. Nevertheless, it could represent the decisive instance from a Realist perspective since it (slightly) shifted its alliance strategy after the distribution of capabilities had changed from bi- to unipolarity. Barry Posen primarily argues in terms of the British dissatisfaction with dependency on the US, which manifested itself during the crises in the Balkans. At a secondary level, it was about the financial costs of military capabilities and Britain's role in Europe (Posen 2004: 15; Posen 2006: 167-70). This alliance strategy, however, is not 'balancing':

British policy, since 1998, has tended more toward bandwagoning with the United States than to balancing U.S. power. Nevertheless, Britain's bandwagoning is strategic; it hopes to achieve influence on key policies in return for material support. Britain has supported ESDP in the hope of making Europe more powerful and more influential (Posen 2006: 167).

From Posen's point of view, the critical aspect is that the British alliance strategy can be inferred from unipolarity. After the demise of the Soviet threat, Europe should not only become more influential in world affairs, but also become capable to deal forcefully with conflicts at its periphery. The key was its perception of American reluctance to engage itself in European conflicts, such as in the Balkans in the 1990s (Posen 2006: 167). Despite the fact that the available evidence largely confirms Posen's argument for the British case at an empirical level (e.g. Weiss 2008), the major flaw stems from his theoretical approach. In Realist terms, the only observable shift of alliance strategies is Britain's '*strategic*' bandwagoning with US power - instead, of bandwagoning in former times. It becomes, however, not clear why this should classify ESDP as a weak form of balancing.

This critical review of unipolarity as the main determinant of ESDP can be summarised as follows. On the one hand, the French government largely strived for a multipolar world and came thus closest to the alliance strategy of balancing against US power. That was, however, completely independent from unipolarity. Identical - or even stronger - evidence could be found for Cold War's bipolarity. On the other hand, Britain pursued 'strategic bandwagoning' with Washington. It wanted to strengthen its voice, but not exit NATO. This is largely a persuasive description of the British shift, but the question arises why ESDP should, then, be regarded as "a form of balancing behaviour, albeit still a weak form" (Posen 2006: 186)? If ESDP is both British bandwagoning with the US and French balancing against the sole superpower, why should we not precisely understand it as that? In other words, the argument is primarily flawed for two reasons: (1) France's balancing case cannot be unambiguously inferred from the power structure (i.e. independent variable). (2) Britain's case correlates to the independent variable, but remains, nonetheless, bandwagoning. The problem is, therefore, less a lack of empirical evidence, but accommodating the latter with the theoretical reasoning.

Secondly, Seth Jones has introduced another variable from a Realist perspective to explain the emergence of a EU security institution - namely a 'binding strategy' on behalf of France and Britain to "incorporate a potential threat into an institution" (Jones 2007: 59).¹⁴ In contrast to previous failures of establishing a security arm of the EU, "German reunification and concerns about an American withdrawal created a potential security dilemma in Europe. But German leaders understood the dilemma and were willing to ameliorate it through the EU" (Jones 2007: 86). Although Jones treats the building of security institutions separately from the establishment of military forces, both explanations are inferred from structural conditions: on the one hand, unipolarity and a decreased military presence of the US in Europe; and a potential security dilemma in Europe arising from German reunification, on the other (Jones 2007: 81-92, 197-202).

¹⁴ This is close to Joseph Grieco's 'Realist' argument on the EU's monetary integration, which strongly builds on Albert Hirschman.

The argument is primarily flawed due to the lack of empirical evidence.¹⁵ One can even discern several opposite indicators. The UK and France were regularly more concerned about a militarily weak Germany than about a potentially strong one. More specifically, they jointly promoted 'convergence criteria' for defence planning, which referred - more or less directly - to Germany that could spend too little on military capabilities.¹⁶ Although the increase of military capabilities would be within the EU, Germany's projection of force could ultimately be pursued in a purely national context. It even created *national* headquarters for the first time since the end of World War II. That granted Germany the capability of autonomous military planning and was strongly supported by Britain and France. From the latter's perspective, this was not binding the potential hegemon, but binding the laggard of the military project.¹⁷ After some Capabilities Commitment Conferences had demonstrated European and, in particular, German weaknesses in expeditionary warfare, the UK and France initiated a modernised concept, namely so-called 'battlegroups'. In this respect, the governments wanted even to include explicit numbers and regions into the agreements in order to oblige members, such as especially Germany, to deliver the promised assets.¹⁸

¹⁵ As part of a larger project, the paper seriously attempted to find empirical evidence for the 'binding' hypothesis that went beyond some biographical notes of Margaret Thatcher and Francois Mitterrand in 1990, who were wholeheartedly critical towards German reunification. Nothing was found for the time since the outbreak of the crises in the Balkans. Therefore, I developed indicators and asked some French and British officials and policy experts for that underlying motivation behind ESDP. I simply found no indication for the study's period of analysis. Instead, all interviewees emphasised the urgency to increase Germany's military capabilities for the purpose of coordinated power projection. Another indicator was the Royal Air Force's complete withdrawal from Germany in the end of the 1990s. This did clearly not suggest serious British concerns about the necessity to bind the Continental power (Government of the UK 1998: 37-38, 50, 146).

¹⁶ British-Italian Summit (1999): *Joint Declaration Launching European Defence Capabilities Initiative*, (London: 19-20 July 1999); and, French Action Plan (1999): *Letter from the French President Jacques Chirac to the Finnish Presidency of the European Union*, (Paris: 22 July 1999), cited from: Rutten 2001: 46-53. See, for example, "Cooperation Talks Aim at Giving EU a Military Role Within NATO: Blair and Chirac Sketch Defense Pact" by Joseph Fitchett, *International Herald Tribune*, 4 December 1998; and, "France, Britain, Germany said near EU defence deal" by Mark John and Marie-Louise Moller, *Reuters News*, 28 November 2003. See also, Cook, 2000.

¹⁷ Therefore, even the explicit expression of 'bandwagoning' or 'free-riding' was applied in order to warn the Germans to keep their commitments (e.g. Heisbourg 2000; see also, Richard 2000b).

¹⁸ The demand of explicit numbers in the 'battlegroup agreement' was explicitly directed against 'capabilities laggards', such as Germany. This was repeatedly mentioned by UK officials (Interview with a German MoD official, Berlin: April 2007). See also, "Berlin to join UK and France in battle groups" by Judy Dempsey, *Financial Times*, 11 February 2004.

In sum, France's and Great Britain's perception was that Berlin had not done its homework – namely to reform the ‘Bundeswehr’: “it [i.e. Germany] will definitely have to increase its budget investment in the military field. The imbalance between its role in Europe and its defence funding is too striking today” (French National Assembly 2005: 50 of 60).¹⁹ One may admit that British and French concerns about a hegemonic Germany played a role in the very beginning of the 1990s – when ESDP, or something similar, *failed* to be established. In contrast, when ESDP actually emerged, the situation was the opposite: Germany should arm - also at a national level - and contribute more strongly to the provision of European security.



Figure 1: Realism and the emergence of ESDP

After having critically reviewed Realist approaches of the emergence of ESDP from both a theoretical and an empirical level, the conclusion to be drawn can be formulated as

¹⁹ See, in particular, “EU/ESDP – Barrau Report Recommends ‘Coherence Indicators’”, *Agence Europe*, 18 April 2000; and, “Richard announces intensive programme for EU defence ministers during coming semester”, *Agence Europe*, 1 July 2000.

See also the clear demands by the minister of defence, Michelle Alliot-Marie, “In Shift, France Vows To Modernize Military” by Keith B. Richburg, *The Washington Post*, 16 October 2002.

follows: Firstly, Realist theories of balancing regard structural power conditions (i.e. unipolarity and a potential security dilemma) as the primary determinant of the governments' alliance strategies. Secondly, it follows from this perspective that security cooperation and institution-building is either directed against a power or for it (i.e. balancing vs. bandwagoning vs. binding). Finally, the empirical record demonstrates that Realist approaches are not completely unwarranted, but they do ultimately not present a comprehensive explanation in terms of their primary determinants. The shift of polarity corresponds to the emergence of ESDP in the end of the 1990s. While this does not explain the continuous nature of the French case, Realists admit that Britain primarily bandwagons with US power - albeit since recently on a 'strategic' basis. The main criticism is that Realist lenses cannot capture the differentiated nature of ESDP, which is characterised by both reconfirmation of NATO's primacy and the Europeans' desire for an autonomous force. In short, ESDP is not balancing.

In contrast to these approaches, the following chapter largely builds on the proposition of 'regional security needs' as the primary determinant of the emergence and development of ESDP (e.g. Brooks/Wolforth 2005: 93). The assumption is that "institutions are created by states because of their anticipated effects on patterns of behaviour" (Keohane/Martin 1995: 46). Power does definitely play a role, but this does not indicate that only a Realist perspective is warranted. Therefore, the paper directly confronts Mearsheimer's famous dictum, who once argued that liberal-institutionalist thought was based on the assumption that "international politics can be divided into two realms - security and political economy - and that liberal institutionalism mainly applies to the latter, but not the former" (Mearsheimer 1994/5: 15-6). Although transaction costs reasoning had primarily been applied to the latter, it is shown that it provides a promising heuristic for the former, too. The key is the provision of information by security institutions (Keohane/Martin 1995: 43-4). This is demonstrated below.

ESDP AND THE REDUCTION OF TRANSACTION COSTS?

Douglass North once summarised Ronald Coase's seminal message that "when it is costly to transact, institutions matter" (North 1990: 12). As a point of departure, I simply turn this message on its head: when institutions in ESDP exist, I may find that costly transactions precede and determine the actors' strategies for building these institutions in the first place. In security policy, too, the cooperative exchange agreements between states are necessarily incomplete and, thus, problems of credible commitments arise (e.g. Lake 1999; Wallander 2000; Weber 2000). Hence the paper argues that governments evaluate existing and anticipate future arrangements in terms of transaction costs and formulate on that basis their alliance strategies. It is shown that this theoretical lens is able to capture the differentiated nature of ESDP in a more comprehensive way than its Realist competitor.

Theory

The 'explanans' is based on the premise that information about other actors' behaviour in the European security setting is costly: transaction costs are equivalent to 'frictions in mechanical systems' (Williamson 1985: 1) and emerge from the cooperative exchanges of the main actors²⁰ in their attempt to provide European security. The governments not only have to assess *ex ante* the valuable attributes of their exchanges, they also have to safeguard *ex post* the compliance due to the inherent incompleteness of all contracts. Building on Oliver Williamson, transaction costs are understood as the "*comparative costs of planning, adapting, and monitoring task completion under alternative governance structures*" (Williamson 1985: 2). In particular, the paper focuses on one form of transaction costs.²¹ 'Risks of opportunism' bring about the problem of credible commitments and enhance

²⁰ Those are, in particular, the United States, Great Britain, France and Germany.

²¹ In contrast to opportunism, increasingly hierarchical structures may reduce these risks, but lead inversely to so-called 'governance costs' that can be understood as the costs of making and enforcing agreements (Williamson 1985: 90-1). It costs money and often raises the political stakes when a government chooses to build a security institution instead of dealing with the problem at a unilateral level. Most prominently, states have to give up some autonomy that has always been a desired asset in world politics (Lake 1999: 58-9).

the costs of cooperation.²² Governments are faced with three kinds of expected costs of opportunistic behaviour in security arrangements – namely abandonment, entrapment, and exploitation (Lake 1999: 52-8). The extent of all of these 'risks of opportunism' depends on two interrelated dimensions of transactions, namely on uncertainty and asset specificity (Williamson 1985: 52-60). The former addresses the question of how other main actors will act in the near future with respect to security problems. Though to different degrees, it is involved in all social interactions (Williamson 1985: 57-9; Rathbun 2007: 541-9). Asset specificity can be defined as a "specialized investment that cannot be redeployed to alternative uses or by alternative users except at a loss of productive value" (Williamson 1996: 377; see also, Lake 1999: 8; Weber 2000: 22-5; Pierson 2004: 147-53). In other words, it describes the governments' investments in political-military structures that can or cannot be redeployed for alternative purposes. Before the transaction costs framework is specified, the 'explanans' can be summarised in the following way:

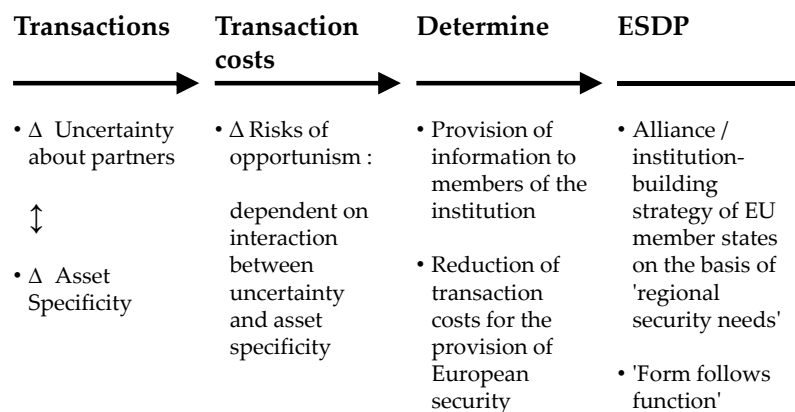


Figure 2: Transaction costs and security cooperation

²² "Opportunism is ubiquitous in international relations. Politics do not honor commitments out of a sense of obligation, but press for individual advantages whenever possible. (...) Opportunism includes both blatant forms of self-interest seeking (...) and subtle forms of deceit" (Lake 1999: 52).

More specifically, a state not only considers whether a certain institution should execute a specific function, but also whether another institution potentially performs that in a more desired way: “comparative institutional assessments of the adaptive attributes of alternative governance structures must necessarily be made” (Williamson 1985: 57). When we apply this analytical step to the study of European security institutions, we see that the building of ESDP cannot be adequately explained without considering the historically evolved default option, namely NATO. Therefore, the question of the EU's functional scope in security issues is inextricably linked to ex ante and - in particular - ex post assessments of NATO and the US: a EU member state does not assess the transaction costs of its cooperative exchanges in an absolute way, but instead compares it to the ability of NATO to reduce the costs of the provision of European security: “it is the difference between rather than the absolute magnitude of transaction costs that matters” (Williamson 1985: 22).

Broadly speaking, a government may either invest into a particular institution or (threaten to) disengage from its activities. This logic is reflected by Albert Hirschman's typology of 'exit' and 'voice' (Hirschman 1970). The former refers to the option that “members of an organisation or customers can leave or stop buying a product.” In contrast, we may speak of voice if “members of an organisation or customers can express their dissatisfaction” (Hirschman 1970: 4).²³ In this context, it is vital that the respective costs of the choice depend on a combination of asset specificity and uncertainty. Although the options of ‘exit’ and ‘voice’ should be understood as ‘ideal-types’, they suggest the mechanisms of both disengagement and engagement at work. Hence, a state may continuously participate within NATO, but consider whether some of its tasks may be better preformed within the EU. The ultimate decision in this respect is taken according to transaction costs assessments.

In a nutshell, the transaction costs framework assumes that the governments assess the respective capacity of both institutions to reduce the risks of opportunism for their

²³ “Voice is here defined as any attempt at all to change, rather than to escape from, an objectionable state of affairs” (Hirschman 1970: 30).

engagements in common security policies. At this stage of the analysis, the primary determinant of transaction costs is uncertainty and thus the question of credible commitments. When the risks of opportunism increase within one institutional arrangement to unacceptable levels, governments are assumed to seek for alternative ways to provide for European security. For example, they assign certain responsibilities to other institutions or they create new ones, which are expected to reduce the risks of opportunism to a sustainable extent. In Williamson's terminology, the 'completion of tasks under alternative governance structures' is at stake.

Finally, the dimension of asset specificity is so critical in this context because it provides a conceptual lens to understand the interface between NATO and ESDP and between 'exit' and 'voice'. Asset specificity refers to the question in how far the cooperation partners' investments can be redeployed to other purposes. In particular, the issue at stake is in how far the military assets of ESDP can be redeployed to NATO; or not. General assets "are useful in a variety of transactions. They have the advantage of flexibility and potential efficiency across a broad range of activities, but without specialization they are unlikely to be as effective for a particular transaction" (Wallander 2000: 707). In contrast, highly specific assets promise significant gains by the mechanisms of economies of scale, functional differentiation and positive externalities (Lake 1999: 44-51). The EU member states have basically two options, when they formulate their alliance strategies under the condition of potential opportunism: either they create specific assets with highly binding structures to safeguard them or they invest into general assets with a higher degree of flexibility and accept a smaller extent of efficiency gains (North 1990: 34; Wallander 2000). Again, the United States play a major role in this context because their position has an impact on how the EU members assess the - ex ante - transaction costs of a possible European-only agreement:

The decisions taken in St Malo, Cologne and Helsinki were all designed to take into account the concerns expressed by the United States and other non-EU Allies. In fact, the United States was the invisible guest at the table of each of these meetings (Sloan 2000: 19).

The impact of this mechanism on the nature of ESDP is illustrated below.

Empirical evidence

The point of departure for the empirical analysis refers to 'historical institutionalism', which is capable to reconcile seemingly unbridgeable differences for the examination of the emergence of institutions. It is shown how

actors select new institutions for instrumental purposes, much as rational choice analysis would predict, but draw them from a menu of alternatives that is made historically available through the mechanisms specified by sociological institutionalism (Hall/Taylor 1996: 957).²⁴

For reasons of both significance and comparability with the Realist approach, the empirical analysis focuses on Great Britain and France and unfolds in three steps.²⁵ First, the 'demand' for a European security institution is briefly examined by an analysis of both countries' perception of the security environment. Second, the respective - ex post - assessment of NATO and the EU to reduce the transaction costs for the provision of European security is traced back. The focus is on risks of opportunism. Finally, asset specificity is introduced to shed light on the utmost importance of redeployable military assets, which were not only the key for Great Britain to join ESDP, but determined also the governments' - ex ante - assessment of transaction costs. They ultimately represent a heuristic to understand the differentiated nature and ambivalences of the EU's political-military project.

Firstly, the British government perceived a general demand for a European security institution in the end of the 1990s that was effectively capable of crisis management (i.e. projection of force). "The military challenges we face are increasingly about crisis prevention, peacemaking and peacekeeping – about humanitarian operations rather

²⁴ In a sense, the focus on transaction costs corroborates primarily rational-choice institutionalism. However, and that is crucial, not all solutions to these collective action problems are solely functional (Pierson 2004: 108-9). The causal path of 'form follows function' is an important, but not the only one available. For that reason, some systematic modifications are built into the framework - in particular, that several of the components of the envisaged costs and benefits are derived from cognitivist or interpretative concepts (e.g. Rathbun 2007: 541-9). The way the study is, then, conducted as well as the attention paid to path dependence, sunk costs etc. basically make the investigations historical-institutionalist.

²⁵ As indicated above, this paper is part of a larger project that systematically compared the German, British and French cases according to a process-tracing logic. Although the evidence presented in the subsequent sections may appear exemplary and biased, the main results have a much broader empirical basis (Weiss 2008).

than the collective defense of territory” (Blair 1998b). Although the Conservative governments had also acknowledged this to a certain extent (e.g. Portillo 1997), the first major step was Blair's 'Strategic Defence Review' in 1998 (Government of the UK 1998):

The strategic environment we face today is very different to that of the previous fifty years. The risks and challenges we face are not simply those of the Cold War minus the threat from the Warsaw Pact. (...) On the negative side, however, there are new risks to our security and our way of life. Instability inside Europe as in Bosnia, and now Kosovo, threatens our security. Instability elsewhere - for example in Africa - may not always appear to threaten us directly. But it can do indirectly, and we cannot stand aside when it leads to massive human suffering (Government of the UK 1998: 8-9, No. 2-9).

To tackle these increasing risks in a coordinated way, the government envisaged a militarily capable security institution. The 'organisation of choice' was initially NATO (McInnes 1998: 824-7).

The French government's perception was in some respects similar. The 'livre blanc' served as the central French assessment of the security environment (French Government 1994). Although territorial defence was not ruled out per se, its prominence – similar to nuclear deterrence – clearly diminished (French Government 1994: 94). Instead, the French perceived an increase of security risks, such as regional instabilities, proliferation of weapons of mass destruction and terrorism (French Government 1994: 7-23, 107-18). France's experiences in the Gulf War and in the Former Yugoslavia entailed it to re-consider some of its parameters of military policy. In particular, the non-integration of French forces limited opportunities and influence in the post-Cold War environment and was thus subject to a dramatic transformation.²⁶ In the beginning, the focus was on rapprochement with NATO (e.g. Millon 1996). After this had failed in 1997, the government shifted its focus on ESDP (Chirac 1999a, 1999b; Védrine 1999). We can adhere so far that both main actors of the European security order perceived a demand for a security institution to deal with increasing risks in the end of the 1990s. While

²⁶ Another 'lesson learnt' was the abandonment of conscription. It was not only militarily, but also politically infeasible to send conscripts regularly into crisis management operations abroad. For instance, the French government had been *politically* unable to send conscripts into the Gulf in 1991, where numerous casualties were expected. Therefore, it created *one* light division of professionals out of *fifty* regiments. This had been a considerable, since costly, problem at the time (Heisbourg 2000: 37).

Great Britain continuously favoured NATO, France promoted a European-only solution within the EU.

Secondly, we need to examine their respective assessments of *how* to provide the public good of European security. This cost-benefit analysis is, in turn, vitally shaped by NATO's and the EU's capacity to reduce the transaction costs involved in European security. Since the Alliance was traditionally the default option, the question was first and foremost whether the United States' commitment to all kinds of European security problems was still credible? Being the main architect of NATO's 'Berlin Plus' (1996), the point of departure of Britain's alliance strategy was clearly NATO with a European pillar of 'separable but not separate forces' (Hunter 2002: 13-28).²⁷ By the end of the 1990s, however, the government was faced with a lack of credible information about the hegemon's future security policies. Britain perceived an increasingly strong 'isolationist trend', in particular, on Capitol Hill (e.g. Blair 1998c). The awareness was strengthened that the time might be gone when Washington would continuously write "blank cheques in favour of European security" (Howorth 2000: 23; see also, Posen 2004: 15).²⁸

While the tenet from Bosnia was for the Conservative government to concentrate its efforts to further bind the Americans into Europe,²⁹ the new Labour Prime Minister drew a distinct conclusion: "We Europeans should not expect the United States to have to play a part in every disorder in our own back yard."³⁰ Due to the fact that the risks of opportunism were increasing and a 'binding strategy' was regarded as futile, the British alliance strategy shifted towards the EU. This could not only provide military capabilities, but, by that, increase the 'voice' opportunities in Washington:

²⁷ The 'Combined Joint Task Forces' Concept of 'Berlin Plus' should not only establish a European pillar. It also confirmed NATO's right of first refusal in any crisis. Europe may only act alone, if NATO *chooses* not to do so (Hunter 2002).

²⁸ See also, "Tarnished? The Spreading War in Kosovo Reveals Europe's Unreadiness to Act on Its Own", by Peter Riddell, *The Washington Post*, 4 April 1999.

²⁹ "Major Wins Test of Policy On Europe" by Fred Barbash, *The Washington Post*, 2 March 1995. See also, "Major Warns on EU Defence Role" by Bruce Clark, *Financial Times*, 24 February 1996.

³⁰ Cited from: "Tarnished? The Spreading War in Kosovo Reveals Europe's Unreadiness to Act on Its Own", by Peter Riddell, *The Washington Post*, 4 April 1999.

See also, "We thought we could deal with the Bosnian crisis alone. The guns over Sarajevo destroyed that illusion along with much else. Washington in the end had to get involved to provide the military muscle for our diplomacy" (Blair 1998c).

I know that some feel that being close with the United States is an inhibition on closer European cooperation. On the contrary, *I believe it is essential that the isolationist voices in the United States are kept at bay* and we encourage our American allies to be our partners in issues of world peace and security (Blair 1998a, emphasis added).³¹

A viable 'EU-only option' represented a promising point of departure for gradually providing security on behalf of Europe. At the same time, this required compatibility with NATO because high-intensity combat missions would not be feasible without the US for a considerable amount of time (e.g. Government of the UK 2003; Hoon 2005). Therefore, incompatibility could possibly produce new risks of opportunism.

In a nutshell, the primary driving force of the British alliance strategy was the increase of transaction costs in the course of the 1990s. It was increasingly concerned about US isolationism, which was particularly strong on Capitol Hill (Berger 1999; Biden 2000). American full-scale commitment to *all* kinds of European security problems was questioned in London. This increased British risks of opportunism within NATO. More specifically, London feared a possible abandonment by the US in a European security crisis. Most-likely for domestic reasons, the US could reject to send military forces into the European backyard. So far, the examination traced back the motivation behind the British shift of 1998/9. It was primarily based on the interaction between a perceived demand and increased risks of opportunism within the default organisation of choice, that is NATO. Before we specify the precise design of ESDP and establish a comprehensive account of Britain, we turn to France's comparative assessment of NATO and the EU.

The French government similarly perceived isolationist trends in the US. It interpreted the Bosnian experience primarily as a manifestation of European inability conjoined by an American unwillingness to provide security in the European backyard

³¹ Finally, the British concerns about isolationist trends in the U.S. were further reinforced by statements of the new Bush administration to withdraw peacekeeping forces from Bosnia and to close military bases in other European sites: "The United States' strategic priorities have also evolved rapidly. A progressive reduction of their commitment from parts of Europe is now under active consideration. The announcement of Donald Rumsfeld, US Defense Secretary, that US forces might withdraw from Bosnia indicate that European governments will need to do more to provide for their own security, especially on the borders of Europe where US interests are not directly engaged" (House of Lords 2002).

(Gnesotto 1996; Gallis 2006: 14).³² After rapprochement with NATO had failed, France's opportunities to bind the US to European security have seriously vanished and its risks of opportunism within a transatlantic context had further increased.³³ Abandonment was not only a fear, but was partly even practised. The French president overtly criticised American isolationism, but could not do a lot against it: "Mr. Chirac focused his anger on Congress, saying that it 'all too often succumbs to the temptations of unilateralism and isolationism'."³⁴

As long as NATO represented the only institution realistically feasible of crisis management, transaction costs constantly remained at high levels for Paris. It needed not only to rely on a rather incredible commitments by the US, it was also faced with the highest costs of adjustments in actual operations. This was, in particular, emphasised by the French militaries, who consequently promoted a high degree of autonomy for the new European forces (e.g. Chirac 1999b). If NATO's defence planning would have simply been adopted, transaction costs for France would have similarly remained high:

There were 'different sensibilities' between France, whose military forces are not integrated within the Nato command, and other allies. 'Some people want to do everything within Nato. We want to keep real autonomy for the EU'.³⁵

In addition, French fears of American unilateralism contributed further to its high risks of opportunism. That was also the fundamental building block of the whole idea of

³² See also, "Des Frappes Aériennes Défensives?" by Jacques Isnard, *Le Monde*, 10 May 1993; and, "French Successfully Bluff Their Allies on Bosnia" by Alan Riding, *The New York Times*, 13 December 1994.

³³ "In the first place, there is no longer an automatic connection between European security and US intervention: during the Cold War, a crisis within Europe had consequences internationally and directly affected American interests. These days however, crises within Europe, such as the conflicts which shook the Balkans during the last decade, are part of a regional problem, and do not automatically affect the United States. Certainly the US did intervene, somewhat late in the day, in Bosnia, and at the beginning of the Kosovo crisis: realistically however, it has to be said that it is more a question of the inability of Europeans to deal with these situations on their own, rather than the interests of the United States, that prompts US intervention" (French National Assembly 2005: 13 of 60).

³⁴ "Chirac's attack on Congress has a bigger target" by Joseph Fitchett, *International Herald Tribune*, 9 November 1999.

See also, "A Big Hand in Europe", (Edvard Mortimer and David Buchan talked to the French foreign minister de Charette), *Financial Times*, 23 January 1997; and, "Europe's Dim View of U.S. is Evolving Into Frank Hostility" by Suzanne Daley, *The New York Times*, 9 April 2000.

³⁵ Cited from: "Nato deadlock over EU reaction force" by Anton LaGuardia, *The Daily Telegraph*, 15 December 2000.

'multipolarity' that France had so often pushed forward (e.g. Chirac 1999a; Védérine 1999). Both the French foreign minister and the President "called for 'a multipolar world' in which the United States would have decreasing weight internationally, starting with growing US absence from European security."³⁶ Despite the fact that this rhetoric strongly reminds of balancing US power, France's active participation in NATO's Response Force (2002/3) entails, at least, doubts about this understanding of its alliance strategy (Rynning 2005). Instead, it seems more persuasive to argue in terms of 'regional security needs', which were responsible for the French willingness to build ESDP and to equip it with sufficient military capabilities. Based on this demand, a EU defence pillar offered the opportunity to reduce French transaction costs for the provision of European security to a sustainable extent.

So far, the analysis of the risks of opportunism, which the two most powerful EU members were faced with before and during the initiation phase of ESDP, pointed to the main determinants of the establishment of a EU defence pillar from a liberal-institutionalist perspective. In particular, the - ex post - assessment of transaction costs within NATO entailed the British and the French to engage within such a project. In a way, the American impact was an indirect one by weakening the credibility of its commitment to European security. The subsequent section demonstrates that the sole superpower also unfolded direct influence on ESDP, namely on the precise nature of its military assets, which, again, can be captured by a transaction costs perspective.

Therefore, I turn to asset specificity as one of the main components of such a framework and argue against the Realists' statements about ESDP as a form of weak or soft balancing. From a historical point of view, it was clear that the United States would address in some way or the other the European initiative in 1998/9 (e.g. Albright 1998). While it had already interpreted the European pillar within NATO (i.e. 'Berlin Plus') as a major concession to its European partners, the 'autonomy part' of ESDP did not please

³⁶ "Chirac's attack on Congress has a bigger target" by Joseph Fitchett, *International Herald Tribune*, 9 November 1999.

the Clinton - and later the Bush - administrations (Sloan 2000: 20-39; Hunter 2002: 33-44, 59-61). In other words, the political bargaining process was inaugurated.

The American position was clear support for more military capabilities in terms of 'burden-sharing', while tolerating as little autonomy as possible. This referred, in particular, to operational planning (i.e. headquarters) and collective defence (Cohen 2000a, 2000b). In contrast, the French supported as much emancipation from NATO as possible and a qualitative strengthening of the EU's military capabilities (Chirac 1999b; European Defence Meeting 2003). Last but not least, Britain wanted first and foremost more military capabilities for the provision of European security.³⁷ At the same time, it was aware of the necessity to establish a compromise solution between the American and French positions (Blair 1998a, 1998b, 1998c). In short, all protagonists had a strong interest in more military capabilities on behalf of the Europeans, but the question was who should control them. How could an institutional arrangement be designed that accommodates between those extremes? When we consider these positions from the perspective of asset specificity, we are able to understand what ESDP, in fact, represents in a more comprehensive way.

The EU's defence pillar is – at the most general level – about the EU's creation of a political-military instrument to deal jointly with emerging security problems. More specifically, we can distinguish between two sets of assets of such an instrument.³⁸ On the one hand, there was the creation of institutional structures within the Council of the European Union to develop a common political approach to the world's security problems (e.g. Political and Security Committee, European Union Military Staff, DG 9 in the Council Secretariat etc). On the other hand, there was the military domain (e.g. European Rapid Reaction Force, battlegroups, etc.). Here, the focus was on the establishment of military troops to conduct EU crisis management: from humanitarian to high intensity combat operations (i.e. Petersberg Tasks) (Weiss 2008).

³⁷ This became, in particular, manifest by its permanently stronger emphasis to increase the EU's efforts in defence (hardware) rather than in operational planning (missions) (Weiss 2008).

³⁸ This distinction is closely linked to the mantra of 'institutions, capabilities, operations', while excluding the latter since the paper is on institution-building.

From the perspective of the positions of the US, France and the UK, the political structures of ESDP did not prompt great difficulties. They would basically not compete with NATO or challenge the historically grown security order in another way. According to that, it was politically feasible to design specific - and thus, quite efficient - political structures of ESDP. For instance, the administrative and political instruments can be neither redeployed to another organisation nor to the national level. This could improve coordination in security issues between the EU members by providing information. In contrast, the potential military structures – or forces – were highly contested, but represented at the same time the desired good for all protagonists – that is an increase of military capabilities. This conflict was reflected by a famous statement by the US Deputy Secretary of State, Strobe Talbott:

We would not want to see an ESDI that comes into being first within NATO but then grows out of NATO and finally grows away from NATO, since that would lead to an ESDI that initially duplicates NATO but that could eventually compete with NATO (Talbott 1999: 50).³⁹

The solution was relatively simple, namely *general* military assets for ESDP. The European Rapid Reaction Force (ERRF) remained organised at the level of “independently deployable brigades” (IISS 2001: 283). Although some of the battlegroups were organised on a multinational basis, most of them remained nevertheless redeployable to other purposes (Lindstrom 20007). In other words, the military structures were earmarked for ESDP by the national governments, but could be redeployed to other purposes or operate under another flag (e.g. NATO, UN).

In contrast, the specific military asset would have been the 'European Army' - largely designed according to the Eurocorps Headquarters that is only deployable on the basis of a consensus between its members. However, such a design has never found British support. From the very beginning, Tony Blair defined the parameters by stating that he had an “open mind about what this might mean institutionally. But we are not talking about a European army” (Blair 1998b). The actual institutional form allowed both an

³⁹ ESDI stands for 'European Security and Defence Identity' and refers, in fact, to NATO's attempts to create a European pillar in the mid-1990s. In contrast, ESDP stands for 'European Security and Defence Policy', which was created within the EU after the Franco-British Declaration of St Malo in 1998.

'autonomy' and a 'burden-sharing' interpretation of ESDP and reconciled, thus, the antagonistic principles that had dominated these debates for so long.⁴⁰ More importantly, it debilitated the American threat of further withdrawal from European security (US Department of Defense 1995, 2003). While the Europeans provided more military capabilities, they complied to most of the 'red lines' set by Washington (e.g. no standing military headquarters). From the perspective of all European powers, a potential withdrawal should be avoided at any price because – compared to now – this would have tremendously increased the transaction costs for the provision of security. The previous examination can be summarised as follows:

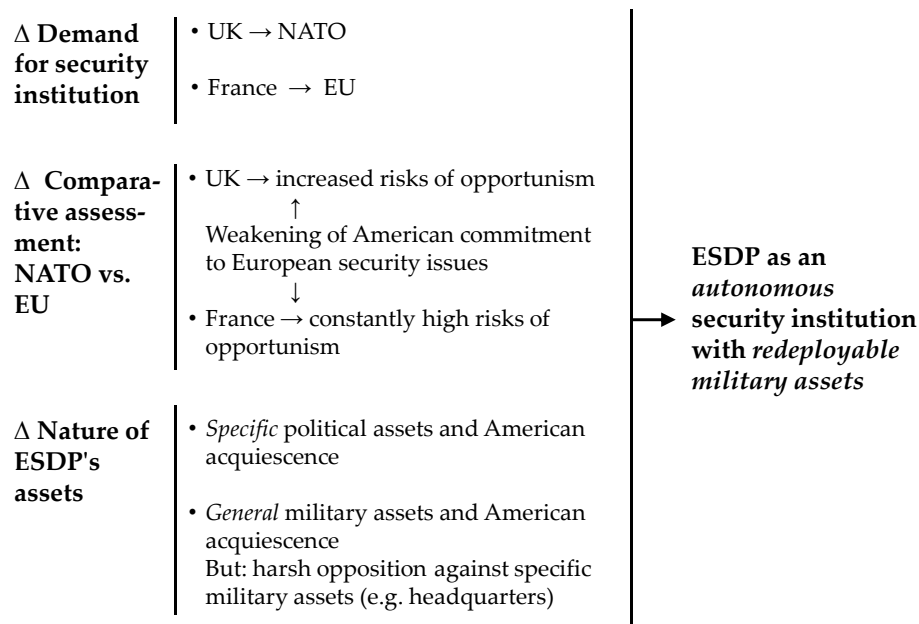


Figure 3: Transaction costs and the emergence of ESDP

⁴⁰ In particular, the question of standing military headquarters has illustrated this linkage because it would ultimately constitute a military, but specific asset of ESDP. Hence it was (and still is) one of the most contested issues between the US and Europe. In the meantime, there was a compromise, namely the so-called 'Hampton Court Formula', which did, however, merely mitigate some of the main problems. This assessment is primarily based on documents that I was allowed to read, but not to quote in the German Ministry of Defence (Berlin: May 2007). See also, "Ein Hauptquartier, das nicht so heißen soll" by Martin Winter, *Süddeutsche Zeitung*, 31 May 2007.

This section demonstrated at both a theoretical and an empirical level the value-added of a liberal-institutionalist approach to the study of ESDP. After having proposed a framework of analysis that focuses on transaction costs as the 'explanans', the empirical record was traced back in three steps. It was shown that both Britain and France perceived a demand for a security institution to deal with the growing risks. Though to different degrees, both countries were increasingly uncertain about the American commitment to all questions of European security. This made NATO problematic in transaction costs terms because the risks of opportunism – in particular, vis-à-vis the superpower – had increased. Nevertheless, a full-scale duplication of the Alliance prompted the risk of a potential withdrawal, which was neither desired. Therefore, ESDP was only equipped with specific – non-redeployable – assets in those areas that the United States was not concerned about. The key to the establishment of military forces was, then, the *general* nature of these assets. Due to the fact that most of them could be redeployed to national purposes or NATO facilitated an agreement between the antagonistic sides of 'Atlanticists' and 'Europeanists'. In a nutshell, ESDP is about both the reduction of transaction costs for the provision of European security and general military assets rather than about soft balancing US power inferred from unipolarity.

CONCLUSION

This paper's point of departure was the increasingly widespread notion of ESDP as a form of soft balancing US power, which was primarily promoted by American Realists. These scholars point out two determinants of the establishment of ESDP. First of all, unipolarity entailed European powers to aggregate military capabilities in a 'EU-only' context. While the empirical analysis of the Europeans' alliance strategies is largely persuasive, its link to Realist thought is not. The paper clearly pointed out that the overwhelming share of the empirical evidence put forward by Realists is largely compatible with a transaction costs framework. Here, we may speak not so much of a difference of principle but rather of emphasis. One major problem is that one cannot

infer the alliance strategies from unipolarity. While Barry Posen emphasises that this structural condition leaves a choice, the subsequent path of his argument makes not clear why we need unipolarity at all. The other problem is that the only depicted shift refers to Britain's strategic bandwagoning with US power - instead of only bandwagoning. It becomes not clear why this should entail the classification of ESDP as a (weak) balancing project. In short, Barry Posen is empirically right, but for the wrong theoretical reasons.

In contrast, the second determinant - promoted by Seth Jones - refers to a potential security dilemma in Europe. British, French and German leaders recognised this problematique and were willing to ameliorate it. The key was to bind reunified Germany into a European security institution. Except some immediate responses to the transformations of 1989/90 - when a EU defence pillar had, in fact, *failed* - there is a lack of available evidence. The record even points into the opposite direction. Britain and France wanted Germany to arm - also at the national level. Although one could even question the compatibility of this argument with Realist thought,⁴¹ it is first and foremost flawed at an empirical level.

Finally, this paper disagrees with the Realist proposition to classify ESDP as a form of weak or soft balancing. This criticism cannot be better addressed than by a simple illustration. It is striking that Seth Jones - similar to Barry Posen - exclusively quotes one important part from the St Malo Declaration and the subsequent treaties on ESDP: "the [European Union] must have the capacity for autonomous action, backed up by credible military forces" (e.g. cited from Jones 2007: 85, 200, 234). In contrast, Realist scholars deliberately omit the second principle of ESDP - which fits less into a balancing against or bandwagoning with power terminology:

In pursuing our objective, the collective defence commitments to which member states subscribe (set out in Article 5 of the Washington Treaty, Article V of the Brussels Treaty)

⁴¹ There is a logical problem with subsuming the 'binding argument' under Realism. John Mearsheimer has vehemently argued that institutions merely serve the interests of the member states. They do not unfold independent influence on governments and are thus epiphenomenal (Mearsheimer 1994/95). How should ESDP, then, ameliorate a potential security dilemma? If it, in fact, does, Realism's hard core would severely come under stress. If it does not, the binding argument is dispensable.

must be maintained. In strengthening the solidarity between the member states of the European Union, in order that Europe can make its voice heard in world affairs, while acting in conformity with our respective obligations in NATO, we are contributing to the vitality of a modernised Atlantic Alliance which is the foundation of the collective defence of its members.⁴²

This formulation directly refers to NATO's 'Berlin Plus' agreements of 1996, which had firmly established the Alliance's 'right of first refusal' in all questions of European security (Hunter 2002: 17-8). The Europeans may act, if NATO *chooses* not to do so. In other words, the seminal Declaration of St Malo simultaneously emphasises the principles of an *autonomous European capability* and the *primacy of NATO*. For the very first time in the Union's history, the EU's Treaty of Nice referred explicitly to the Alliance. This squaring of the circle reflected the inherent tensions of ESDP from the very beginning and determined its nature as a political project in the subsequent years. "The Europeanists were not opposed to the principle of NATO involvement and the Atlanticists were not opposed to the principle of European autonomy" (Howorth 2000: 69).

In sum, this 'built-in ambiguity' does not correspond to a Realist logic. Consequently, the differentiated nature of ESDP remains largely invisible since it is neither directed against the sole superpower nor is it unambiguous support of it (e.g. Mearsheimer 1994/5: 13; Walt 2009: 94). Hence the paper's major criticism of Realism does not refer to biased evidence. Instead, this instance demonstrates what the approach can grasp and what it cannot. In short, the complexity of ESDP - which regularly makes a difference in providing European security - is not adequately captured by Realist lenses.

Therefore, 'regional security needs' (e.g. Brooks/Wolforth 2005) served as an important point of departure. Based on liberal-institutionalist thought, the paper developed a transaction costs approach to explain the emergence and development of ESDP. More specifically, it was argued that Britain and France were increasingly confronted with high risks of opportunism within NATO to provide European security. The American commitment to all kinds of security problems had suffered credibility and,

⁴² *Joint Declaration by the French and British Government*, (St Malo: 3/4 December 1998), cited from: Rutten 2001: 8-9.

therefore, the medium powers had searched for another institutional option to perform this task on a long-term basis. In particular, Tony Blair argued that it was 'time to repay America the soldier' (Blair 1998c). While this ex post assessment of transaction costs triggered the initial establishment of ESDP, ex ante transaction costs were responsible for its more specific design. After all, the superpower and most influential NATO member would not stand aside to watch the creation of a competitor to the Alliance. In short, it threatened a potential withdrawal, which would have entailed even higher transaction costs for the provision of European security. Hence ESDP had to be compatible with NATO, which was assured by all participants and was subsequently incorporated into the EU's agreements. *General*, and thus redeployable, military assets represented the institutional solution to this alleged dilemma. Specific assets were merely established in those areas that were less contested across the Atlantic.⁴³ In a nutshell, Britain's and France's alliance strategies and the resulting establishment of ESDP could be, therefore, inferred less from unipolarity, but rather from the classical advice from transaction costs economists: "Organize transactions so as to economize on bounded rationality while simultaneously safeguarding them against the hazards of opportunism" (Williamson 1985: 32).

Last but not least, Renate Mayntz once reminded her audience of her seminal discussion of 'governance and steering' that 'as social scientists, concepts are our eyes'. From this perspective, transaction costs may, indeed, represent heuristically interesting 'eyes' for the study of security cooperation and institution-building. In particular, they contribute to overcoming simplistic concepts that require a decision as to whether ESDP is ultimately a 'balancing act against US power' or 'bandwagoning with the hegemon'. Instead, the analysis demonstrates that it was, in fact, both – and for different countries to different degrees. The key to a comprehensive understanding of ESDP lies in the fact that its institutional set-up reconciled two mutually opposing principles within a single political project: it was about both 'European autonomy' and 'NATO's primacy'.

⁴³ To support his book's 'soft balancing thesis', Seth Jones emphasises the EU's establishment of an "independent planning capability" (Jones 2007: 10). While this certainly applies to (non-contested) *political* planning, the contested issue of 'independent *military* planning' is, however, continuously suspended.

Realism's binary logic at the conceptual level, however, blinds us to these complex ambiguities that politics is ultimately all about.⁴⁴

In contrast, a 'transaction costs framework' emphasises three aspects. First of all, it allows us to see the impact of 'isolationist' trends within the US that made its commitment less credible and thus increased uncertainty and transaction costs for the Europeans. This was, however, not the end of the story since we observed countervailing signals sent by Washington. The 'threat of removal' represented a highly uncertain scenario for some governments and thus constrained a purely functional formulation of alliance strategies. Instead, compatibility with NATO was the key to reconciling the ambiguities. In short, ESDP was against and for the United States. Thus, the paper's lenses may allow us to understand at a conceptual level the American influence on Europe that goes beyond the futile 'balancing vs. bandwagoning' debate. Furthermore, the concept of asset specificity turns our attention to the crucial opportunities of redeployable military assets. Power projection forces were, accordingly, built within ESDP, but could largely be redeployed for NATO or other purposes. This ultimately represents the key to an understanding of the British turn at St Malo. In short, the concept of asset specificity functions as a kind of hinge between 'European autonomy' and 'NATO's primacy'. Finally, a transaction costs perspective facilitates a differentiated view because the paper is able to shed light on the important variances among the member states. France, which was constantly faced with high costs of adjustment in military affairs, wanted to build ESDP much earlier than, for instance, Britain with its special relationship as a formidable 'fallback option'.⁴⁵

⁴⁴ This is primarily based on its conceptual legacy within alliance politics, which represents the primary prism for understanding security cooperation from a Realist point of view.

⁴⁵ Germany was somewhere in-between and was primarily in need of efficient solutions to military shortfalls.

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