

2 Power transition and regional integration

Critical to predicting the EU's future is explaining its past. Theories on European integration date back to the EU's inception and in some cases, predate it. A full and detailed exploration of all schools of thought would require a book-length manuscript.¹ This chapter will instead briefly review three major arguments frequently advanced to explain the EU's integration process: economic, neofunctionalist, and neorealist approaches. After examining each proposition, we will examine how power transition theory can contribute to explaining European integration and help predict its future. AQ2

The economic explanation of regional integration

Why integrate?² The economists' answer to this question is simple: greater integration produces greater efficiencies which in turn produce greater welfare benefits. In other words, by integrating, everyone will be better off economically owing to lower prices and access to goods and services previously unavailable. Prior to integration, economic exchange is limited by national boundaries and protective policies that reduce the flow of labor and monetary resources, prevent specialization, limit economies of scale, harm terms of trade, and reduce the productivity of economic factors. Through this, prices are kept artificially high and innovation is stymied. Two simple approaches explain why liberal exchange produces greater economic benefits: theory of free trade areas and economies of scale.

The basic free trade benefits model begins by assuming that some countries can produce goods and services at lower prices (i.e., are more efficient) than others owing to their factor and natural endowments. Since it may cost more to produce a product in one country versus another, consumers will need to pay higher prices thereby reducing demand for products. In protected national environments, the inability of consumers to buy less expensive products from abroad due to high tariffs prevents the most efficient allocation of economic resources. Protected firms do not have incentives to change their types of products because the lack of foreign competition makes their high-priced products profitable. The result is that resources are expended in areas of the economies that are inefficient. For example, if labor is concentrated in inefficient labor-intensive sectors, then

46 workers will not be able to afford as many goods unless wages drop. Lower
47 wages also in turn prevent further consumption.

48 By liberalizing trade, competition from abroad benefits the economy that
49 intensively uses abundant factors because they can bring to market more
50 products at lower prices. In short, it gives all nations a comparative advantage
51 in specific sectors. The abundance of factors lowers the cost of inputs
52 while the intense use makes sure that lower costs are the largest portion of
53 the price. A country's opportunity cost, or trade-off, is in these sorts of products.
54 Firms that use scarce factors intensively will quickly lose market share,
55 and possibly go out of business, unless they can specialize or develop a niche
56 market where the comparative advantage favors them. Overall, the integrated
57 economy will start seeing areas of specialization because competition
58 will incentivize the innovative and optimal use of resources.

59 The benefits foretold by the free trade argument are closely tied to arguments
60 that center on economies of scale. Members of a free trade community
61 will grow faster and become more competitive when they scale up production.
62 By producing more outputs using the same or marginally increasing
63 capital equipment, a firm can lower its prices. This assumes that the fixed
64 assets are under-producing because protectionism prevents sales to a larger
65 market of consumers. Expansion to larger unprotected markets lowers the
66 unit price of products because the same capital equipment is producing
67 more units. By limiting trade through tariffs, firms that have more customers
68 abroad than domestically are the hardest hit. Such protectionism produces
69 higher prices, reduces innovation, and possibly can destroy important industries.
70 In today's global economy, societies that do not take advantage of size
71 and all technological and investment opportunities are likely to fall behind
72 in the competition for optimal productivity. Those that fall behind will be
73 unable to maintain stable growth in the face of stiff competition with much
74 larger markets and investors.

75 These economic arguments provide sound reasons for integration. However,
76 they leave a great many questions unanswered. The "why integrate"
77 answer does a great job in providing the incentives, but not a causal
78 argument for integration. Saying countries need to integrate because it is
79 for the greater good ignores important impediments to integration that
80 often come out of domestic coalitional politics.³ One such impediment
81 is structural adjustment. Going from a closed to an open economy produces
82 large economic dislocations. The most significant of these is the level
83 of unemployment. As integration proceeds, the economic arguments tell
84 us that some protected industries will not be able to adjust to the new
85 competition—leading to short-term declines in employment. However, for
86 democracies, any prolonged level of high unemployment, or fear of such,
87 will lead to lowering the likelihood of maintaining political power (i.e., losing
88 elections). Therefore, unless countries are willing to pool capabilities
89 to address short-term employment adjustments, politicians are not likely to
90 take the integration road.

91 Another impediment involves varying regulations. Product regulations
92 add to production costs, but are present as a result of social values. For
93 example, some societies value clean air and are willing to pay higher prices if
94 cost-inflating regulations ensure that manufacturing reduces harmful emis-
95 sions. When a more regulated economy integrates with a less regulated one,
96 then the price advantage is with the latter. This fact encourages the more
97 regulated industries to lobby against integration. One solution is for the less
98 regulated economy to accept additional regulations by converging to the
99 levels of the more regulated economy. However, it is not clear from the eco-
100 nomic theories how this will be implemented since the regulatory process is
101 political and motivated by societal values.

102 A major consequence of integration deals with income equality. Clas-
103 sic economic theory postulates that when barriers to labor mobility and
104 financial transactions disappear, the income of members across the merged
105 unit will converge. Empirical observation shows that income inequality
106 is reduced substantially within federated states because the profit motive
107 increases labor mobility and diversifies money investments. This pattern
108 was established in the United States and across developed nations, but does
109 not hold in general across levels of development.⁴ In sum, economic expla-
110 nations indicate that integration in the long term benefits all participants,
111 and likely reduces income inequality among the participants, but economic
112 arguments provide little guidance on how to avoid short-term distortions,
113 incorporate far less advanced entities, or generate regulatory parity. These
114 are political decisions where economic theory is mute.

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Neofunctionalist explanation of regional integration

118 The first theory to address the political process of integration is neofunc-
119 tionalism. It states that functional needs produce integration and that once
120 started, integration evolves based on the mechanism of spillover. At the
121 start, potential partners recognize that solutions to problems require shifting
122 specific functions away from exclusively nation-state control towards supra-
123 national institutions.⁵ These new units would enjoy similar decision-making
124 power to that once exclusively held by the nation-state.⁶ As functions are
125 transferred to the supranational level, decision-makers begin to realize that
126 attaining objectives would be more successful if more functions shift, or
127 spillover, into the regional level.

128 Neofunctionalism states that the call for spillover comes from highly
129 trained national specialists who view working within an intergovernmental
130 framework as simply increasing the complexity of governmental systems.⁷
131 Since they are specialists and not politicians, they seek out the more effi-
132 cient supranational pathways for problem solving. When postulated, this
133 theory lacked clear empirical support. It may have been overly ambitious
134 to attempt to find hard evidence because, as Charles Pentland states, “The
135 relation between functional need and structural adaptation, central to the

136 theory, is ‘necessary’ only in the sense of being an ideal or norm, not in the
137 sense of predetermining the direction of change.”⁸

138 At the heart of neofunctionalism is the notion that to implement integra-
139 tion, it is important to identify specific conditions found in earlier stages that
140 promote further cooperation. While one can argue that the mechanism of
141 spillover is ad hoc,⁹ and suffers owing to its vagueness, Ernst Haas is correct
142 when he directs our attention to “ripe” conditions that enhance the ability
143 of member states to successfully come together to solve mutual problems.¹⁰
144 This success stems from the environment under which effective institutions
145 were formed. But what are the conditions that lead to effective institutions?
146 While Haas states that ideological-political homogeneity is the ideal condi-
147 tion for integration, the condition has not been present in Europe during
148 the integration process.¹¹ We will argue instead based on power transition
149 deductions that convergence of underlying values, the emergence of trust,
150 and the distribution of national capabilities are key elements that allow
151 nations to transition from competitive to cooperative arrangements.

152 A variant of neofunctionalism, supranationalism, addresses neofunction-
153 alism’s lack of clear mechanisms to account for the process of integration by
154 providing a more detailed picture of the roles of supranational institutions
155 and transnational actors in the process of integration.¹² Like neofunction-
156 alism, the supranationalist argument once again proposes that integration
157 is a self-perpetuating phenomenon.¹³ These researchers argue that once
158 established, supranational institutions and their transnational agents further
159 strengthen themselves through entangling rules and regulations and thereby
160 produce greater regional control over member states. Such studies detail the
161 critical roles of the European Parliament,¹⁴ the Commission with the institu-
162 tionalization of qualified majority voting,¹⁵ the European Court of Justice,¹⁶
163 and various transnational actors participating in both the demand for and
164 the supply of integration.¹⁷ Supranationalism provides a description of the
165 integration process and not a theory that produces probabilistic scenarios
166 regarding the future of the EU. To say that specific actors produce institu-
167 tions that they want to become more powerful negates the possibility that
168 the level of integration could lessen. The Brexit process is of course excluded
169 from this perspective. With the power transition perspective, we will offer
170 explanations that allow for both integration and disintegration.

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172 **Neorealist explanation of regional integration**

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174 Theories that have long been used to explain conflict among nation-states
175 have also been used to explain cooperation and even integration. The tra-
176 ditional realist model cannot account for integration.¹⁸ At its core, the
177 realist model assumes anarchy and provides a single mode of condition for
178 lasting peace—“balance” among contenders. Peace is preserved by fear as
179 contenders consider the cost of war as the single deterrent of conflict. This
180 perspective excludes the possibility of integration. Realism assumes that all

181 states maximize their individual interests in an anarchical world. In such
182 an environment, power asymmetry provides the opportunity for the larger
183 states to absorb the smaller one at an acceptable cost.¹⁹ Kenneth Waltz
184 suggests that nations recognize the peril of asymmetric power and create
185 alliances to balance opponents and deter conflict when one side becomes
186 too large.²⁰ Thus, a minimum winning coalition generates peace. This per-
187 spective excludes the possibility of integration between states because that
188 would require partial or, in the case of full integration, total surrender of
189 national sovereignty to supranational institutions. To do so, states would
190 no longer have the ability to balance to maintain state security. Therefore,
191 the most we can expect from the realist perspective is short-term alliances
192 without the possibility of such alliances being institutionalized. Because of
193 this rigid peculiarity, international assessments of integration and conflict
194 are usually provided as non-connected alternatives. Therefore, at face value,
195 the realist perspective is logically and empirically incorrect because there
196 is sufficient evidence that national leaders seek to maximize gains through
197 not only confrontation and competition, but also cooperation including
198 regional integration.

199 Disregarding the limitations of realism, Sebastian Rosato provides a neo-
200 realist argument that attempts to explain European integration, resulting
201 from balance of power considerations.²¹ He claims that the EU developed
202 because of the need to balance against the Soviet Union's security threat,
203 France and West Germany's need to balance against each other and the
204 common adversary, and the US's role as an offshore balancer that pro-
205 vided enough short-term balancing cover in order to promote integration.
206 He continues by stating—contrary to the empirical record that shows the
207 United States achieved preponderance in the postwar period (as we will
208 see in [Chapter 5](#))—that a simple traditional alliance was not enough given
209 the Soviet Union's size. Instead a more centralized effort was needed. In an
210 interesting twist of logic, the EU member states decided to preserve their
211 sovereignty by surrendering their sovereignty.

212 Rosato argues that given the institutionalized US role in NATO, there
213 was no need for states to surrender sovereignty to the proposed European
214 Defence Community. The US also played an important role in providing the
215 French and Germans the time they needed to create an integrated economic
216 foundation that could lead to military integration. Meanwhile, the British
217 saw their island status as a good reason to encourage European integration
218 as a geographic buffer. Other early member states are assumed to play a role
219 in the balancing strategy.

220 Rosato's logic, however, runs counter to the realist perspective: by inte-
221 grating, European states lost their ability to further balance or change
222 balancing partners in order to preserve independence. For example, why
223 were France and Germany more concerned about domination by the Soviet
224 Union and not the US? If preferences are truly independent to national
225 politics, as is stated by realists such as Waltz, then France could have allied

226 itself with the Soviet Union in order to balance against the US. In doing so,
 227 it would not have to worry about surrendering sovereignty. Of course, this
 228 is not reasonable given that preferences are domestically derived. In other
 229 words, values matter. Last, since the Soviet threat is no longer present, we
 230 should have witnessed a drive towards disintegration in the 1990s. This,
 231 of course, was not the case since one of the major advances in integration,
 232 monetary union, occurred *after* the Soviet disintegration, as outlined in the
 233 introduction. Also, does the empirical evidence still point out the need for
 234 a balance between France and Germany? If not, then why does the EU still
 235 exist? What is holding the Union together?

236 These contradictions are evident.²² The offshore balancing proposition
 237 recently advanced by realists shows that consistent with the original logic,
 238 nations should arrange in separate groups and align only for convenience.
 239 Restating previous realist isolationist arguments, the United States should
 240 become a fortress America, pull out of the Pacific and Atlantic alliances,
 241 and re-impose the Monroe Doctrine. China should be allowed to control
 242 the China Sea if it can persuade the Philippines and Vietnam to establish a
 243 new structure. Japan with Korea and perhaps Taiwan can establish a new
 244 Asian group. Russia should have a new sphere of influence now including
 245 Ukraine, once more cushioning the border with the EU. As the US exits,
 246 the EU should move to develop the European Defence Community inde-
 247 pendent of NATO. Assuming Brexit occurs, the UK should seek to retain
 248 ties with the United States. India can expand its sphere of influence in
 249 Southeast Asia. The Middle East, Africa, and Oceania should be left to fend
 250 for themselves. These moves advanced by John Mearsheimer and Stephen
 251 Walt are consistent with realism—they are, however, obviously inconsistent
 252 with integration. Realism provides only one perspective on the confronta-
 253 tional portion of international interactions, but the whole story cannot be
 254 fit in this paradigm. Integration requires a shift from confrontation to a
 255 cooperation perspective provided by power transition.

257 **The power transition explanation of regional integration**

259 Power transition theory provides a systematic perspective to analyze conflict
 260 and cooperation concurrently. The theory is based on A. F. K. Organski's
 261 pioneering work that describes a hierarchical global system.²³ The theory
 262 has traditionally focused on the initiation of war because of the severe
 263 consequences of major wars, and the implications of integration were not
 264 the main focus of that work. However, today, the likelihood of major war
 265 has receded while the process of integration expands worldwide. Unlike
 266 realism, which covers confrontation, or neofunctionalism and supranation-
 267 alism, which cover integration, power transition provides a perspective on
 268 both processes within one general perspective.

269 We begin by providing an overview of the theory, as originally formul-
 270 ated. We then extend it to an explanation of integration with implications

271 for the EU. Brian Efrid and Gaspare Genna first extended the theory into this
272 less explored area of cooperation²⁴ and other work on integration shows
273 that the same principles that account for conflict can be generalized to
274 apply to cooperation among allies and integration.²⁵ Past research gives us
275 a good starting theoretical structure to account for the ongoing dynamic
276 changes experienced by the EU and forecast their longer-term implications.
277 In doing so, we will bring in two major clarifications to the theory: how
278 trust binds states to the status quo and the driving force behind status quo
279 satisfaction—the convergence of social values.

280 The theory postulates that the distribution of power in the international
281 system is uneven, specifies the relative roles of nations within this hierarchy,
282 and most importantly for integration, links the preconditions for conflict
283 and cooperation generated by relative power distributions to the system
284 of governing rules. Contrary to neorealism, states will not react with con-
285 frontation based only on particular power distributions. Instead, conflict
286 will follow if the rising power is dissatisfied with the prevailing status quo
287 (rules of the system), but cooperation can be maintained if satisfied states
288 agree on the norms and wish to maintain the status quo. The status quo
289 varies with reference to the particular international or regional system one
290 is considering—such as the post-World War II Bretton Woods system or
291 the EU's stages of deepening integration. This fundamental and frequently
292 overlooked difference allows analysis of international interactions where
293 war and peace is at stake and intrastate interactions where integration is at
294 stake.²⁶ Thus, nations, like individuals, are driven by a search for net gains
295 in the face of scarce resources. The international hierarchy is considered to
296 have fewer norms and constraints than domestic environments, but the rules
297 governing both are fundamentally similar. Despite the absence of enforce-
298 able international law, there are no major differences in the rules that govern
299 these arenas. States, like domestic political groups or individuals, seek to
300 attain the maximum net gains and choose between coercive and cooperative
301 strategies to advance their goals conditioned by the degree of satisfaction
302 with the norms in place and trust in the competitors at hand.²⁷

303 Critical components of power transition theory are hierarchy (deter-
304 mined by power), satisfaction of stakeholders with the status quo, and how
305 they determine conflict or cooperation between them.²⁸ While the original
306 theory postulated by Organski focused on global confrontational interac-
307 tions, Douglas Lemke in his careful empirical analysis shows that the same
308 principles that hold at the global level define interactions within regional
309 hierarchies determined by relative power of states; and Michelle Benson and
310 Jacek Kugler further show that similar principles apply to civil war.²⁹ For
311 power transition theory, power is viewed as the capacity of one nation to
312 advance policy goals by altering the policy of another through persuasion
313 or coercion. While the concept is transparent, its measurement is not sim-
314 ple. The perspective stresses economic, demographic, and political elements.
315 The original conception focused on the intersection between demography

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316 and economics, and politics was added later. Frequently, military capabil-
317 ity is added to this notion by many scholars who focus on war, but from
318 the outset, power transition theory rejected this component because mili-
319 tary expenditures measure the level of threat a nation is under, and have
320 no bearing on the cooperation process that characterizes the majority of
321 international interactions.³⁰

322 Political interactions among nations are largely based on self-interest with
323 varying commitments among national elites to the existing institutional sta-
324 tus quo, or the accepted international rules and norms. The group's satisfied
325 nations are those that provide broad acceptance of the prevailing status quo.
326 The dissatisfied group consists of nations that challenge existing rules and
327 seek to revise them substantially. The likelihood of cooperation and con-
328 flict within the hierarchy is therefore characterized by the level of power of
329 each country and the degree of support for the institutions created as they
330 advance their interests.

331 The structure of the international system is divided into global and
332 regional arrangements reflecting the level of interest that parties assign to
333 each unit. Within each, dominant and challenging nations compete for
334 preponderance. Figure 2.1 shows how global and regional hierarchies inter-
335 act. The most powerful global nations hold a position at the top of the
336 global structure. Today they are the United States, China, the EU (if com-
337 bined), and further down, Russia. The EU is also a regionally well-defined
338 hierarchy. Another example is the Common Market of the South (MERCOSUR),
339 which is a loose trade zone that incorporates Brazil and Argentina

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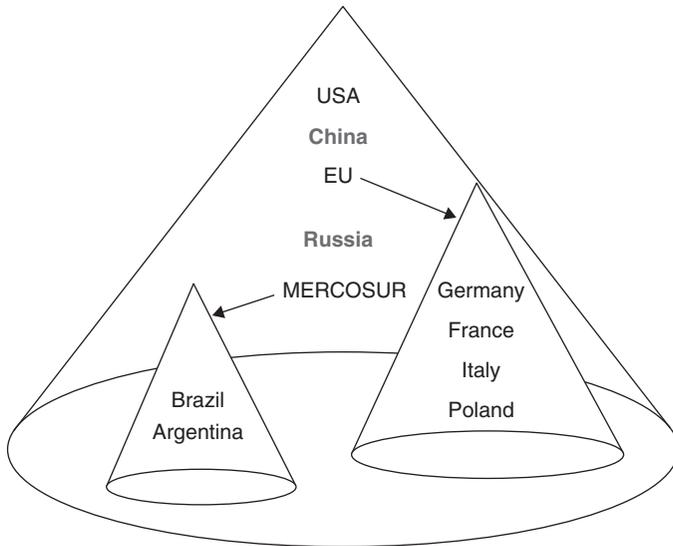


Figure 2.1 Global and Selected Regional Hierarchies.

361 among its most powerful full members.³¹ In the EU, the leading players are
362 Germany, France, Britain, Italy, and Poland. Within each region, the dom-
363 inant nation attempts to manage the regional system with a coalition of
364 stable, satisfied supporters. Based on the current distribution of power, the
365 US is globally dominant, Germany leads the EU, and Brazil is preponder-
366 ant in the MERCOSUR/South American region. The great global powers
367 China, India, and Russia are also regional powers in their respective geo-
368 graphic neighborhoods. At the global level, China and Russia are dissatisfied
369 and have recently joined in a collation that challenges the Western norms
370 set by the US with the support of the EU and to a lesser degree Latin
371 America.

372 The relative power of states is best approximated by GDP ratios (mea-
373 sured in ppp) which includes the number of people who can work and fight,
374 and their economic productivity. The impact of demographic variables is
375 a much overlooked argument. Katherine Organski and A. F. K. Organski
376 place population at the center of long-term assessments of power.³² Tadeusz
377 Kugler shows that population reflects potential power because individuals
378 are both the producers of output and the agents that allow elites to increase
379 political performance.³³ He further shows that the size of populations can
380 be augmented only by migration or fertility, thereby limiting the poten-
381 tial for a great power to expand resources short of integration or forceful
382 territorial acquisition.

383 Productivity approximates potential capability to exercise influence at any
384 given point in time. Organski and Kugler proposed that total GDP is the
385 most effective measure to approximate active power.³⁴ Therefore, national
386 wealth reflects power potential³⁵ and is fungible. GDP is admittedly a rough
387 indicator of power but remains the most useful tool for forecasts of future
388 performance and has been generally adopted by the applied security commu-
389 nity. National leaders can choose to allocate different portions of domestic
390 product to security, growth, health, education, infrastructure, or other pri-
391 orities as needed. Moreover, in confrontational conditions, depending on
392 the level of threat perceived by the ruling elite, military expenditures can
393 rise and fall rather dramatically.³⁶ Regardless of these differences, the over-
394 all relation between GDP and Composite Indicator of National Capabilities
395 (CINC) measures that include military considerations is high for developed
396 societies under review here.³⁷ From the perspective of power transition, the
397 advantage of using GDP as a measure of power is that it can be used to
398 analyze cooperation and confrontation, disaggregated to the provincial or
399 even the individual level. This flexibility provides the opportunity to analyze
400 relations within as well as across nations and can be forecasted realistically
401 for 30 to 50 years into the future.

402 GDP accounts for the overall output at the intersection between demo-
403 graphic and economic factor, but fail to account accurately for political
404 performance. Organski and Kugler recognized that this distortion in power
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406 comparisons is maximized in interactions between the most developed
407 and the less or least developed nations.³⁸ To compensate, political perfor-
408 mance variables were added to the power equation. One such variable,
409 relative political extraction, approximated the ability of governments to cap-
410 ture fiscal resources from their population and allocate them to advance
411 government goals. Interacting this measure of political performance with
412 GDP made it possible to capture the effects that an efficient government has
413 in advancing its goals. Measurements of political performance have been
414 refined and extended, reducing the difference in power assessment between
415 advanced and less advanced societies, by Marina Arbetman and Jacek
416 Kugler and most recently by Jacek Kugler and Ronald Tammen with fur-
417 ther assessment by Allison Hamlin.³⁹ Extensive tests reveal—as theoretically
418 anticipated—that without including assessments of political performance,
419 power evaluations are not consistently accurate across levels of economic
420 development.⁴⁰ However, when comparing countries at similar levels of
421 development, we see very small effects. For this reason, we do not control
422 for political performance within the EU.⁴¹ The one substantive exception is
423 Turkey, which has applied for EU membership.

424 Within the EU, the distribution of the key components of power—
425 population, GDP, and the interaction with productivity—is quite telling.
426 To provide a more accurate representation of reality across time, we stan-
427 dardize the illustrative graphs by including all the current members of the
428 EU including Britain. [Figure 2.2](#) shows the relative population distributions.
429 The relative populations of European nations will not change much between
430 1950 and 2030. One notable exception is Germany, with the change caused
431 by the division between East and West (black line). The simple reason for
432 these minimal changes in the population is that European states have already
433 undergone the demographic transition and have stable or diminishing popu-
434 lations. Such stability is rare in the international system. In Africa and other
435 developing societies, the fertility rate far exceeds the improvements in GDP
436 per capita and drives overall productivity frequently as inequality and pro-
437 ductivity drop. From a power perspective, the stability in the EU population
438 is a contributor to the stability in this unique environment that faces no
439 power overtake generated by population expansion.

440 Data in [Figure 2.3](#) show that the perspective generated by GDP has far
441 more variance among EU member states. The UK was the dominant nation
442 in the 1950s but was overtaken by Germany in the 1960s. Germany then
443 became the dominant nation and remains so until now. Forecasts suggest
444 that the relative power of Germany is declining and it will become a less
445 dominant nation in the future. Indeed, France may match the overall capa-
446 bilities by 2030. The UK, which dominated in 1950 immediately after World
447 War II, is expected to withdraw from the EU. Under these conditions, the
448 combined relative power of Germany and France generates very strong dual
449 power dominance within the EU. If these nations concur on policy, the EU
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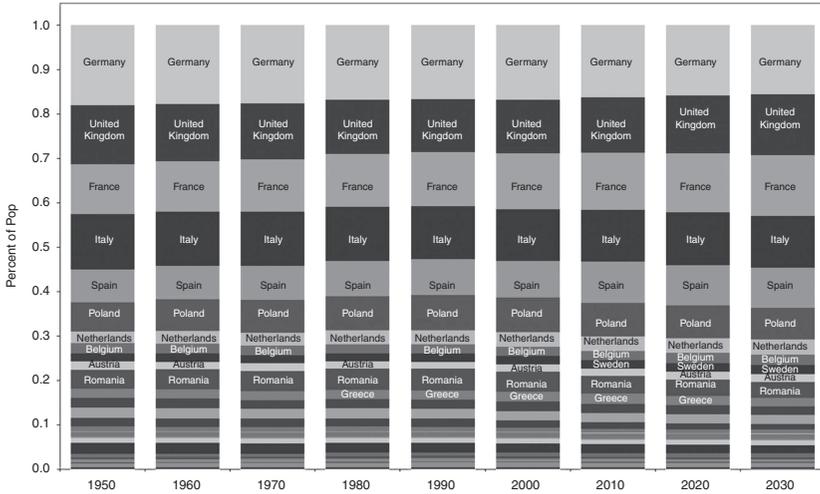


Figure 2.2 Population Distributions of the EU Member States.
Notes: Unlabeled nations are: Portugal, Czech Republic, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Slovakia, and Slovenia.

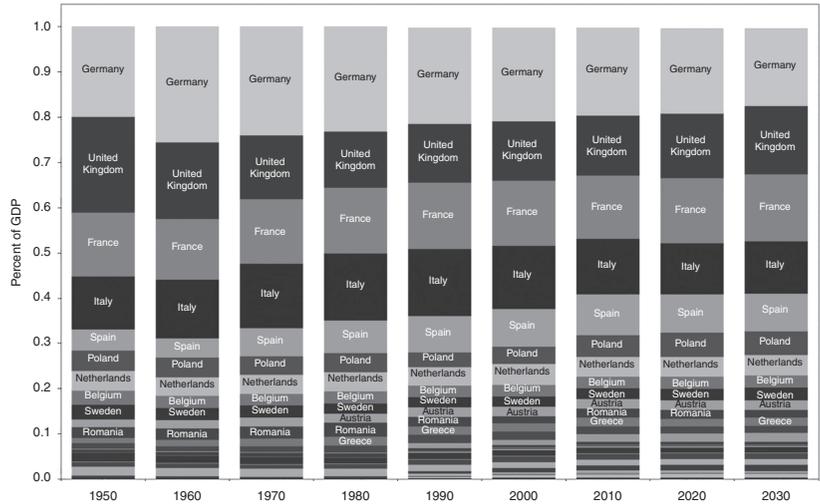


Figure 2.3 Member States Share of Total EU GDP, 1950–2030.
Notes: Unlabeled nations are: Portugal, Czech Republic, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Slovakia, and Slovenia.

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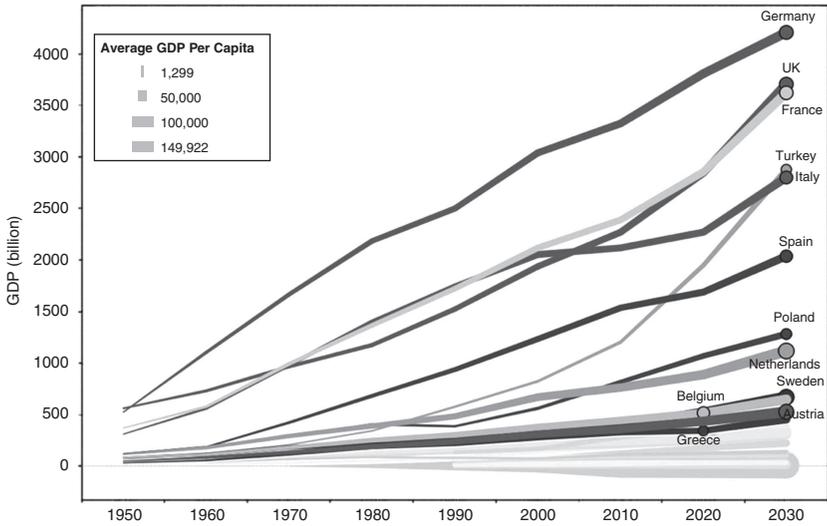


Figure 2.4 Europe's Hierarchy: GDP, (in Billion), GDP Per Capita 1950–2030 (Constant ppp 2011).

Notes: Unlabeled nations are: Portugal, Czech Republic, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Slovakia, and Slovenia.

is likely to be stable. If not, persistent parity and the threat of an overtaking can lead to disintegration.

Figure 2.4 illustrates power distribution in Europe by combining GDP and productivity to isolate the relatively affluent from the more lagging nations. The largest societies in Europe are not the most productive or affluent. Luxembourg, Sweden, and Switzerland, among others, have much smaller populations but are more productive. In GDP terms, Germany, the UK, or France have far more actual power than Turkey, Italy, Poland, or Spain, whose potential power based on population is underrepresented. This disparity among EU members is of concern as Italy, the least productive and slowest growing among the top members, raises concerns about its continued participation in the EU. Likewise, Turkey with a very large population, is by a large margin the least productive population, making its incorporation in the EU a very difficult enterprise.

Power can also be reflected by political influence. To a large degree the EU's voting arrangements (like the Electoral College in the United States) are based not on output or productivity but on the size of populations. However, in real terms actual power is more effectively assessed by the economic impact of a society, its market size, and productivity. The disparities in political clout and economic impact are the reason for contradictions that are so difficult to resolve within the EU.

541 The role of a leader in a hierarchy was first analyzed in the works
542 of Charles Kindleberger who drew attention to the need to differentiate
543 between *hegemony* and *leadership*.⁴² According to Kindleberger, the US's
544 role in the restructuring of post-World War II international regimes was best
545 described by *leadership* and not by *hegemonic stability* as argued by Robert
546 Keohane.⁴³ For Kindleberger, hegemony has uncomfortable overtones of
547 force, threat, and pressure, whereas a leader can lead without "arm-twisting,
548 to act responsibly without pushing and shoving other countries."⁴⁴ In this
549 regard, a crucial issue that arises in economics is what has been called "the
550 agency problem."⁴⁵ In a previous study, Gaspare Genna, Birol Yesilada, and
551 Peter Noordijk tested this hypothesis for European integration and found
552 that Germany indeed played the role of a regional leader that promoted
553 integration. However, when the capacity of the regional leader to main-
554 tain provisions of public goods became limited, the deepening of integration
555 reached a plateau and significantly slowed down.⁴⁶

556 For a regional leader, we use the measure of hierarchy, which reflects
557 the distribution of power in Europe. A hierarchy can be either asymmetric,
558 when one nation dominates, or symmetric, when many are equal. Contrary
559 to arguments advanced by Robert Gilpin and Robert Keohane, among oth-
560 ers,⁴⁷ power transition does not assume that hegemony is the prerequisite
561 to preserve peace. Hegemony may help when the dominant nation is satis-
562 fied, but overwhelming preponderance can also lead to war when it is not.
563 A satisfied dominant nation can enhance integration and peaceful coopera-
564 tion by providing public goods to the community, but a group of small and
565 equal nations can also advance cooperation when they share common val-
566 ues. The most powerful nation—identified as the dominant actor within a
567 hierarchy—is the one that has the ability simply to influence the stability of
568 the hierarchy. Power transition proposes that in a hierarchy, the dominant
569 nation that successfully manages interactions, and is supported by a coal-
570 ition of stable, satisfied nations, can preserve peace. The EU is an explicit
571 attempt to create a viable stable unit in an environment where parity among
572 the participants prevails and conflict has a long history.

573 The EU is distinct because in this region—regardless of power
574 overtaking—the commitment to the status quo exceeds levels found in any
575 other region. The free movement of money, labor, and trade is permitted
576 by most members and security arrangements are shared. EU policy encour-
577 ages the maximization of opportunity to exploit the economic theories of
578 liberal exchange and mobility. Figure 2.5 shows different membership levels
579 and commitments of EU countries. The establishment of a Schengen region
580 is an important step in establishing a deeper level of regional integration
581 (the economic/security frontier as illustrated later in Figure 2.9). States that
582 accept the Schengen norms, trade agreements, and labor mobility, and adopt
583 the euro as their currency, have crossed the border between nation-state
584 sovereignty and a supranational community. While it is not a federation or a
585 full political union, Schengen member states have adopted rules and norms

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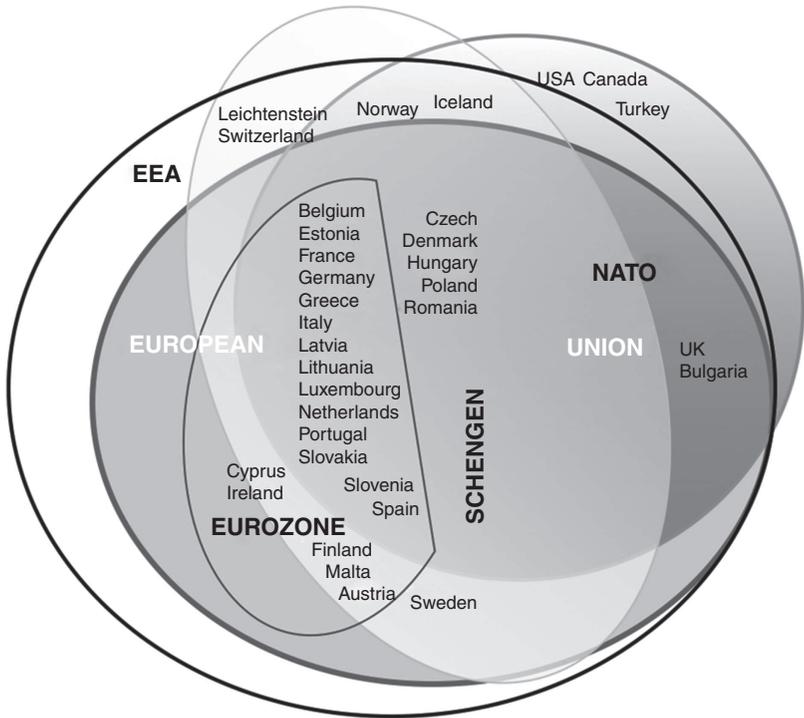


Figure 2.5 Degrees of Integration of Member States.

established by monetary transactions and removed borders so individuals can travel freely and seek employment. This arrangement approximates a federated community. It is therefore unsurprising that the move towards monetary integration, which moves away from the common market category that accommodates labor mobility, is the point at which member states begin to fear the process of integration because such a deepening may lead to a confederation and eventually a federation.

Let us now move to the connection between power dynamics and changes in the status quo to explain the likelihoods of conflict and cooperation. According to Power Transition theory, distributions of power set the pre-conditions of war and peace in the international system. The underlying assumption of global and regional hierarchies rejects the neorealist notion of anarchy. Instead, all actions are conditioned by the distribution of power, the change in that distribution, and the relative commitment to the status quo. Power is the ability to compel opponents to conform to the prevailing status quo. Nations with high capabilities have the ability to persuade or impose their goals on less endowed entities. Unlike an idealized democratic domestic political system, the international environment is populated by the great powers with massive capabilities that they can transfer into a greater

631 say; middle-range powers that have less but still consequential influence;
 632 and the majority of nations whose capabilities have limited external impact.
 633 Finally, the critical triggering mechanism differentiating periods of war and
 634 peace is captured by commitment to the status quo. Again, the status quo is
 635 defined as the rules and norms of the international/regional system. As will
 636 be explained later, we postulate two indicators of satisfaction based on citi-
 637 zens' trust towards the EU, as our unit of analysis is European integration,
 638 and convergence of values between EU citizens across member states. But
 639 first, we will present an outline of the general argument for conditions of
 640 cooperation (i.e., integration) and conflict which is the key concept found in
 641 power transition.

642 **Figure 2.6** outlines three conditions and their likely effects in terms of
 643 war and integration. The three conditions are categorized based on the
 644 relative convergence to the status quo, from coordinated to discordant.
 645 **Figure 2.6's** bottom condition of anarchy—generalized by neorealists as the
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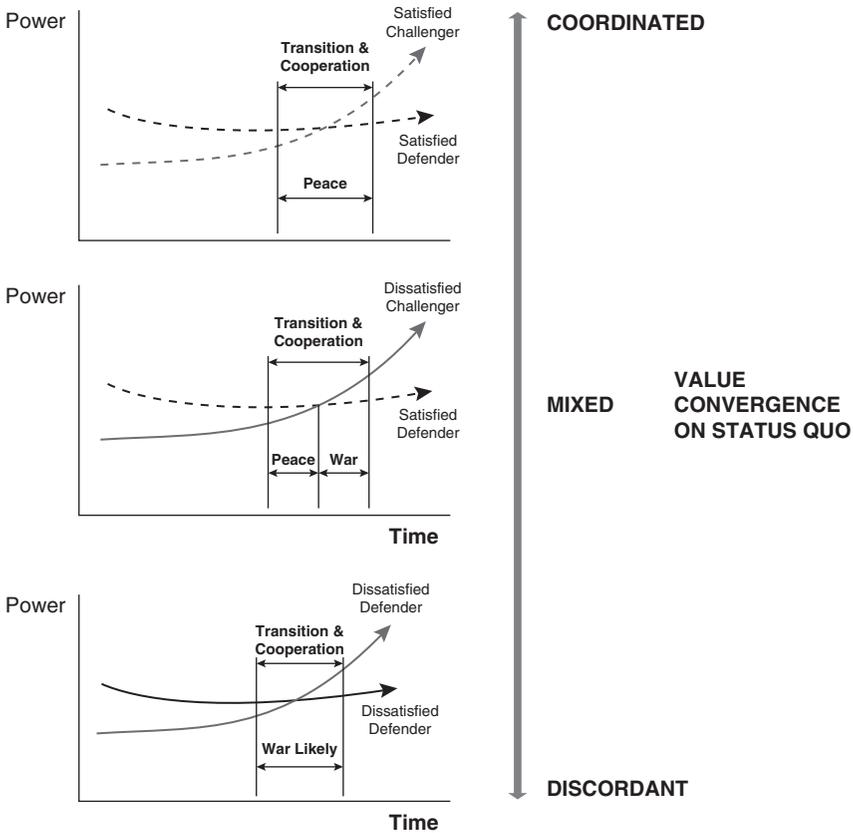


Figure 2.6 Power and Satisfaction Dynamics.

676 only condition of international interactions—is limited to discordant valuations of the status quo. Both the status quo defender and challenger are
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678 dissatisfied with the existing status quo and under parity, war is the solution
679 that can resolve severe disputes.⁴⁸ When two sides are dissatisfied with the
680 status quo, this discordance prompts war to resolve disputes.

681 An unordered, discordant hierarchy is one where two dissatisfied leading
682 states hold roughly equal shares of power. This situation—which balance of
683 power advocates indicate is ultra-stable—presents the most likely conditions
684 for conflict and, as we will see, the least likely conditions for integration. The
685 reason is that dissatisfied nations face limited power constraints and are only
686 restrained by the degree of satisfaction with the status quo. In the absence
687 of a regionally dominant country supporting the status quo, competition
688 among two or more contenders is the rule to resolve disputes among parties
689 that vie for control of the region. In this perspective, conflict is motivated
690 and takes place because of value differences. War is more likely to occur
691 within a discordant hierarchy as each contender with different interests and
692 incentives attempts to impose its influence upon the region.

693 The second is the mixed condition, which is the most prevalent in world
694 politics. The dominant side is satisfied while the challenger is not. The dominant
695 nation does not initiate conflict because it depends on equally satisfied
696 allies to maintain in place the set of rules that are designed to advance the
697 goals of the satisfied coalition. Interactions between a dominant satisfied
698 and dissatisfied challenger are competitive but empirically, conflict is used
699 to resolve disputes *half* of the time. Cooperation and confrontation can
700 emerge. Power parity conditions produce severe wars when a dissatisfied
701 risk prone challenger emerges, but peaceful interactions are equally likely if
702 the dissatisfied challenger is persuaded to accept an evolving status quo that
703 is then jointly adopted at parity leading to peace. The preconditions for war
704 are present but so is the possibility of accommodation—as exemplified by
705 the enormous conflicts in World Wars I and II when British and German differences
706 could not be resolved, with a contrast represented by the peaceful
707 overtaking of Britain by the United States after 1870 that produced a lasting
708 alliance, and similar German overtaking of France and Britain after 1950
709 which aided in the development of closer European relations.

710 The final and rare condition is central to our research on integration.⁴⁹
711 The challenger and defender are both satisfied. This is the rare condition that
712 leads to institutionalized alliances, free trade zones, and ultimately to deeper
713 integration. NATO is an example of a coordinated security agreement.
714 The North American Free Trade Agreement (NAFTA) and MERCOSUR
715 exemplify free trade and investment zones but limit labor mobility; the EU
716 members allow labor mobility, and the more integrated Economic and Monetary
717 Union (EMU or Eurozone) has coordinated monetary transactions
718 with a single currency, the euro. Integration could theoretically lead to a
719 truly integrated political federal political unit like the United States, Brazil,
720 or Germany.

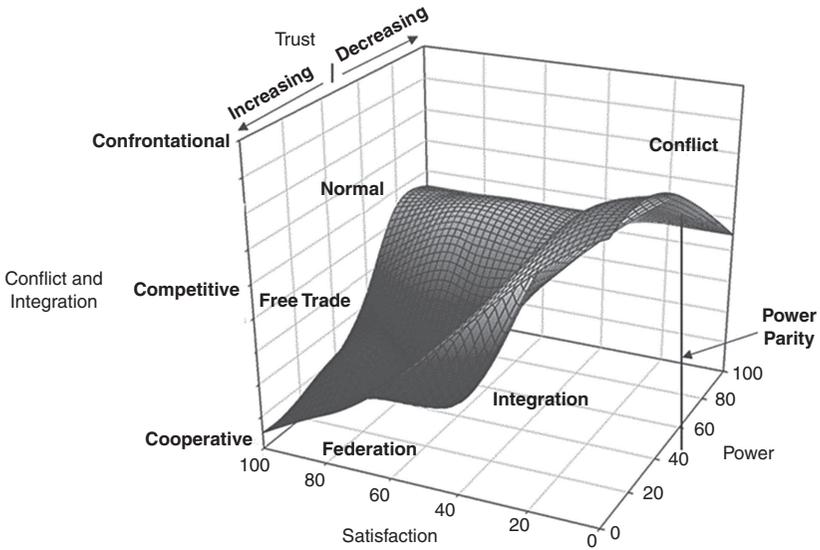


Figure 2.7 Power Transition Relation to Conflict and Integration.

The three conditions previously described can be placed on an integration–conflict continuum as our dependent variable, and satisfaction with the status quo, level of trust, and power distribution are our independent variables. Figure 2.7 illustrates how our pieces fit together. Under massive power asymmetry a preponderant can maintain or impose peace. Although limited wars such as in Korea in 1950–1953 or terrorist attacks by groups like Al Qaeda can take place as the dissatisfied opponents acquire sufficient capabilities, they produce massive losses for the weak participants and pose a very low threat to the stability of the international system or its rules. At parity, conflicts that challenge a state’s survival take place –as illustrated by the Austro-Prussia war—which become total severe conflicts—like World War I—as status quo satisfaction decreases, as does trust. Cooperation at parity takes place when the overtaking challenger is reasonably satisfied with the existing status quo and has some trust for the dominant state. The condition produces alliances as illustrated by the US–British relationship. Critical to our work, regional integration occurs where the competing sides are highly satisfied, are mutually trusting, and disregard parity as a precondition for war. Under these conditions, like the ones characterized by German and French leadership, with the support of the US, EU integration took place. Since 1945, the world should have noticed that Germany overtook France and Britain, yet without the conflicts that characterized these states for generations. Clearly, the satisfactory integration agreements among European states had much to do with the persistence of peace and the evolution of a supranational entity.

766 As [Figure 2.7](#) also illustrates, normal, competitive relations take place
767 among states. This condition represents the majority of international inter-
768 actions where nations seek to preserve their identity and interests but are
769 open to trade with other nations. In this area, states are somewhat trust-
770 ing, satisfied with the status quo, and under power asymmetry. Competitive
771 states follow international rules and contracts but do not necessarily estab-
772 lish institutional structures to secure them. In this idealized competitive
773 environment, nations depend on market forces to determine the qual-
774 ity and quantity of economic and social transactions within the confines
775 of loosely defined international rules and non-binding international laws.
776 Before 1900, the US was a state that fits this description—avoiding rigid
777 alliances and pre-commitments—but still willing to support freedom of
778 the seas by forcefully opposing piracy when it interfered with freedom of
779 navigation and commerce.

780 Normal interstate interactions also take place when the key actors in the
781 hierarchy support the existing status quo and do not increase their levels
782 of trust. Reagan’s famous restatement of an old Russian proverb “trust but
783 verify” suggests animosity but no expectation that commitments made will
784 necessarily be complied with. For this reason, when satisfaction drops, com-
785 petitive interactions become confrontational and severe wars can be waged
786 among contenders that reach parity since each expects to change the rules
787 in their favor following the war. This aspect of the original theory shows
788 that global and regional severe wars are waged at parity and are initiated
789 by the dissatisfied challenger seeking to alter the status quo.⁵⁰ This book is
790 concerned with the far less visited deductions that anticipate the possibility
791 of free trade agreements, integration, and possibly federation/political union
792 between sovereign states.

793 [Figure 2.8](#) is one cross-section of [Figure 2.7](#) that illustrates how sat-
794 isfaction conditions regional relationships. The top section provides the
795 traditional power transition explanation: as satisfaction moves from moder-
796 ate to low levels, competitive relations move to confrontational ones. Note
797 that there is a strong arc upwards after a seemingly plateaued competitive set
798 of relations. In other words, a state would need to be extremely dissatisfied
799 before choosing confrontation, which can lead to war.

800 The lower section of [Figure 2.8](#) illustrates the stepwise movement towards
801 deeper cooperation as satisfaction improves. While at a moderate state of
802 satisfaction, states choose preferential trade agreements (PTAs) because such
803 agreements liberalize some trade while protecting some economic sectors.
804 The condition is still competitive since states have not fully decided that
805 trade will result in mutual benefit. A free trade agreement (FTA) provides
806 a special set of norms and rules relating to trade and financial transactions
807 across societies. Based on arguments regarding the effectiveness of free trade
808 and the benefits of economies of scale connected to large markets, trad-
809 ing nations can choose to join agreements that regulate their trade. Such
810 agreements seek to attain a stable joint optimal outcome that is superior

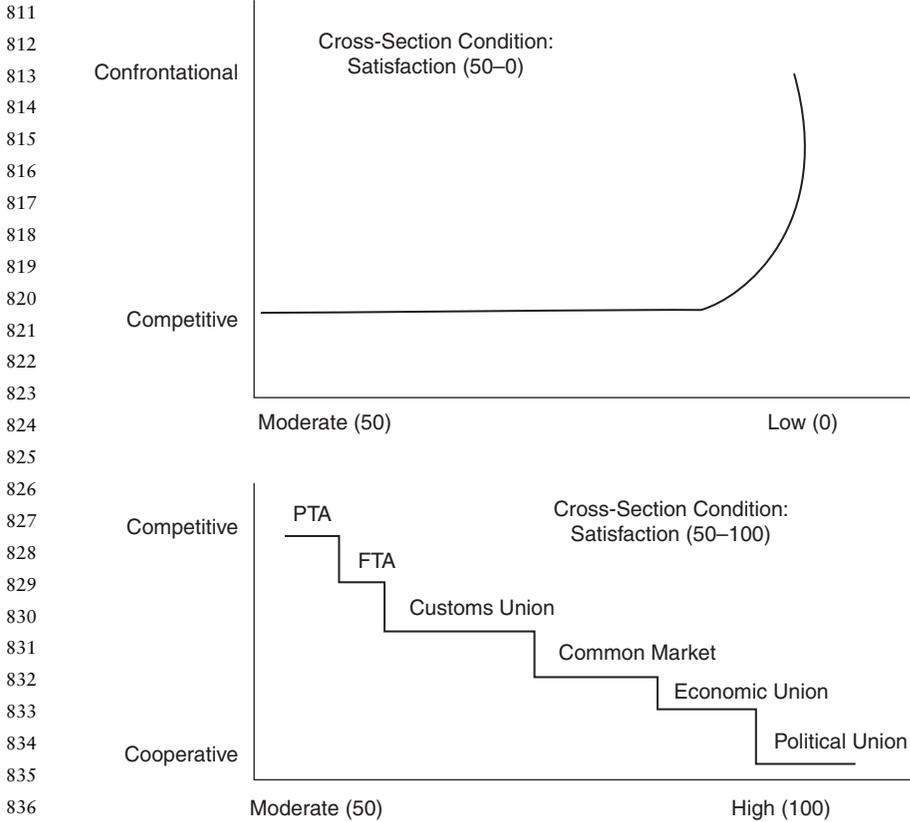


Figure 2.8 Process of Confrontational and Cooperative Integration

841 to gains nations can attain individually (Pareto optimal vs. Nash equilib-
842 rium).⁵¹ A number of bilateral trade agreements and some multilateral trade
843 agreements (e.g., NAFTA; WTO) follow this pattern. Trade liberalization
844 agreements restrict tariffs, limit domestic subsidies, and control dumping to
845 gain market size. Such agreements restrict national sovereignty minimally
846 and are frequently overridden when domestic demands surface.

847 As we move towards higher levels of satisfaction, we start to see inte-
848 gration developing. Integration is a process where nations agree not only
849 to liberalize trade, but also to encourage financial transactions and joint
850 financial ventures, harmonize roads, power grids and transportation systems
851 connecting communities across national borders, reduce border restric-
852 tions, eventually allowing labor mobility that recognizes levels of human
853 capital achieved, and adopt a common currency. Experience has shown
854 that this process usually starts with economic coordination at the low-
855 est possible level, such as a preferential trade agreement, then moves to

856 infrastructural synchronization, removal of border constraints on trade and
857 labor, culminating in monetary policy harmonization. Further integration
858 includes securing a common border and creating a common military unit
859 led not by national but by union representatives. Beyond this point a feder-
860 ation emerges. These are the steps categorized by forming a customs union,
861 common market, economic union, and then a political union. Each step also
862 requires satisfaction among the member states that the institutions created
863 by the integration agency will enhance the common good.

864 We now turn to the two components—trust and value convergence—that
865 reflect commitment to the status quo.

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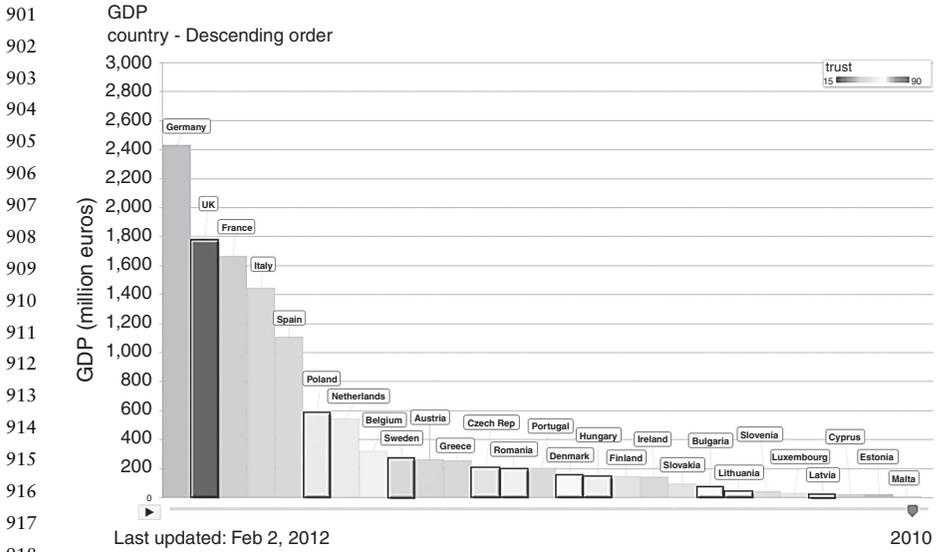
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868 *Trust*

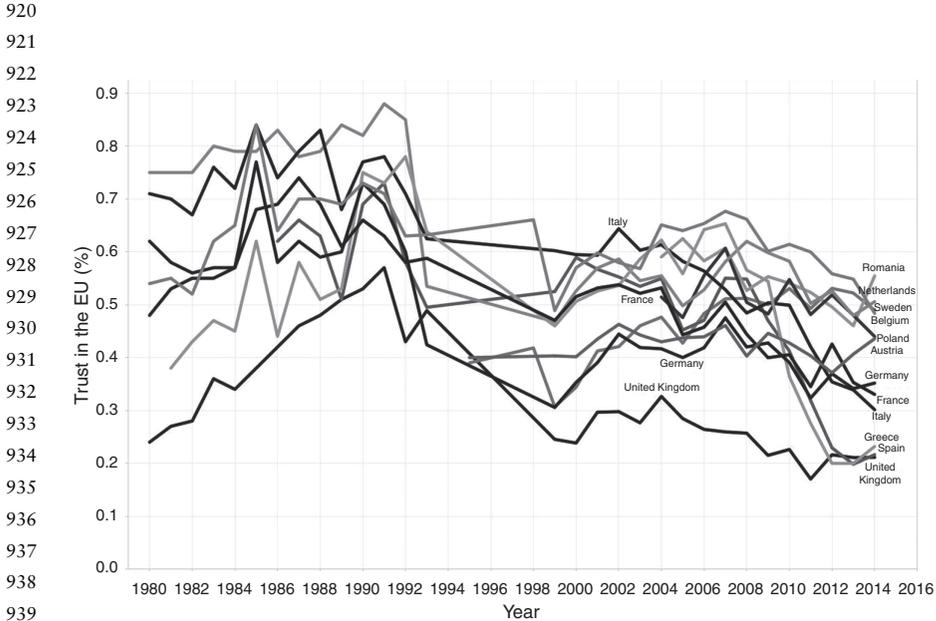
869 One crucial element of satisfaction with the status quo is trust. To be
870 sure, at each step in an integration process participating nations lose some
871 sovereignty in exchange for gains in security and economic prospects. The
872 cautious, confrontational “trust and verify” is slowly replaced by increased
873 trust in the institutions created, meaning that each advance in integration
874 transfers regulatory rights and places some aspect of national independence
875 at risk. During the integration process, nations cannot continue to maximize
876 net gains. Integration does not proceed by allocating equal shares to all. At
877 every step, there are some winners and some losers, even though the over-
878 all pie may be growing. Participants in the integration process must trust
879 that their partners will not take advantage and will compensate unexpected
880 losses when they take place.

881 The two-track EU created following the adoption of the euro is a seri-
882 ous concern for European leaders. One of the questions we raise regards
883 the long-term implications of a dual- or multi-track EU for political coordi-
884 nation that would impact the future of the integration of all EU countries
885 [Figure 2.9](#) shows the patterns of relative capabilities measured in total out-
886 put and the levels of trust towards the institutionalization of the European
887 Union in 2016 Germany, France, Italy, and Spain, which are in the Euro-
888 zone, trust the EU. Among nations that chose *not* to adopt the euro, only
889 Sweden strongly trusts the EU. Denmark is unwilling to see further integra-
890 tion. The UK, as one would expect given the Brexit vote, strongly distrusts
891 the EU. Most of the recent Eastern European EU members that have not yet
892 adopted the euro (Poland, Czech Republic, Romania, Lithuania, and Latvia)
893 are more favorable towards this currency. This summary is also reflected in
894 long-term assessments of trust over time as shown in [Figure 2.10](#).

895 [Figure 2.11](#) illustrates the important role trust plays in the process of inte-
896 gration. Trust acts like a gravity well. It reinforces status quo satisfaction
897 and eases states into each stage of integration like a ball rolling down-
898 hill. Trust among partners develops when they mutually believe they are
899 being treated fairly, meaning that outcomes are due not to biases but to
900 capabilities.⁵² Trust is also important in explaining European integration



919 *Figure 2.9* Member States Relative Power and Level of Trust towards the EU.



940 *Figure 2.10* Trust in the EU, 1980–2014.

941 Notes: Excluded nations are: Portugal, Czech Republic, Bulgaria, Croatia, Cyprus,
 942 Denmark, Estonia, Finland, Hungary, Ireland, Latvia, Lithuania, Luxembourg,
 943 Malta, Slovakia, and Slovenia.
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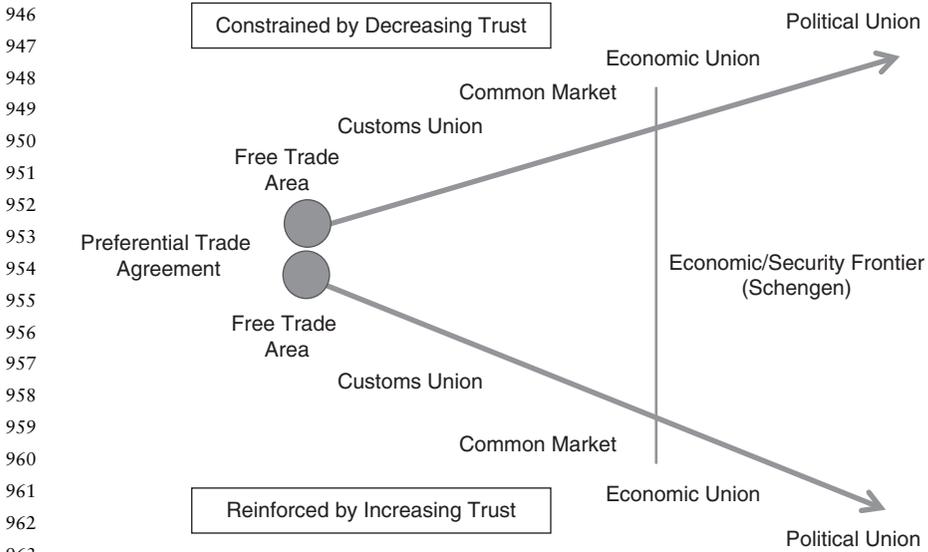


Figure 2.11 Constrained Gravity and Self-Reinforcing Gravity Processes of Integration.

because the varying levels of economic development can often lead to concerns about free-ridership.⁵³ Without trust, integration is constrained and therefore becomes an uphill battle, requiring further reliance on power asymmetry to provide negative incentives (i.e., force) under low status quo satisfaction, or positive incentives under higher levels of status quo satisfaction. Integration relies on the creation of a supranational entity so that the process evolves peacefully and cooperatively. For this reason, leading theories of international politics reject the possibility of stable integration. Neorealists fall back on the notion that such peaceful expansions are temporary because they ignore two of our critical variables: status quo satisfaction and mutual trust.

Moreover, consistent with the economic perspective, Figure 2.10 shows that the level of trust in the EU is declining in response to economic challenges. Britain, the least committed nation over time, did not trust the institutions created within the EU and now seeks to exit to follow its own course. Is peaceful integration only a temporary condition? Power transition contends that these arguments overlook an additional critical variable: value convergence between the peoples of the participating states.

991 *Values convergence*

992 We propose that the convergence of social values between member states is
 993 an additional requirement for satisfaction with the status quo. Value conver-
 994 gence is a crucial factor behind preparing the groundwork for the emergence
 995 and growth of trust that reinforces the status quo.⁵⁴ In general, linking
 996 values convergence and regional integration has not been studied.⁵⁵ Our
 997 argument is rooted in how human development (HD) theory addresses the
 998 way cultures evolve over time and the implications of cultural development
 999 for political development. These are complex issues that have been central
 1000 to a wide range of social science disciplines, from economics, politics, and
 1001 sociology to cultural anthropology. How and why human values change
 1002 and how these changes affect the way in which societies govern them-
 1003 selves has kept scholars busy for some time. In the more contemporary
 1004 era, since the late eighteenth century, social scientists have identified causal
 1005 linkages between economic modernization, cultural change, and political
 1006 development.⁵⁶ Ronald Inglehart and Christian Welzel provide some direc-
 1007 tion through their two compound variables from the World Values Survey
 1008 analysis that capture more than 78 percent of cross-national variance in
 1009 social change across the world.⁵⁷

1010 To reflect value convergence, they measure individuals' relative religio-
 1011 sity and social values along two dimensions. The first dimension is religious
 1012 (traditional)—secular (autonomy) values, which reflect the contrast between
 1013 societies over religion and religiosity. The more traditional societies place
 1014 greater emphasis on religious principles, structures, and institutions while
 1015 more secular-rational ones do not. Inglehart and Welzel also found that a
 1016 wide range of values is associated with this dimension. For example, soci-
 1017 eties near the traditional pole emphasize the importance of parent-child
 1018 ties and deference to authority, along with absolute standards and tradi-
 1019 tional family values, and reject divorce, abortion, euthanasia, and suicide.
 1020 They tend to have high levels of religious values and national pride coupled
 1021 with a nationalistic outlook. Societies with secular-rational values have the
 1022 opposite preferences in all of these areas.

1023 The second key dimension of cross-cultural variation is linked with
 1024 the transition from industrial society to postindustrial societies—which
 1025 brings a polarization between materialist (survival values associated with
 1026 the industrialization phase of development) and postmaterialist (self-
 1027 expression/postindustrial) values.⁵⁸ It corresponds to the transition to the
 1028 postindustrial phase of economic development and an advanced welfare
 1029 system which provides many individuals with an overwhelming sense of
 1030 existential security.⁵⁹ Factor analysis of the mean national scores reveals
 1031 that individualism, autonomy, and self-expression (measures of the post-
 1032 modernist value system) all tap a single underlying dimension that accounts
 1033 for 91 percent of cross-national variance.⁶⁰ The basic argument maintains
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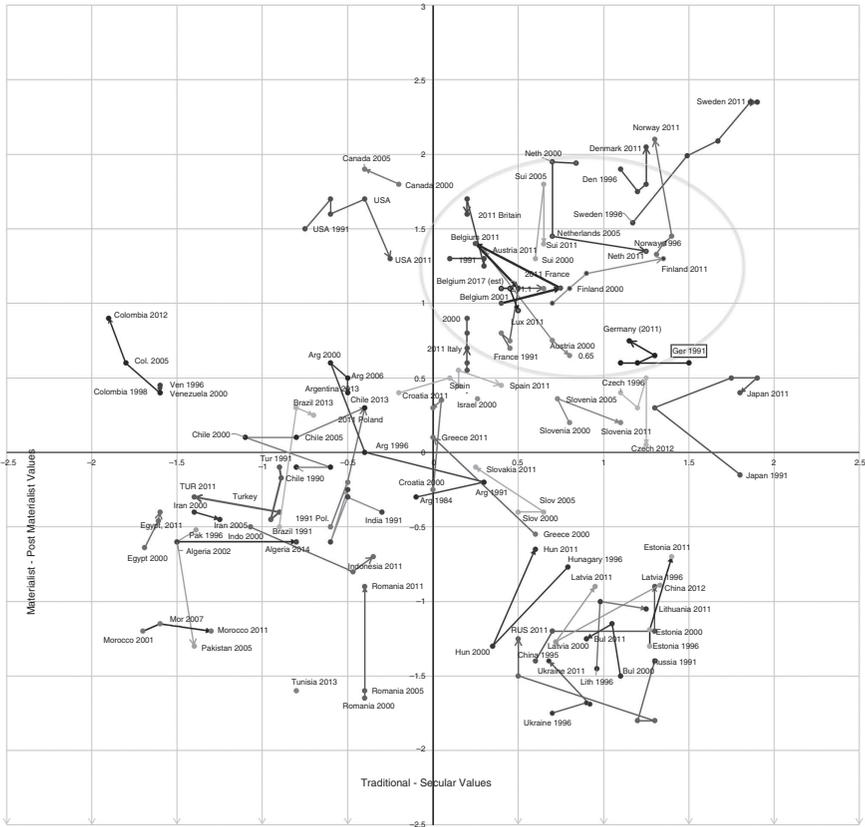


Figure 2.12 EU Values Map.

Source: Calculated from the World Values Survey (1981–2011), *WVS Database*, www.worldvaluessurvey.org/wvs.jsp

that the unprecedented accumulation of wealth in advanced societies during a prior generation results in a greater portion of the population that takes basic survival for granted. These individuals shift their priorities from an overwhelming emphasis on economic and physical security towards an increasing emphasis on subjective well-being, self-expression, and quality of life. Birol Yesilada et al. examined values convergence along the above two dimensions of social values and measured average factor loading for each year of the European Values Survey and World Values Survey.⁶¹ Figure 2.12 provides a values map for EU countries. As the figure shows, the EU countries converge in the postmaterialist and secular quadrant of the values map. The direction for eastern enlargement countries shows predominantly materialist values but with most recent observations indicating a significant move in the postmaterialist direction.

1081 The two value dimensions are critical for deep cooperation. Imagine two
1082 societies, one more materialist and traditional and the other more post-
1083 materialist and secular. If the two wish to develop deeper economic ties,
1084 they will be faced with a large set of problems and issues that will be dif-
1085 ficult to resolve due to their preferences. Take our previous example of
1086 environmental regulations. Such regulations add costs to production. If one
1087 society adopts such regulations and the other does not, then the adopter
1088 will not be able to compete with the other since products from the adopter
1089 will be more expensive. The postmaterialist society will insist on such reg-
1090 ulations because they believe in the value of a cleaner environment over
1091 economic gain. The materialist society will have the opposite view. In the
1092 end, they may agree on a PTA, but an FTA or beyond will be unlikely.
1093 Another example could be laws associated with marriage/domestic partner-
1094 ships. The traditional society would not allow laws that guarantee rights to
1095 homosexual partners or unmarried heterosexual partners due to religious
1096 reasons, while the secular society would adopt such laws. If the two states
1097 develop a common market, what will happen to the labor mobility rights
1098 of those individuals who are in such relationships? Without congruence,
1099 such people will be denied such rights. In sum, value convergence allows for
1100 easier agreements and fewer issue areas requiring protracted negotiations.

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Conclusion

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The international relations literature not dedicated to economic cooperation often hides the cooperative side of interstate exchanges, which is just as important and complex as the confrontational side. The economic literature talks of the mutual benefits garnered by deeper integration, yet does not explain how integration would develop. At best, states have a strong economic incentive to integrate. However, without considering the political forces that prevent integration, we are left with an incomplete story.

The neofunctionalist literature suggested that integration is driven by economic success related to infrastructure coordination. The spillover mechanism states that the process is expected to be self-reinforcing. However, we are again left without a clear picture: why does spillover occur in some areas, but not others? Our view is that integration takes place only when states are relatively satisfied with the status quo and develop trust in the supranational structures they build under asymmetric power among states. Unlike the progression to war, the progression towards integration and federation is in stages and can be reversed.

The supranationalist early optimistic assessments indicated that once states took the first step towards integration, they would find the next steps easier to implement. As the European community grew, the demand for monetary coordination would naturally require the creation of political institutions that would consolidate an ever-growing union. Expectations were high that the trust required for such actions would eventually lead

1126 to the delegation of security to the much larger and powerful EU colla-
1127 tion now able to confront all potential external enemies. Supporting these
1128 arguments from a value perspective, Inglehart argued that as the young popu-
1129 lation are exposed to the EU benefits, opposition from the aging generation
1130 of nationalistic supporters would diminish and values would shift from a
1131 pro-national perspective to an inter-European perspective.⁶² Reality has not
1132 been as simple.

1133 We have shown that realists capture a specific set of values: interactions
1134 among states are either competitive or confrontational based on the preser-
1135 vation of national sovereignty. Charles de Gaulle once famously quipped
1136 that “France has no friends only interests.” This quote reflects a deep con-
1137 viction that all nation-states will seek only to advance themselves, to which
1138 Clementine Churchill added, “you must not hate your friends more than you
1139 hate your enemies,” thereby stressing the need for an even yet self-serving
1140 posture. The anticipated behavior of nations is to preserve peace when con-
1141 venient and choose war when necessary. Strong, entangling commitments
1142 to other nations are counterproductive, but alliances may be useful only as
1143 long as they add to national security: beyond that point the participants
1144 are exposed to links that the more powerful partners will no doubt exploit
1145 when the opportunity arises. For this reason, disputes and confrontations
1146 are resolved by imposition or, if the opponent fails to yield, by force.

1147 We show that the neorealist argument lacks an important insight, that of
1148 political value convergence and the evolution of trust. To be sure, if your
1149 ally does not share your values, then deep cooperation with it could pose
1150 a danger to your own. If you are a small state, then you may be forced to
1151 sacrifice your values for the more powerful state. If two or more states share
1152 the same values, then there is no sacrifice because no one will be asked to
1153 change or give up their values. So, nation-states that share the same values
1154 are likely to join together in a variety of arrangements, so long as members
1155 hold to shared values. For example, security alliances such as NATO, and
1156 regional integration organizations such as the EU, MERCOSUR, and Eco-
1157 nomic Community of West African States (ECOWAS), all require members
1158 to hold democratic values as demonstrated by fully functioning democratic
1159 institutions.⁶³ The longer this process holds without major downturns, the
1160 more trust emerges.

1161 Realist challenges to this process of integration emerged early on. De
1162 Gaulle’s realist-nationalistic posture viewed integration as neither an easy
1163 nor a desirable process. Rather this process was a means to attain the
1164 maximum benefit for the nation involved during the long recovery from
1165 war. When or if marginal benefits ceased or even temporarily decreased,
1166 de Gaulle argued that the process would stop and revert back to national
1167 self-reliance. In this view, every step in the process would have to pass a
1168 test of cost and benefit for each nation involved. If all benefited, the process
1169 would continue. When obstacles emerged so that some benefited and others
1170 did not—or did so at very unequal rates—the process of integration would

1171 slow down or reverse, and if that failed, halt or lead to the withdrawal of
1172 some nations. The realist perspective points to Brexit as the first exemplar
1173 in the dissolution process of the EU. Marginal remnants may remain in the
1174 economic sphere—but a process of further integration is likely to end soon.

1175 We suggest that neither of the perspectives previously described account
1176 for the ups and downs experienced by the EU. Integration is costly but
1177 so is the preservation of fractionalized nation-states. Unions provide more
1178 than economic, mobility, and labor opportunities. The advantages of sup-
1179 porting growth among neighbors can also be measured by the reduction of
1180 inequality as individual productivity is expected to converge within a single
1181 unrestrained economy.⁶⁴ Common rules and regulations minimize the costs
1182 of manufacturing. Above all the absence of constant vigilance regarding the
1183 military aims of neighbors reduces the expenses for security ahead of any
1184 attempt to integrate into a single army structure.

1185 Integration, by its very nature, changes sovereignty from the exclusivity of
1186 the nation-state to either a sharing with, or transfer to, supranational insti-
1187 tutions. This change brings on challenges to national identity and touches
1188 at the heart of nationalism. In fact, any type of cooperation will require
1189 agreements on basic principles. Introducing social values does depart from
1190 traditional perspectives on international politics. A political union or “fed-
1191 erated state” can emerge when competing groups agree to sustain similar
1192 laws and rules within a given community. A stable state emerges with the
1193 expansion of laws and regulations that ensure the resolution of conflicts by
1194 legal transactions.

1195 As the above discussion highlights, satisfaction with the status quo com-
1196 bined with a favorable structural hierarchy is critical to our theoretical
1197 framework because it reflects the degree of shared preferences among
1198 nations. We concur with scholars who concluded that satisfied nations do
1199 not act in a way similar to those that are dissatisfied. These arguments are
1200 consistent with our previously listed propositions. The important question
1201 is, what drives these preferences? The answer helps us understand satisfac-
1202 tion and can provide us with important insights to the development of
1203 integration. Otherwise we are left with circular arguments such as “the-
1204 powerful-therefore-satisfied problem.” The concept has not received much
1205 attention in the literature other than how best to measure it. We offer to fill
1206 this theoretical gap by examining how convergence on certain values can
1207 increase trust making states more or less satisfied with the status quo.

1208 Power transition postulates that a mix of hierarchy, satisfaction, and trust
1209 are the key elements in the creation of a community beyond the nation-state.
1210 Even at this point stability is not assured. Federated nations—like the United
1211 States, India, Russia, or Brazil—show that very diverse groups, with distinct
1212 values and preferences, can be accommodated within a single country. Dis-
1213 putes within such units do emerge and can be extremely violent, e.g., the
1214 Russian Revolution or the American Civil War. Yet such units sustain very

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1216 large populations and endure serious crisis under various regimes. The crit-
1217 ical questions we ask and answer here is whether confederations like the
1218 EU can also sustain themselves through enduring challenges to their stabil-
1219 ity. The path to integration from community to federation is not a smooth
1220 process. The change of values and expectations from a nation-centered to
1221 a community-centered approach is not easy. Economic success is also not
1222 guaranteed by size, but even if it were, the value restructuring required to
1223 accommodate very diverse populations and historical experiences is also dif-
1224 ficult. The key elements in the process are not exclusively power relations
1225 but the evolution of satisfaction and the creation of trustful relations among
1226 states seeking to integrate. Institutional structures can help, but by them-
1227 selves are insufficient to determine the ultimate outcome of any integration
1228 process. Our empirical test will determine if the process we theoretically
1229 envisage is consistent with reality—and, more importantly, if it is possible
1230 to anticipate the flow of future integration based on past experience.

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Notes

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1327 tutionalized norms and rules could restrain greedy competition. Their
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 1403 weights equally six indicators: military expenditures, military personnel,
 1404 energy consumption, iron and steel production, urban population, and
 1405 total population. The advantage of CINC is its availability and com-
 1406 mon use that secures easy replication. The main drawbacks are, first,
 1407 the difficulty of effectively assessing societies across time because the
 1408 number of actors affects the relative size of societies. Second, it is diffi-
 1409 cult to forecast the power over time because components vary, and even
 1410 change over time. Finally, the excessive impact of military capabilities
 1411 on the overall measure is notable—the USSR is dominant during the
 1412 Cold War, overstating clearly its influence. CINC is calculated using six
 1413 selected indicators where each component is a dimensionless percentage
 1414 of the world's total. where the k indicators are ratios of each country n's
 1415 total population, urban population, iron and steel production, primary
 1416 energy consumption, military expenditure, and military personnel over
 1417 the corresponding world total.
- 1418 37 The difference is enhanced when developed and developing nations are
 1419 compared, but results are similar among nations at equivalent level
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 1430 The computation can be extended to include foreign aid, see Organski
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- 1432 41 The revised version of power was specified to include population, pro-
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 1434 political aspects of power was essential to understanding the outcomes
 1435 of significant conflicts like World Wars I and II, and to anticipating the
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- 1441 adjustment flowing from Kenneth Boulding's insight led to the addi-
 1442 tion of a power gradient that discounts the influence of a nation based
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 1483 up sovereignty to gain economic, security, and political rewards. Com-
 1484 mitment to common status quo goals and trust is needed for such an
 1485 accommodation. Brexit suggests—as we empirically show—that Britain

- 1486 is satisfied with the security arrangements and seeks a common trade
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1495 her action. *Players are in equilibrium if a change in strategies by any*
1496 *one of them would lead that player to earn less than if she remained*
1497 *with her current strategy*. For games in which players randomize (mixed
1498 strategies), the expected or average payoff must be at least as large as
1499 that obtainable by any other strategy. By definition, a strategy pair is a
1500 Nash equilibrium solution if each player's strategy is the best response
1501 to the other player's strategy. Pareto optimal, on the other hand, is a
1502 measure of efficiency. Named after Vilfredo Pareto, it is the outcome of
1503 a game if there is no other outcome that makes every player at least
1504 as well off and at least one player strictly better off. That is, a Pareto
1505 optimal outcome cannot be improved upon without hurting at least one
1506 player. Often, a Nash equilibrium is not Pareto optimal, implying that
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AUTHOR QUERIES

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