# 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.[14] 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.

## The economic explanation of regional integration

Why integrate?[15] 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

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

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

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

These economic arguments provide sound reasons for integration. However, they leave a great many questions unanswered. The "why integrate" answer does a great job in providing the incentives, but not a causal argument for integration. Saying countries need to integrate because it is for the greater good ignores important impediments to integration that often come out of domestic coalitional politics.[16] One such impediment is structural adjustment. Going from a closed to an open economy produces large economic dislocations. The most significant of these is the level of unemployment. As integration proceeds, the economic arguments tell us that some protected industries will not be able to adjust to the new competition – leading to short-term declines in employment. However, for democracies, any prolonged level of high unemployment, or fear of such, will lead to lowering the likelihood of maintaining political power (i.e., losing elections). Therefore, unless countries are willing to pool capabilities to address short-term employment adjustments, politicians are not likely to take the integration road.

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

A major consequence of integration deals with income equality. Classic economic theory postulates that when barriers to labor mobility and financial transactions disappear, the income of members across the merged unit will converge. Empirical observation shows that income inequality is reduced substantially within federated states because the profit motive increases labor mobility and diversifies money investments. This pattern was established in the United States and across developed nations, but does not hold in general across levels of development.[17] In sum, economic explanations indicate that integration in the long term benefits all participants, and likely reduces income inequality among the participants, but economic arguments provide little guidance on how to avoid short-term distortions, incorporate far less advanced entities, or generate regulatory parity. These are political decisions where economic theory is mute.

## Neofunctionalist explanation of regional integration

The first theory to address the political process of integration is neofunctionalism. It states that functional needs produce integration and that once started, integration evolves based on the mechanism of spillover. At the start, potential partners recognize that solutions to problems require shifting specific functions away from exclusively nation-state control towards supranational institutions.[18] These new units would enjoy similar decision-making power to that once exclusively held by the nation-state.[19] As functions are transferred to the supranational level, decision-makers begin to realize that attaining objectives would be more successful if more functions shift, or spillover, into the regional level.

Neofunctionalism states that the call for spillover comes from highly trained national specialists who view working within an intergovernmental framework as simply increasing the complexity of governmental systems.[20] Since they are specialists and not politicians, they seek out the more efficient supranational pathways for problem solving. When postulated, this theory lacked clear empirical support. It may have been overly ambitious to attempt to find hard evidence because, as Charles Pentland states, "The relation between functional need and structural adaptation, central to the

theory, is 'necessary' only in the sense of being an ideal or norm, not in the sense of predetermining the direction of change."[21]

At the heart of neofunctionalism is the notion that to implement integration, it is important to identify specific conditions found in earlier stages that promote further cooperation. While one can argue that the mechanism of spillover is ad hoc,[22] and suffers owing to its vagueness, Ernst Haas is correct when he directs our attention to "ripe" conditions that enhance the ability of member states to successfully come together to solve mutual problems.[23] This success stems from the environment under which effective institutions were formed. But what are the conditions that lead to effective institutions? While Haas states that ideological-political homogeneity is the ideal condition for integration, the condition has not been present in Europe during the integration process.[24] We will argue instead based on power transition deductions that convergence of underlying values, the emergence of trust, and the distribution of national capabilities are key elements that allow nations to transition from competitive to cooperative arrangements.

A variant of neofunctionalism, supranationalism, addresses neofunctionalism's lack of clear mechanisms to account for the process of integration by providing a more detailed picture of the roles of supranational institutions and transnational actors in the process of integration.[25] Like neofunctionalism, the supranationalist argument once again proposes that integration is a self-perpetuating phenomenon.[26] These researchers argue that once established, supranational institutions and their transnational agents further strengthen themselves through entangling rules and regulations and thereby produce greater regional control over member states. Such studies detail the critical roles of the European Parliament,[27] the Commission with the institutionalization of qualified majority voting,[28] the European Court of Justice,[29] and various transnational actors participating in both the demand for and the supply of integration.[30] Supranationalism provides a description of the integration process and not a theory that produces probabilistic scenarios regarding the future of the EU. To say that specific actors produce institutions that they want to become more powerful negates the possibility that the level of integration could lessen. The Brexit process is of course excluded from this perspective. With the power transition perspective, we will offer explanations that allow for both integration and disintegration.

## Neorealist explanation of regional integration

Theories that have long been used to explain conflict among nation-states have also been used to explain cooperation and even integration. The traditional realist model cannot account for integration.[31] At its core, the realist model assumes anarchy and provides a single mode of condition for lasting peace – "balance" among contenders. Peace is preserved by fear as contenders consider the cost of war as the single deterrent of conflict. This perspective excludes the possibility of integration. Realism assumes that all

states maximize their individual interests in an anarchical world. In such an environment, power asymmetry provides the opportunity for the larger states to absorb the smaller one at an acceptable cost.[32] Kenneth Waltz suggests that nations recognize the peril of asymmetric power and create alliances to balance opponents and deter conflict when one side becomes too large.[33] Thus, a minimum winning collation generates peace. This perspective excludes the possibility of integration between states because that would require partial or, in the case of full integration, total surrender of national sovereignty to supranational institutions. To do so, states would no longer have the ability to balance to maintain state security. Therefore, the most we can expect from the realist perspective is short-term alliances without the possibility of such alliances being institutionalized. Because of this rigid peculiarity, international assessments of integration and conflict are usually provided as non-connected alternatives. Therefore, at face value, the realist perspective is logically and empirically incorrect because there is sufficient evidence that national leaders seek to maximize gains through not only confrontation and competition, but also cooperation including regional integration.

Disregarding the limitations of realism, Sebastian Rosato provides a neo-realist argument that attempts to explain European integration, resulting from balance of power considerations.[34] He claims that the EU developed because of the need to balance against the Soviet Union's security threat, France and West Germany's need to balance against each other and the common adversary, and the US's role as an offshore balancer that provided enough short-term balancing cover in order to promote integration. He continues by stating – contrary to the empirical record that shows the United States achieved preponderance in the postwar period (as we will see in ) – that a simple traditional alliance was not enough given the Soviet Union's size. Instead a more centralized effort was needed. In an interesting twist of logic, the EU member states decided to preserve their sovereignty by surrendering their sovereignty.

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

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

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

These contradictions are evident.[35] The offshore balancing proposition recently advanced by realists shows that consistent with the original logic, nations should arrange in separate groups and align only for convenience. Restating previous realist isolationist arguments, the United States should become a fortress America, pull out of the Pacific and Atlantic alliances, and re-impose the Monroe Doctrine. China should be allowed to control the China Sea if it can persuade the Philippines and Vietnam to establish a new structure. Japan with Korea and perhaps Taiwan can establish a new Asian group. Russia should have a new sphere of influence now including Ukraine, once more cushioning the border with the EU. As the US exits, the EU should move to develop the European Defence Community independent of NATO. Assuming Brexit occurs, the UK should seek to retain ties with the United States. India can expand its sphere of influence in Southeast Asia. The Middle East, Africa, and Oceania should be left to fend for themselves. These moves advanced by John Mearsheimer and Stephen Walt are consistent with realism – they are, however, obviously inconsistent with integration. Realism provides only one perspective on the confrontational portion of international interactions, but the whole story cannot be fit in this paradigm. Integration requires a shift from confrontation to a cooperation perspective provided by power transition.

## The power transition explanation of regional integration

Power transition theory provides a systematic perspective to analyze conflict and cooperation concurrently. The theory is based on A. F. K. Organski's pioneering work that describes a hierarchical global system.[36] The theory has traditionally focused on the initiation of war because of the severe consequences of major wars, and the implications of integration were not the main focus of that work. However, today, the likelihood of major war has receded while the process of integration expands worldwide. Unlike realism, which covers confrontation, or neofunctionalism and supranationalism, which cover integration, power transition provides a perspective on both processes within one general perspective.

We begin by providing an overview of the theory, as originally formulated. We then extend it to an explanation of integration with implications for the

EU. Brian Efird and Gaspare Genna first extended the theory into this less explored area of cooperation[37] and other work on integration shows that the same principles that account for conflict can be generalized to apply to cooperation among allies and integration.[38] Past research gives us a good starting theoretical structure to account for the ongoing dynamic changes experienced by the EU and forecast their longer-term implications. In doing so, we will bring in two major clarifications to the theory: how trust binds states to the status quo and the driving force behind status quo satisfaction – the convergence of social values.

The theory postulates that the distribution of power in the international system is uneven, specifies the relative roles of nations within this hierarchy, and most importantly for integration, links the preconditions for conflict and cooperation generated by relative power distributions to the system of governing rules. Contrary to neorealism, states will not react with confrontation based only on particular power distributions. Instead, conflict will follow if the rising power is dissatisfied with the prevailing status quo (rules of the system), but cooperation can be maintained if satisfied states agree on the norms and wish to maintain the status quo. The status quo varies with reference to the particular international or regional system one is considering – such as the post-World War II Bretton Woods system or the EU's stages of deepening integration. This fundamental and frequently overlooked difference allows analysis of international interactions where war and peace is at stake and intrastate interactions where integration is at stake.[39] Thus, nations, like individuals, are driven by a search for net gains in the face of scarce resources. The international hierarchy is considered to have fewer norms and constraints than domestic environments, but the rules governing both are fundamentally similar. Despite the absence of enforceable international law, there are no major differences in the rules that govern these arenas. States, like domestic political groups or individuals, seek to attain the maximum net gains and choose between coercive and cooperative strategies to advance their goals conditioned by the degree of satisfaction with the norms in place and trust in the competitors at hand.[40]

Critical components of power transition theory are hierarchy (determined by power), satisfaction of stakeholders with the status quo, and how they determine conflict or cooperation between them.[41] While the original theory postulated by Organski focused on global confrontational interactions, Douglas Lemke in his careful empirical analysis shows that the same principles that hold at the global level define interactions within regional hierarchies determined by relative power of states; and Michelle Benson and Jacek Kugler further show that similar principles apply to civil war.[42] For power transition theory, power is viewed as the capacity of one nation to advance policy goals by altering the policy of another through persuasion or coercion. While the concept is transparent, its measurement is not simple. The perspective stresses economic, demographic, and political elements. The original conception focused on the intersection between demography

and economics, and politics was added later. Frequently, military capability is added to this notion by many scholars who focus on war, but from the outset, power transition theory rejected this component because military expenditures measure the level of threat a nation is under, and have no bearing on the cooperation process that characterizes the majority of international interactions.[43]

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

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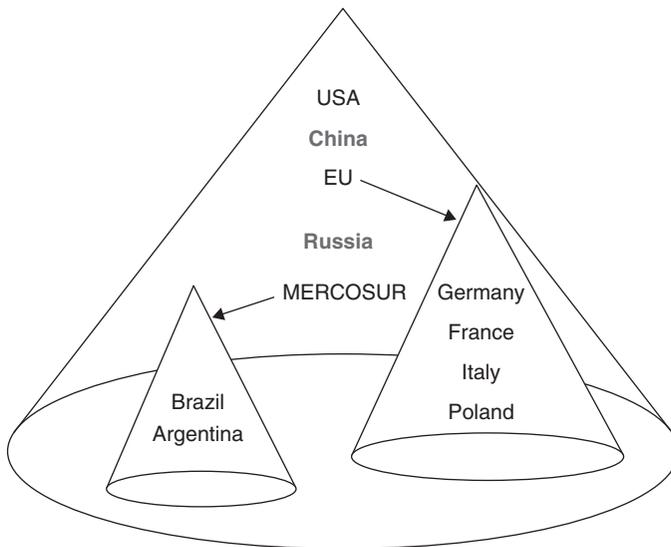


*Figure 2.1* Global and Selected Regional Hierarchies

01 its most powerful full members.[44] In the EU, the leading players are Ger-
02 many, France, Britain, Italy, and Poland. Within each region, the dominant
03 nation attempts to manage the regional system with a coalition of sta-
04 ble, satisfied supporters. Based on the current distribution of power, the
05 US is globally dominant, Germany leads the EU, and Brazil is preponder-
06 ant in the MERCOSUR/South American region. The great global powers
07 China, India, and Russia are also regional powers in their respective geo-
08 graphic neighborhoods. At the global level, China and Russia are dissatisfied
09 and have recently joined in a collation that challenges the Western norms
10 set by the US with the support of the EU and to a lesser degree Latin
11 America.

12     The relative power of states is best approximated by GDP ratios (mea-
13 sured in ppp) which includes the number of people who can work and fight,
14 and their economic productivity. The impact of demographic variables is
15 a much overlooked argument. Katherine Organski and A. F. K. Organski
16 place population at the center of long-term assessments of power.[45] Tadeusz
17 Kugler shows that population reflects potential power because individuals
18 are both the producers of output and the agents that allow elites to increase
19 political performance.[46] He further shows that the size of populations can
20 be augmented only by migration or fertility, thereby limiting the poten-
21 tial for a great power to expand resources short of integration or forceful
22 territorial acquisition.

23     Productivity approximates potential capability to exercise influence at any
24 given point in time. Organski and Kugler proposed that total GDP is the
25 most effective measure to approximate active power.[47] Therefore, national
26 wealth reflects power potential[48] and is fungible. GDP is admittedly a rough
27 indicator of power but remains the most useful tool for forecasts of future
28 performance and has been generally adopted by the applied security commu-
29 nity. National leaders can choose to allocate different portions of domestic
30 product to security, growth, health, education, infrastructure, or other pri-
31 orities as needed. Moreover, in confrontational conditions, depending on
32 the level of threat perceived by the ruling elite, military expenditures can
33 rise and fall rather dramatically.[49] Regardless of these differences, the over-
34 all relation between GDP and Composite Indicator of National Capabilities
35 (CINC) measures that include military considerations is high for developed
36 societies under review here.[50] From the perspective of power transition, the
37 advantage of using GDP as a measure of power is that it can be used to
38 analyze cooperation and confrontation, disaggregated to the provincial or
39 even the individual level. This flexibility provides the opportunity to analyze
40 relations within as well as across nations and can be forecasted realistically
41 for 30 to 50 years into the future.

42     GDP accounts for the overall output at the intersection between demo-
43 graphic and economic factor, but fail to account accurately for political
44 performance. Organski and Kugler recognized that this distortion in power
45

comparisons is maximized in interactions between the most developed and the less or least developed nations.[51] To compensate, political performance variables were added to the power equation. One such variable, relative political extraction, approximated the ability of governments to capture fiscal resources from their population and allocate them to advance government goals. Interacting this measure of political performance with GDP made it possible to capture the effects that an efficient government has in advancing its goals. Measurements of political performance have been refined and extended, reducing the difference in power assessment between advanced and less advanced societies, by Marina Arbetman and Jacek Kugler and most recently by Jacek Kugler and Ronald Tammen with further assessment by Allison Hamlin.[52] Extensive tests reveal – as theoretically anticipated – that without including assessments of political performance, power evaluations are not consistently accurate across levels of economic development.[53] However, when comparing countries at similar levels of development, we see very small effects. For this reason, we do not control for political performance within the EU.[54] The one substantive exception is Turkey, which has applied for EU membership.

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

Data in Figure 2.3 show that the perspective generated by GDP has far more variance among EU member states. The UK was the dominant nation in the 1950s but was overtaken by Germany in the 1960s. Germany then became the dominant nation and remains so until now. Forecasts suggest that the relative power of Germany is declining and it will become a less dominant nation in the future. Indeed, France may match the overall capabilities by 2030. The UK, which dominated in 1950 immediately after World War II, is expected to withdraw from the EU. Under these conditions, the combined relative power of Germany and France generates very strong dual power dominance within the EU. If these nations concur on policy, the EU
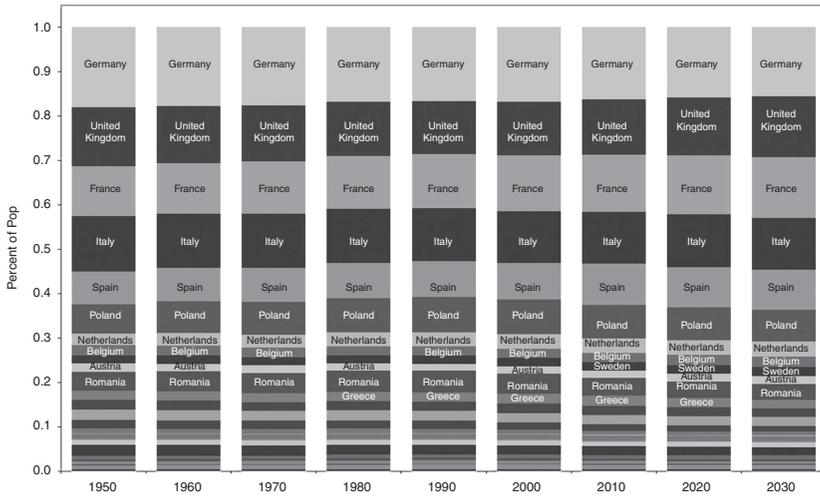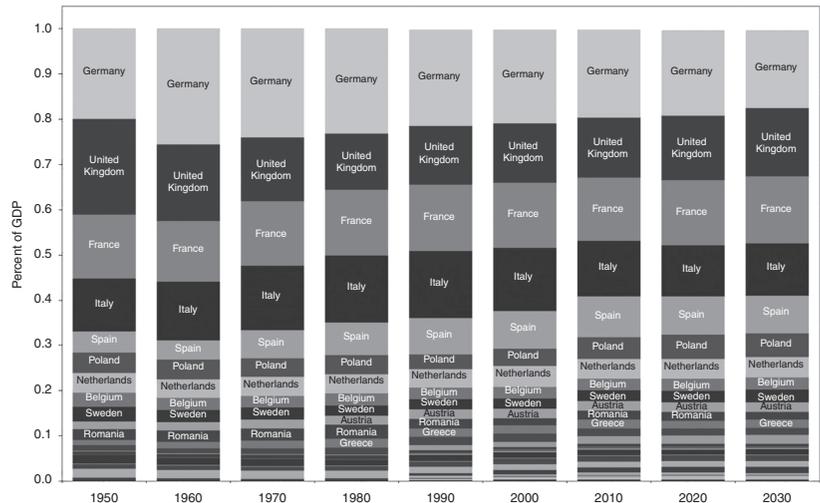
*Figure 2.2* Population Distributions of the EU Member States
Notes: Unlabeled nations are: Portugal, Czech Republic, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Slovakia, and Slovenia.



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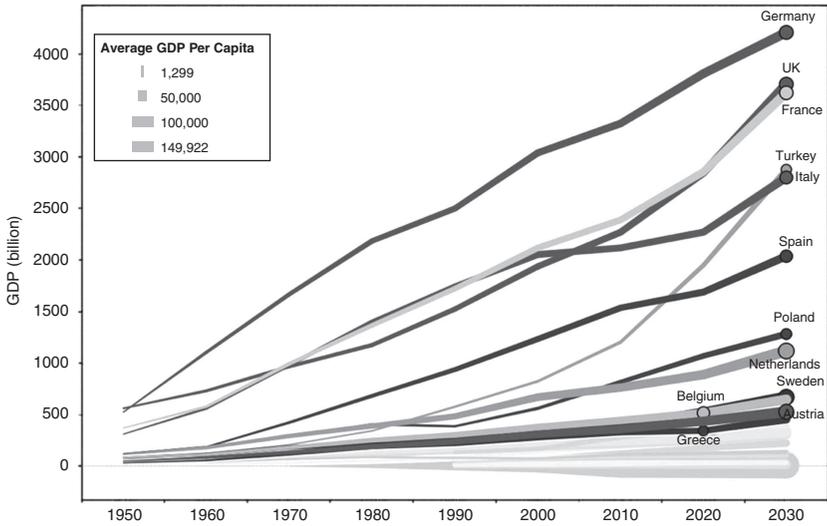
*Figure 2.4* Europe's Hierarchy: GDP, (in Billion), GDP Per Capita 1950–2030
(Constant ppp 2011)

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.

01     The role of a leader in a hierarchy was first analyzed in the works
02 of Charles Kindleberger who drew attention to the need to differentiate
03 between *hegemony* and *leadership*.[55] According to Kindleberger, the US's
04 role in the restructuring of post-Worl War II international regimes was best
05 described by *leadership* and not by *hegemonic stability* as argued by Robert
06 Keohane.[56] For Kindleberger, hegemony has uncomfortable overtones of
07 force, threat, and pressure, whereas a leader can lead without "arm-twisting,
08 to act responsibly without pushing and shoving other countries."[57] In this
09 regard, a crucial issue that arises in economics is what has been called "the
10 agency problem."[58] In a previous study, Gaspare Genna, Birol Yesilada, and
11 Peter Noordijk tested this hypothesis for European integration and found
12 that Germany indeed played the role of a regional leader that promoted
13 integration. However, when the capacity of the regional leader to main-
14 tain provisions of public goods became limited, the deepening of integration
15 reached a plateau and significantly slowed down.[59]
16     For a regional leader, we use the measure of hierarchy, which reflects
17 the distribution of power in Europe. A hierarchy can be either asymmetric,
18 when one nation dominates, or symmetric, when many are equal. Contrary
19 to arguments advanced by Robert Gilpin and Robert Keohane, among oth-
20 ers,[60] power transition does not assume that hegemony is the prerequisite to
21 preserve peace. Hegemony may help when the dominant nation is satisfied,
22 but overwhelming preponderance can also lead to war when it is not. A sat-
23 isfied dominant nation can enhance integration and peaceful cooperation by
24 providing public goods to the community, but a group of small and equal
25 nations can also advance cooperation when they share common values. The
26 most powerful nation – identified as the dominant actor within a hierarchy
27 – is the one that has the ability simply to influence the stability of the hierar-
28 chy. Power transition proposes that in a hierarchy, the dominant nation that
29 successfully manages interactions, and is supported by a coalition of stable,
30 satisfied nations, can preserve peace. The EU is an explicit attempt to create
31 a viable stable unit in an environment where parity among the participants
32 prevails and conflict has a long history.
33     The EU is distinct because in this region – regardless of power overtaking
34 – the commitment to the status quo exceeds levels found in any other region.
35 The free movement of money, labor, and trade is permitted by most members
36 and security arrangements are shared. EU policy encourages the maximiza-
37 tion of opportunity to exploit the economic theories of liberal exchange and
38 mobility. Figure 2.5 shows different membership levels and commitments of
39 EU countries. The establishment of a Schengen region is an important step
40 in establishing a deeper level of regional integration (the economic/security
41 frontier as illustrated later in Figure 2.9). States that accept the Schengen
42 norms, trade agreements, and labor mobility, and adopt the euro as their
43 currency, have crossed the border between nation-state sovereignty and a
44 supranational community. While it is not a federation or a full political
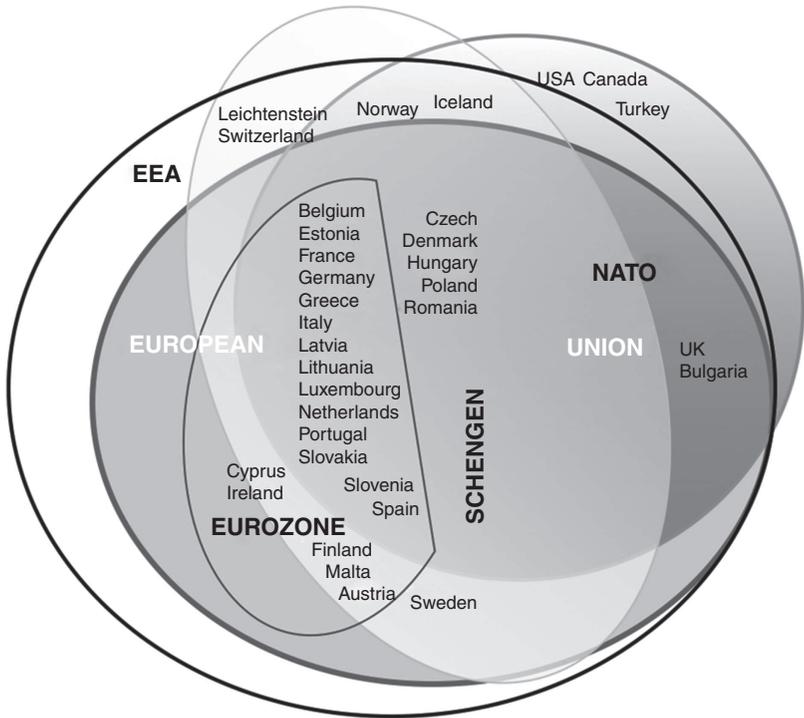45 union, Schengen member states have adopted rules and norms established

*Figure 2.5* Degrees of Integration of Member States

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 preconditions 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

01 say; middle-range powers that have less but still consequential influence;
02 and the majority of nations whose capabilities have limited external impact.
03 Finally, the critical triggering mechanism differentiating periods of war and
04 peace is captured by commitment to the status quo. Again, the status quo is
05 defined as the rules and norms of the international/regional system. As will
06 be explained later, we postulate two indicators of satisfaction based on citi-
07 zens' trust towards the EU, as our unit of analysis is European integration,
08 and convergence of values between EU citizens across member states. But
09 first, we will present an outline of the general argument for conditions of
10 cooperation (i.e., integration) and conflict which is the key concept found in
11 power transition.
12    Figure 2.6 outlines three conditions and their likely effects in terms of
13 war and integration. The three conditions are categorized based on the
14 relative convergence to the status quo, from coordinated to discordant.
15 Figure 2.6's bottom condition of anarchy – generalized by neorealists as the
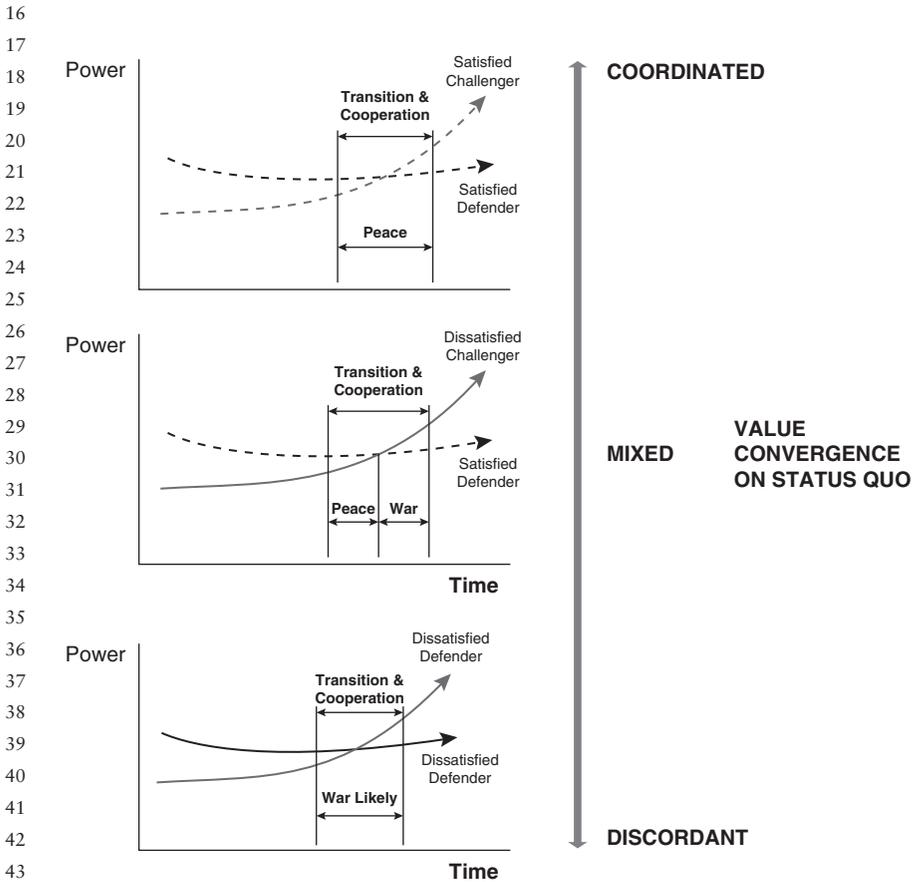


*Figure 2.6* Power and Satisfaction Dynamics

only condition of international interactions – is limited to discordant valuations of the status quo. Both the status quo defender and challenger are dissatisfied with the existing status quo and under parity, war is the solution that can resolve severe disputes.[61] When two sides are dissatisfied with the status quo, this discordance prompts war to resolve disputes.

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

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

The final and rare condition is central to our research on integration.[62] The challenger and defender are both satisfied. This is the rare condition that leads to institutionalized alliances, free trade zones, and ultimately to deeper integration. NATO is an example of a coordinated security agreement. The North American Free Trade Agreement (NAFTA) and MERCOSUR exemplify free trade and investment zones but limit labor mobility; the EU members allow labor mobility, and the more integrated Economic and Monetary Union (EMU or Eurozone) has coordinated monetary transactions with a single currency, the euro. Integration could theoretically lead to a truly integrated political federal political unit like the United States, Brazil, or Germany.
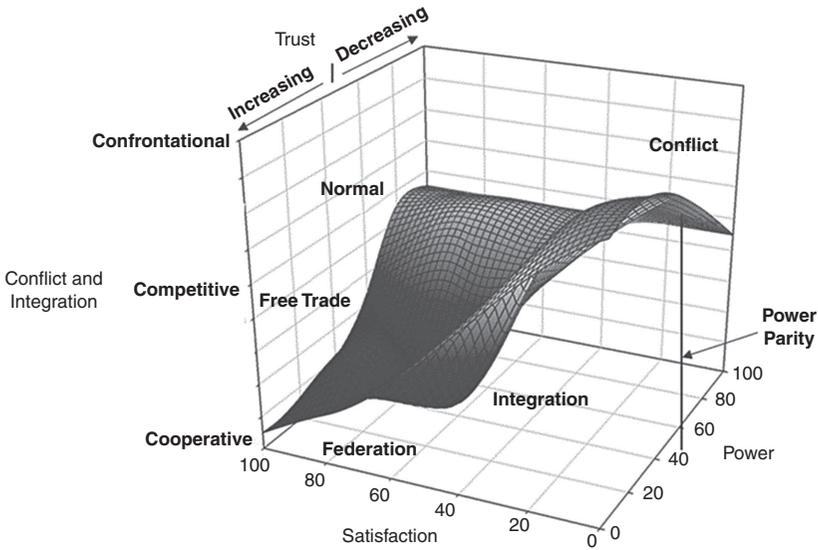
*Figure 2.7* Power Transition Relation to Conflict and Integration

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.

As Figure 2.7 also illustrates, normal, competitive relations take place among states. This condition represents the majority of international interactions where nations seek to preserve their identity and interests but are open to trade with other nations. In this area, states are somewhat trusting, satisfied with the status quo, and under power asymmetry. Competitive states follow international rules and contracts but do not necessarily establish institutional structures to secure them. In this idealized competitive environment, nations depend on market forces to determine the quality and quantity of economic and social transactions within the confines of loosely defined international rules and non-binding international laws. Before 1900, the US was a state that fits this description – avoiding rigid alliances and pre-commitments – but still willing to support freedom of the seas by forcefully opposing piracy when it interfered with freedom of navigation and commerce.

Normal interstate interactions also take place when the key actors in the hierarchy support the existing status quo and do not increase their levels of trust. Reagan's famous restatement of an old Russian proverb "trust but verify" suggests animosity but no expectation that commitments made will necessarily be complied with. For this reason, when satisfaction drops, competitive interactions become confrontational and severe wars can be waged among contenders that reach parity since each expects to change the rules in their favor following the war. This aspect of the original theory shows that global and regional severe wars are waged at parity and are initiated by the dissatisfied challenger seeking to alter the status quo.[63] This book is concerned with the far less visited deductions that anticipate the possibility of free trade agreements, integration, and possibly federation/political union between sovereign states.

Figure 2.8 is one cross-section of Figure 2.7 that illustrates how satisfaction conditions regional relationships. The top section provides the traditional power transition explanation: as satisfaction moves from moderate to low levels, competitive relations move to confrontational ones. Note that there is a strong arc upwards after a seemingly plateaued competitive set of relations. In other words, a state would need to be extremely dissatisfied before choosing confrontation, which can lead to war.

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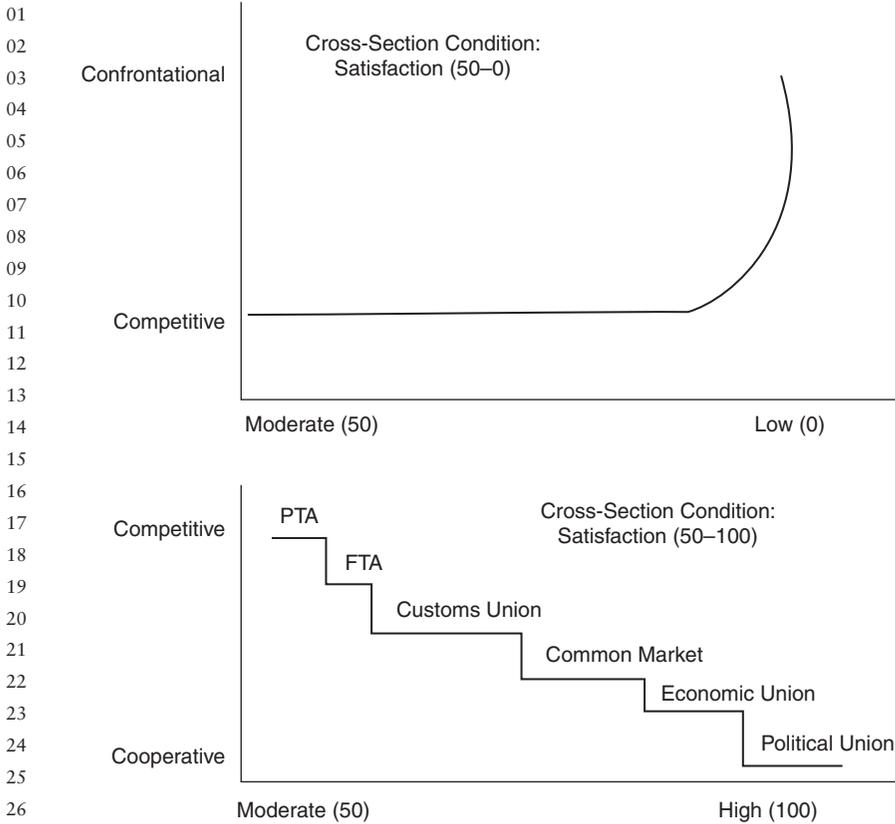
*Figure 2.8* Process of Confrontational and Cooperative Integration

to gains nations can attain individually (Pareto optimal vs. Nash equilib-rium).[64] A number of bilateral trade agreements and some multilateral trade agreements (e.g., NAFTA; WTO) follow this pattern. Trade liberalization agreements restrict tariffs, limit domestic subsidies, and control dumping to gain market size. Such agreements restrict national sovereignty minimally and are frequently overridden when domestic demands surface.

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

01  infrastructural synchronization, removal of border constraints on trade and
02  labor, culminating in monetary policy harmonization. Further integration
03  includes securing a common border and creating a common military unit
04  led not by national but by union representatives. Beyond this point a feder-
05  ation emerges. These are the steps categorized by forming a customs union,
06  common market, economic union, and then a political union. Each step also
07  requires satisfaction among the member states that the institutions created
08  by the integration agency will enhance the common good.
09      We now turn to the two components – trust and value convergence – that
10  reflect commitment to the status quo.

### Trust

14  One crucial element of satisfaction with the status quo is trust. To be
15  sure, at each step in an integration process participating nations lose some
16  sovereignty in exchange for gains in security and economic prospects. The
17  cautious, confrontational "trust and verify" is slowly replaced by increased
18  trust in the institutions created, meaning that each advance in integration
19  transfers regulatory rights and places some aspect of national independence
20  at risk. During the integration process, nations cannot continue to maximize
21  net gains. Integration does not proceed by allocating equal shares to all. At
22  every step, there are some winners and some losers, even though the over-
23  all pie may be growing. Participants in the integration process must trust
24  that their partners will not take advantage and will compensate unexpected
25  losses when they take place.
26      The two-track EU created following the adoption of the euro is a seri-
27  ous concern for European leaders. One of the questions we raise regards
28  the long-term implications of a dual- or multi-track EU for political coordi-
29  nation that would impact the future of the integration of all EU countries
30  Figure 2.9 shows the patterns of relative capabilities measured in total out-
31  put and the levels of trust towards the institutionalization of the European
32  Union in 2016 Germany, France, Italy, and Spain, which are in the Euro-
33  zone, trust the EU. Among nations that chose *not* to adopt the euro, only
34  Sweden strongly trusts the EU. Denmark is unwilling to see further integra-
35  tion. The UK, as one would expect given the Brexit vote, strongly distrusts
36  the EU. Most of the recent Eastern European EU members that have not yet
37  adopted the euro (Poland, Czech Republic, Romania, Lithuania, and Latvia)
38  are more favorable towards this currency. This summary is also reflected in
39  long-term assessments of trust over time as shown in Figure 2.10.
40      Figure 2.11 illustrates the important role trust plays in the process of inte-
41  gration. Trust acts like a gravity well. It reinforces status quo satisfaction
42  and eases states into each stage of integration like a ball rolling down-
43  hill. Trust among partners develops when they mutually believe they are
44  being treated fairly, meaning that outcomes are due not to biases but to
45  capabilities.[65] Trust is also important in explaining European integration

GDP
country - Descending order
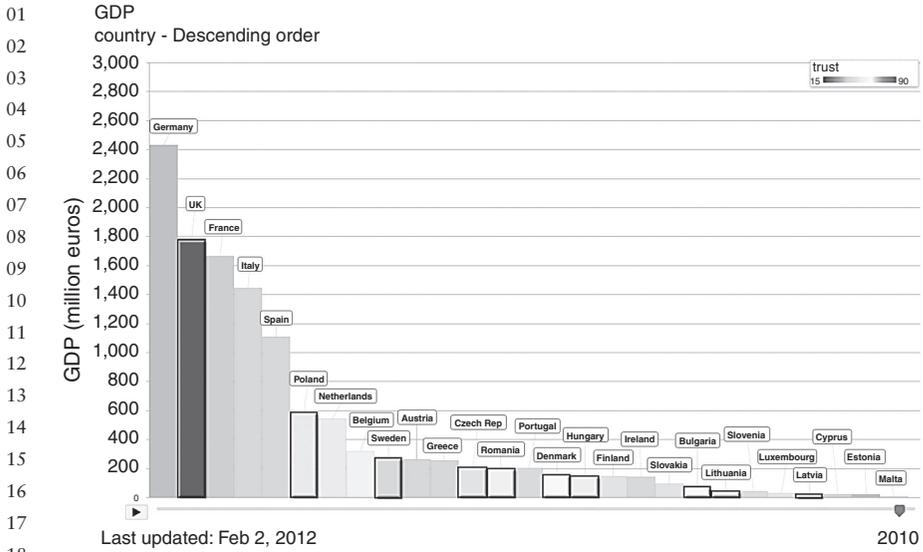
*Figure 2.9* Member States Relative Power and Level of Trust towards the EU
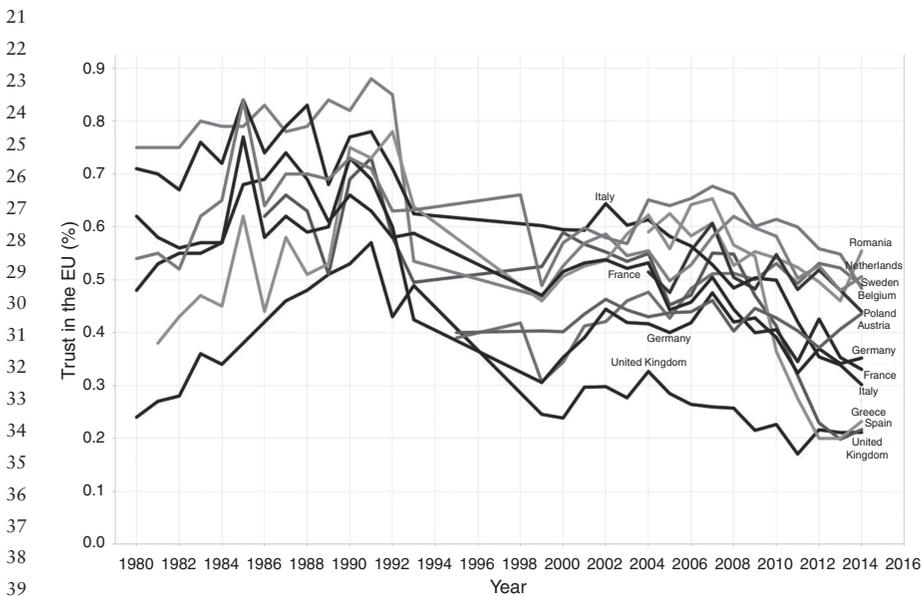


*Figure 2.10* Trust in the EU, 1980–2014

Notes: Excluded nations are: Portugal, Czech Republic, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Slovakia, and Slovenia.
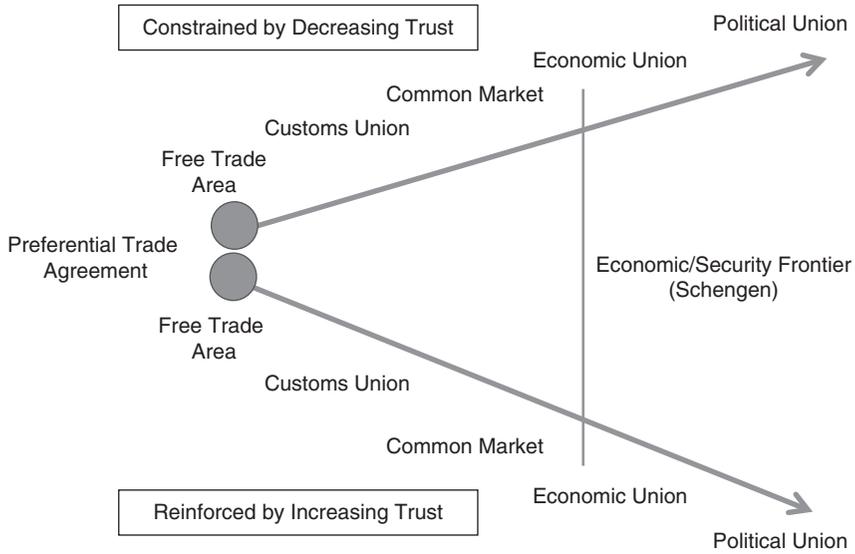
*Figure 2.11* Constrained Gravity and Self-Reinforcing Gravity Processes of Integration

because the varying levels of economic development can often lead to concerns about free-ridership.[66] 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.

*Values convergence*

We propose that the convergence of social values between member states is an additional requirement for satisfaction with the status quo. Value

convergence is a crucial factor behind preparing the groundwork for the emergence and growth of trust that reinforces the status quo.[67] In general, linking values convergence and regional integration has not been studied.[68] Our argument is rooted in how human development (HD) theory addresses the way cultures evolve over time and the implications of cultural development for political development. These are complex issues that have been central to a wide range of social science disciplines, from economics, politics, and sociology to cultural anthropology. How and why human values change and how these changes affect the way in which societies govern themselves has kept scholars busy for some time. In the more contemporary era, since the late eighteenth century, social scientists have identified causal linkages between economic modernization, cultural change, and political development.[69] Ronald Inglehart and Christian Welzel provide some direction through their two compound variables from the World Values Survey analysis that capture more than 78 percent of cross-national variance in social change across the world.[70]

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

The second key dimension of cross-cultural variation is linked with the transition from industrial society to postindustrial societies – which brings a polarization between materialist (survival values associated with the industrialization phase of development) and postmaterialist (self-expression/postindustrial) values.[71] It corresponds to the transition to the postindustrial phase of economic development and an advanced welfare system which provides many individuals with an overwhelming sense of existential security.[72] Factor analysis of the mean national scores reveals that individualism, autonomy, and self-expression (measures of the postmodernist value system) all tap a single underlying dimension that accounts for 91 percent of cross-national variance.[73] The basic argument maintains 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
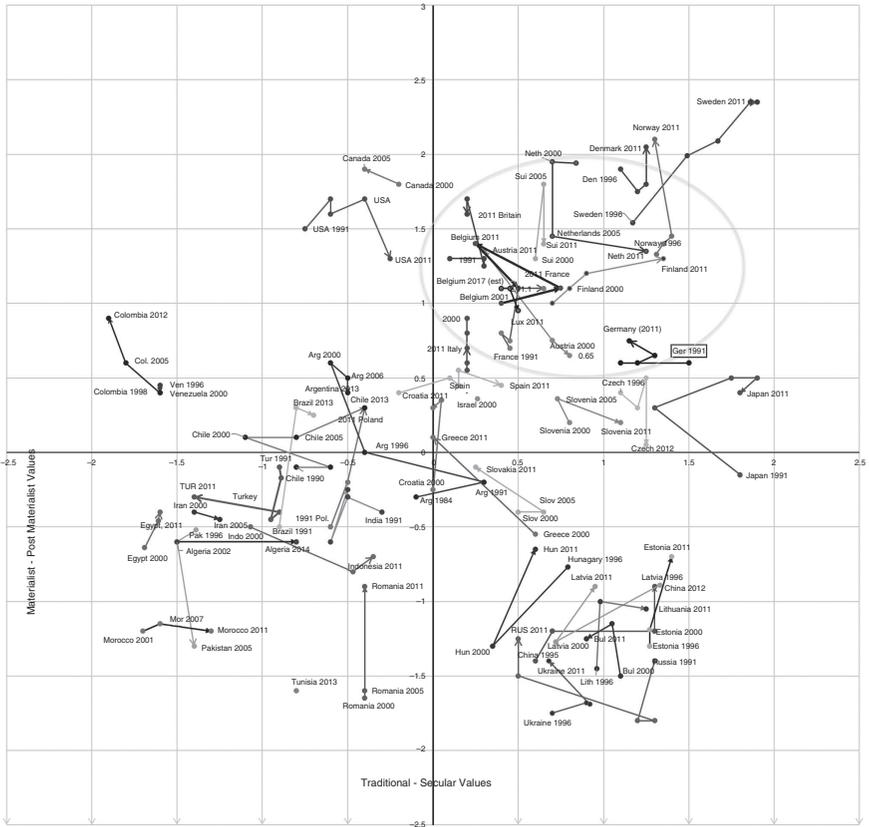
*Figure 2.12* EU Values Map
Source: Calculated from the World Values Survey (1981–2011), *WVS Database*,
www.worldvaluessurvey.org/wvs.jsp

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.[74] Figure 2.12
provides a values map for EU countries. As the figure shows, the EU coun-
tries converge in the postmaterialist and secular quadrant of the values map.
The direction for eastern enlargement countries shows predominantly mate-
rialist values but with most recent observations indicating a significant move
in the postmaterialist direction.

The two value dimensions are critical for deep cooperation. Imagine two
societies, one more materialist and traditional and the other more post-
materialist and secular. If the two wish to develop deeper economic ties,
they will be faced with a large set of problems and issues that will be dif-
ficult to resolve due to their preferences. Take our previous example of

01 environmental regulations. Such regulations add costs to production. If one
02 society adopts such regulations and the other does not, then the adopter
03 will not be able to compete with the other since products from the adopter
04 will be more expensive. The postmaterialist society will insist on such reg-
05 ulations because they believe in the value of a cleaner environment over
06 economic gain. The materialist society will have the opposite view. In the
07 end, they may agree on a PTA, but an FTA or beyond will be unlikely.
08 Another example could be laws associated with marriage/domestic partner-
09 ships. The traditional society would not allow laws that guarantee rights to
10 homosexual partners or unmarried heterosexual partners due to religious
11 reasons, while the secular society would adopt such laws. If the two states
12 develop a common market, what will happen to the labor mobility rights
13 of those individuals who are in such relationships? Without congruence,
14 such people will be denied such rights. In sum, value convergence allows for
15 easier agreements and fewer issue areas requiring protracted negotiations.

## Conclusion

19 The international relations literature not dedicated to economic coopera-
20 tion often hides the cooperative side of interstate exchanges, which is just
21 as important and complex as the confrontational side. The economic liter-
22 ature talks of the mutual benefits garnered by deeper integration, yet does
23 not explain how integration would develop. At best, states have a strong
24 economic incentive to integrate. However, without considering the political
25 forces that prevent integration, we are left with an incomplete story.
26    The neofunctionalist literature suggested that integration is driven by
27 economic success related to infrastructure coordination. The spillover mech-
28 anism states that the process is expected to be self-reinforcing. However, we
29 are again left without a clear picture: why does spillover occur in some areas,
30 but not others? Our view is that integration takes place only when states
31 are relatively satisfied with the status quo and develop trust in the suprana-
32 tional structures they build under asymmetric power among states. Unlike
33 the progression to war, the progression towards integration and federation
34 is in stages and can be reversed.
35    The supranationalist early optimistic assessments indicated that once
36 states took the first step towards integration, they would find the next
37 steps easier to implement. As the European community grew, the demand
38 for monetary coordination would naturally require the creation of politi-
39 cal institutions that would consolidate an ever-growing union. Expectations
40 were high that the trust required for such actions would eventually lead
41 to the delegation of security to the much larger and powerful EU colla-
42 tion now able to confront all potential external enemies. Supporting these
43 arguments from a value perspective, Inglehart argued that as the young pop-
44 ulation are exposed to the EU benefits, opposition from the aging generation
45 of nationalistic supporters would diminish and values would shift from a

pro-national perspective to an inter-European perspective.[75] Reality has not been as simple.

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

We show that the neorealist argument lacks an important insight, that of political value convergence and the evolution of trust. To be sure, if your ally does not share your values, then deep cooperation with it could pose a danger to your own. If you are a small state, then you may be forced to sacrifice your values for the more powerful state. If two or more states share the same values, then there is no sacrifice because no one will be asked to change or give up their values. So, nation-states that share the same values are likely to join together in a variety of arrangements, so long as members hold to shared values. For example, security alliances such as NATO, and regional integration organizations such as the EU, MERCOSUR, and Economic Community of West African States (ECOWAS), all require members to hold democratic values as demonstrated by fully functioning democratic institutions.[76] The longer this process holds without major downturns, the more trust emerges.

Realist challenges to this process of integration emerged early on. De Gaulle's realist-nationalistic posture viewed integration as neither an easy nor a desirable process. Rather this process was a means to attain the maximum benefit for the nation involved during the long recovery from war. When or if marginal benefits ceased or even temporarily decreased, de Gaulle argued that the process would stop and revert back to national self-reliance. In this view, every step in the process would have to pass a test of cost and benefit for each nation involved. If all benefited, the process would continue. When obstacles emerged so that some benefited and others did not – or did so at very unequal rates – the process of integration would slow down or reverse, and if that failed, halt or lead to the withdrawal of some nations. The realist perspective points to Brexit as the first exemplar in the dissolution process of the EU. Marginal remnants may remain in the economic sphere – but a process of further integration is likely to end soon.

01  We suggest that neither of the perspectives previously described account
02  for the ups and downs experienced by the EU. Integration is costly but
03  so is the preservation of fractionalized nation-states. Unions provide more
04  than economic, mobility, and labor opportunities. The advantages of sup-
05  porting growth among neighbors can also be measured by the reduction of
06  inequality as individual productivity is expected to converge within a single
07  unrestrained economy.[77] Common rules and regulations minimize the costs
08  of manufacturing. Above all the absence of constant vigilance regarding the
09  military aims of neighbors reduces the expenses for security ahead of any
10  attempt to integrate into a single army structure.
11  Integration, by its very nature, changes sovereignty from the exclusivity of
12  the nation-state to either a sharing with, or transfer to, supranational insti-
13  tutions. This change brings on challenges to national identity and touches
14  at the heart of nationalism. In fact, any type of cooperation will require
15  agreements on basic principles. Introducing social values does depart from
16  traditional perspectives on international politics. A political union or "fed-
17  erated state" can emerge when competing groups agree to sustain similar
18  laws and rules within a given community. A stable state emerges with the
19  expansion of laws and regulations that ensure the resolution of conflicts by
20  legal transactions.
21  As the above discussion highlights, satisfaction with the status quo com-
22  bined with a favorable structural hierarchy is critical to our theoretical
23  framework because it reflects the degree of shared preferences among
24  nations. We concur with scholars who concluded that satisfied nations do
25  not act in a way similar to those that are dissatisfied. These arguments are
26  consistent with our previously listed propositions. The important question
27  is, what drives these preferences? The answer helps us understand satis-
28  faction and can provide us with important insights to the development of
29  integration. Otherwise we are left with cicular arguments such as "the-
30  poweful-therefore-satisfied problem." The concept has not received much
31  attention in the literature other than how best to measure it. We offer to fill
32  this theoretical gap by examining how convergence on certain values can
33  increase trust making states more or less satisfied with the status quo.
34  Power transition postulates that a mix of hierarchy, satisfaction, and trust
35  are the key elements in the creation of a community beyond the nation-
36  state. Even at this point stability is not assured. Federated nations – like the
37  United States, India, Russia, or Brazil – show that very diverse groups, with
38  distinct values and preferences, can be accommodated within a single coun-
39  try. Disputes within such units do emerge and can be extremely violent, e.g.,
40  the Russian Revolution or the American Civil War. Yet such units sustain
41  very large populations and endure serious crisis under various regimes. The
42  critical questions we ask and answer here is whether confederations like the
43  EU can also sustain themselves through enduring challenges to their stabil-
44  ity. The path to integration from community to federation is not a smooth
45  process. The change of values and expectations from a nation-centered to

a community-centered approach is not easy. Economic success is also not guaranteed by size, but even if it were, the value restructuring required to accommodate very diverse populations and historical experiences is also difficult. The key elements in the process are not exclusively power relations but the evolution of satisfaction and the creation of trustful relations among states seeking to integrate. Institutional structures can help, but by themselves are insufficient to determine the ultimate outcome of any integration process. Our empirical test will determine if the process we theoretically envisage is consistent with reality – and, more importantly, if it is possible to anticipate the flow of future integration based on past experience.

# Notes

14 See, for example, Ben Rosamond, *Theories of European Integration* (New York: Palgrave, 2000).

15 This section draws heavily from Peter Robson, *The Economics of International Integration*, 4th edition (London: Routledge, 1998) and Paul Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics*, 10th edition (Harlow: Pearson, 2014).

16 Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton, N.J.: Princeton University Press, 1989); Jeffry A. Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45, no. 4 (1991): 425–451.

17 Moses Abramovitz, "Catching Up, Forging Ahead, and Falling Behind," *Journal of Economic History* 46, no. 2 (1986): 385–406; William Baumol, "Productivity Growth, Convergence, and Welfare," *American Economic Review* 76, no. 5 (1986): 1072–1085. Convergence is challenged by Xavier X. Sala-i-Martin, "Regional Cohesion: Evidence and Theories of Regional Growth and Convergence," *European Economic Review* 40, no. 6 (1996): 1325–1352.

18 David Mitrany, *A Working Peace System* (Chicago: Quadrangle Books, 1966).

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22 Robert Keohane and Joseph Nye, "International Interdependence and Integration," in *Handbook of Political Science vol. VIII: International Politics*, ed. by Fred Greenstein and Nelson Polsby (Reading, MA.: Addison-Wesley, 1975).

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24 Ibid.

25 Geoffrey Garrett and George Tsebelis, "An Institutional Critique of Intergovernmentalism," *International Organization* 50, no. 2 (1996): 269–299; Alec Stone Sweet and Wayne Sandholtz, "European Integration and Supranational Governance," *Journal of European Public Policy* 4, no. 3 (1997).

26 Sweet and Sandholtz, "European Integration and Supranational Governance."

27 George Tsebelis, "The Power of the European Parliament as a Conditional Agenda Setter," *American Political Science Review* 88 (1994): 128–142.

28 Garrett and Tsebelis, "*An Institutional Critique of Intergovernmentalism.*"

29 Alec Stone Sweet and James A. Caporaso, "From Free Trade to Supranational Polity: The European Court and Integration," in *European Integration and Supranational Governance*, ed. by Wayne Sandholtz and Alec Stone Sweet (Oxford: Oxford University Press, 1998): 92–133; Donna Starr-Deelen and Bart Deelen, "The European Court of Justice as a Federator," *Publius: The Journal of Federalism* 26, no. 4 (1996): 81–97.

30 Alberta Sbragia, "Institution-Building from Below and Above: The European Community in Global Environmental Politics," in *European Integration and Supranational Governance*, ed. by Wayne Sandholtz and Alec Stone Sweet (Oxford: Oxford University Press, 1998): 283; Sweet and Sandholtz, "European Integration and Supranational Governance"; Sandholtz and Sweet, *European Integration and Supranational Governance.*

31 To overcome the limitations of realism, neorealist scholars led by Keohane and Nye added institutions to the mix, arguing that institutionalized norms and rules could restrain greedy competition. Their "liberal" arguments incorporate the possibility of integration but are not as consistent as the power transition perspective used here.

32 Walt argues that nations "bandwagon" when a dominant nation approaches hegemony in Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987). While this is consistent with rationalism, it is not clear why from a realist perspective the larger power would fail to use the asymmetry to impose severe restrictions or absorb the protected nation to enhance its long-term security as John J. Mearsheimer contends in *The Tragedy of Great Power Politics* (New York: Norton, 2001).

33 Kenneth Waltz, *Theory of International Relations* (Reading, MA.: Addison-Wesley, 1979).

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35 John J. Mearsheimer and Stephen M. Walt, "The Case for Offshore Balancing," *Foreign Affairs* 95, no. 4 (2016): 22.

36 A. F. K. Organski, *World Politics* (New York: Knopf, 1958).

37 Brian Efird and Gaspare M. Genna, "Structural Conditions and the Propensity for Regional Integration," *European Union Politics* 3, no. 3 (2002): 267–295; Brian Efird, Gaspare Genna, and Jacek Kugler, "From War to Integration: Generalizing the Dynamic of Power Transitions," *International Interactions* 29, no. 4 (2003): 293–314; Birol Yesilada, Brian Efird, and Peter Noordijk, "Competition among Giants: A Look at How Future Enlargement of the European Union Could Affect Global Power Transition," *International Studies Review* 8, no. 4 (2006): 607–622.

38 Extensions of power transition logic at the agent-based level also indicate that when trust is added to the mix, cooperation and recourse to legal solutions increase and confrontations decline.

39 Jacek Kugler and A. F. K. Organski, "The Power Transition: A Retrospective and Prospective Evaluation," in *Handbook of War Studies II*, ed. by Manus Midlarski (Ann Arbor: University of Michigan Press, 1989), 171–194.

40 Ibid.

41 Ronald L. Tammen et al., *Power Transitions: Strategies for the 21st Century* (New York: Chatham House, 2000); Ronald L. Tammen and Jacek Kugler, eds., *The Performance of Nations* (Lanham, M.D.: Rowman and Littlefield, 2012).

42 Douglas Lemke, *Regions of War and Peace*. Cambridge Studies in International Relations (Cambridge, UK: Cambridge University Press, 2002); Michelle Benson and Jacek Kugler, "Power Parity, Democracy and the Severity of Internal Violence," *Journal of Conflict Resolution* 42, no. 2 (1998): 196–209.

43 The Correlates of War project is well known for developing the Composite Indicator of National Capabilities (CINC) variable composed of military, industrial, and demographic variables – but this measure exaggerates the capabilities of countries like Israel or Russia that simply mobilize because of external crisis: www.correlatesofwar.org/.

44 See Gaspare M. Genna and Taeko Hiroi, "Power Preponderance and Domestic Politics: Explaining Regional Economic Integration in Latin America and the Caribbean: 1960–1997," *International Interactions* 30, no. 2 (2004): 143–164. At the time of our writing, Venezuela's membership has been suspended.

45 Kathrine Organski and A. F. K. Organski, *Population and World Power* (New York: Knopf, 1961).

46 Tadeuzs Kugler, *Population and Power* (forthcoming).

47 The original measure proposed was gross domestic product (GDP) which roughly reflects the size and productivity of a population: Power = GDP/Capita * Population. For an assessment of limitations and advantages of this measure, see A. F. K. Organski and Jacek Kugler, *The War Ledger* (Chicago: University of Chicago Press, 1980); Marina Arbetman

and Jacek Kugler, "Choosing among Measures of Power: A Review of the Empirical Record," in *Power in World Politics*, ed. by Michael Ward and Richard Stoll (Boulder: Lynne Rienner, 1989); Angus Maddison, *Dynamic Forces in Capitalist Development: A Long-run Comparative View* (Oxford: Oxford University Press, 1991).

48 Klaus Knorr, *Military Power and Potential* (Lexington: D. C. Heath, 1970). Using Knorr's terminology attempts to reflect "power potential" rather than "actual power."

49 An alternative frequently used by scholars in related analysis is the Composite Indicator of National Capabilities (CINC) that aggregates and weights equally six indicators: military expenditures, military personnel, energy consumption, iron and steel production, urban population, and total population. The advantage of CINC is its availability and common use that secures easy replication. The main drawbacks are, first, the difficulty of effectively assessing societies across time because the number of actors affects the relative size of societies. Second, it is difficult to forecast the power over time because components vary, and even change over time. Finally, the excessive impact of military capabilities on the overall measure is notable – the USSR is dominant during the Cold War, overstating clearly its influence. CINC is calculated using six selected indicators where each component is a dimensionless percentage of the world's total. where the k indicators are ratios of each country n's total population, urban population, iron and steel production, primary energy consumption, military expenditure, and military personnel over the corresponding world total.

50 The difference is enhanced when developed and developing nations are compared, but results are similar among nations at equivalent level of development. Organski and Kugler, *The War Ledger*; Kugler and Arbetman, *Choosing among Measures of Power*.

51 Organski and Kugler, *The War Ledger*.

52 The difference is enhanced when developed and developing nations are compared. Organski and Kugler, *The War Ledger*, chapter 2; Arbetman and Kugler, *Choosing among Measures of Power*; Allison Hamlin and Jacek Kugler, "Peaceful or Conflictual Transitions," in *Regions of War and Peace*, ed. by Ronald Tammen and Jacek Kugler (forthcoming).

53 The new formulation proposed is Power = GDP*RPE, where RPE is the relative ability of a government to extract resources from the population. The computation can be extended to include foreign aid, see Organski and Kugler, *The War Ledger*, chapter 3.

54 The revised version of power was specified to include population, productivity, and political performance. Tests show that incorporating the political aspects of power was essential to understanding the outcomes of significant conflicts like World Wars I and II, and to anticipating the outcomes of asymmetric conflicts like Vietnam or Afghanistan where

the United States and the USSR unsuccessfully intervened despite over-whelming power preponderance. See Organski and Kugler, *The War Ledger*; Tammen and Kugler, *The Performance of Nations*. A final adjustment flowing from Kenneth Boulding's insight led to the addi-tion of a power gradient that discounts the influence of a nation based on the distance to target. This adjustment is essential to understand why Japan overcame Russia in 1905, and why contiguous countries behave differently when physical barriers – such as the Andes mountain range – separate two potential contenders such as Argentina and Chile. See Kenneth Boulding, *Conflict and Defense* (New York: Harper and Brothers, 1962); Lemke, *Regions of War and Peace*.

55 Charles Kindleberger, *The World in Depression, 1929–1939* (Berke-ley, CA.: University of California Press, 1973; revised and enlarged, 1986); "The American Origins of the Marshall Plan: A View from the State Department," in *The Marshall Plan: A Retrospective*, ed. by Stanley Hoffmann and Charles Maier (Boulder and London: Westview Press, 1984).

56 Robert Keohane, *After Hegemony* (Princeton: Princeton University Press, 1984).

57 Kindleberger, *The World in Depression*, 841–842.

58 Michael Jensen and W. H. Meckling, "Theory of the Firm, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3 (1976): 306–360.

59 Gaspare Genna, Birol Yesilada, and Peter Noordijk, "Political Capacity, Leadership, and Regional Integration in Europe," in *The Performance of Nations*, ed. by Ronald Tammen and Jacek Kugler (Boulder: Rowman and Littlefield, 2012). Regarding Germany's role in developing the EMU, see also Efird and Genna, "Structural Conditions and the Propensity for Regional Integration."

60 See Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981); Robert Keohane, *The Theory of Hegemonic Stability: Changes in the International Economic* Regimes, *1967–1977* (Arlington, VA., Center for International Relations, 1980).

61 Neorealist balance of power advocates propose that this condition gen-erates a *Balance of Power* that insures peace because the costs of war are maximized. In the nuclear era, when costs are "unacceptable," Mutual Assured Destruction (MAD) insures deterrence. In this critical test power transition argues exactly the opposite. While costs inhibit conflict, dis-satisfied prone powers will choose war at parity because the risk prone nations exaggerate the likelihood of success. See Jacek Kugler, "Terror without Deterrence: Reassessing the Role of Nuclear Weapons," *Journal of Conflict Resolution* 28, no. 3 (1984): 470–506.

62 This condition *cannot* be deduced from neorealism because it assumes anarchy. Despite the overwhelming evidence the possibility of integra-tion among nations is excluded because a nation-state needs to gives

up sovereignty to gain economic, security, and political rewards. Commitment to common status quo goals and trust is needed for such an accommodation. Brexit suggests – as we empirically show – that Britain is satisfied with the security arrangements and seeks a common trade zone; but is unwilling to defer to Brussels any responsibility for labor mobility, immigration, and monetary matters.

63 Organski, *World Politics*; and empirically explored and refined in subsequent works by Organski and Kugler, *The War Ledger*; Jacek Kugler and Douglas Lemke, *Parity and War* (Ann Arbor: University of Michigan Press, 1996); Tammen et al., *Power Transitions*.

64 A Nash equilibrium, named after John Nash, is a set of strategies, one for each player, such that no player has incentive to unilaterally change her action. *Players are in equilibrium if a change in strategies by any one of them would lead that player to earn less than if she remained with her current strategy.* For games in which players randomize (mixed strategies), the expected or average payoff must be at least as large as that obtainable by any other strategy. By definition, a strategy pair is a Nash equilibrium solution if each player's strategy is the best response to the other player's strategy. Pareto optimal, on the other hand, is a measure of efficiency. Named after Vilfredo Pareto, it is the outcome of a game if there is no other outcome that makes every player at least as well off and at least one player strictly better off. That is, a Pareto optimal outcome cannot be improved upon without hurting at least one player. Often, a Nash equilibrium is not Pareto optimal, implying that the players' payoffs can all be increased. By definition an outcome is Pareto optimal if any other outcome gives a worse outcome for at least one of the players.

65 Jong-sung You, "Social Trust: Fairness Matters More than Homogeneity," *Political Psychology* 33, 5 (2012): 701–721.

66 Gaspare M. Genna, "Images of Europeans: Transnational Trust and Support for European Integration," *Journal of International Relations and Development* 20, 2 (2017): 358–380.

67 Birol Yesilada, Osman Tanrikulu, Jacek Kugler and Allison Hamlin, "Power Transition and the Future of European Union Integration," paper presented at the 2016 annual conference of the International Studies Association in Atlanta, Georgia.

68 Ibid.

69 For example, see Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown Business, 2012); Jean-Antoine-Nicolas De Caritat Condorcet, *Sketch for a Historical Picture of the Progress of the Human Mind* (1795), translated by June Barraclough (Westport, CT: Hyperion Press, 1979); Ted Robert Gurr *Why Men Rebel* (Princeton: Princeton University Press, 1970); Samuel P. Huntington, "The Change to Change: Modernization, Development, and Politics," *Comparative Politics* 3, no. 3

(1971): 283–322; Ronald Inglehart, *Modernization and Postmoderniza-tion: Cultural, Economic and Political Change in 43 Societies* (Princeton: Princeton University Press, 1997); Marion J. Levy Jr, "Social Patterns (Structures) and Problems of Modernization," in *Readings on Social Change*, ed by Wilbert Moore and Robert M. Cook (Englewood Cliffs, N.J.: Prentice-Hall, 1967), and Mark Abdollahian, Travis Coan, Hanna Oh, and Birol Yesilada, "Dynamics of Cultural Change: The Human Development Perspective," *International Studies Quarterly* 56, no. 4 (December 2012): 827–843.

70 Ronald Inglehart and Christian Welzel, *Modernization, Cultural Change, and Democracy: The Human Development Sequence* (New York: Cambridge University Press, 2005).

71 Ronald Inglehart, "Changing Values among Western Publics from 1970 to 2006," *West European Politics* 31 (2008): 130–146; Ronald Inglehart and Wayne Baker, "Modernization, Cultural Change, and the Persistence of Traditional Values," *American Sociological Review* 65 (2000): 19–51.

72 Daniel Bell, *The Coming of Postindustrial Society* (New York: Basic Books, 1973).

73 Ronald Inglehart, "Mapping Global Values," in *Measuring and Map-ping Cultures: 25 Years of Comparative Value Surveys*, ed. by Yilmaz Esmer and Thorleif Pettersson (Leiden: Brill, 2007).

74 Yesilada et al., "Power Transition and the Future of European Union Integration."

75 Inglehart, *Modernization and Postmodernization*; Inglehart, "Mapping Global Values"; Inglehart, "Changing Values among Western Publics."

76 Gaspare M. Genna and Taeko Hiroi, *Regional Integration and Demo-cratic Conditionality: How Democracy Clauses Help Democratic Consolidation and Deepening* (London: Routledge, 2015).

77 Abramovitz, "Catching Up, Forging Ahead, and Falling Behind"; Robert E. Lucas, "On the Mechanics of Economic Development," *Journal of Monetary Economics* 22 (1988): 32–42; Robert M. Solow, "A Con-tribution to the Theory of Economic Growth," *Quarterly Journal of Economics* 7, no. 1 (1956): 65–94; Yi Feng, Jacek Kugler, and Paul Zak, "The Politics of Fertility and Economic Development," *International Studies Quarterly* 42, no. 2 (2000): 667–694.