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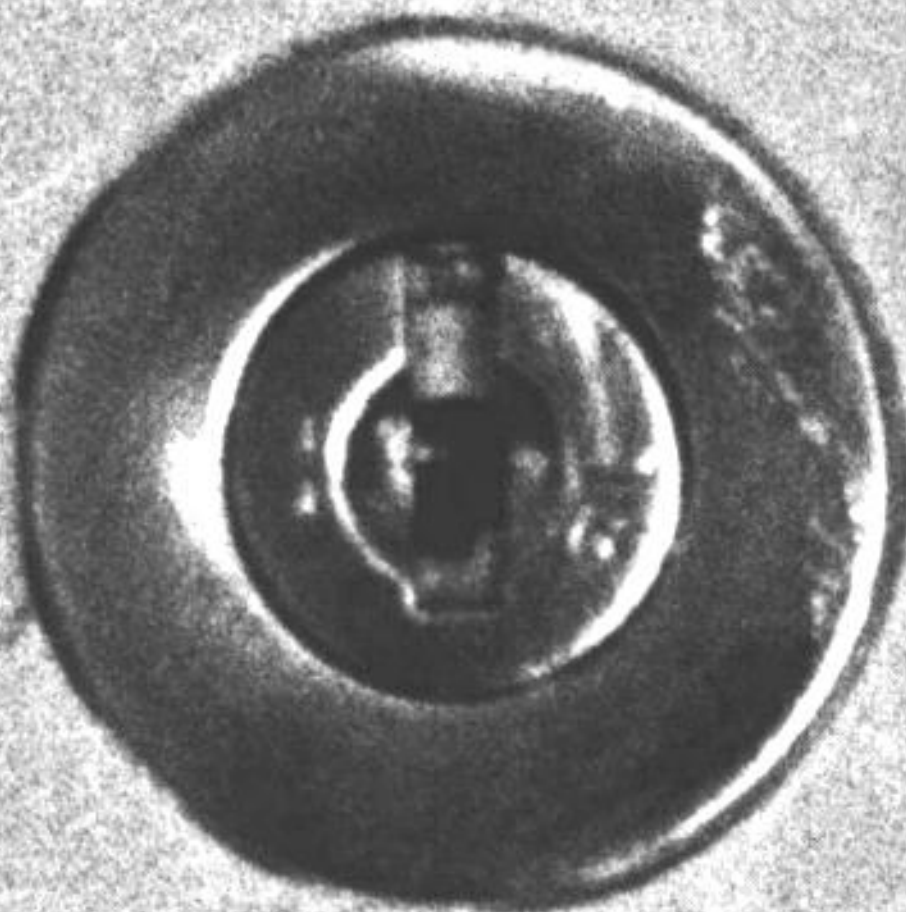

The Political Economy of NATO in Theory and Practice

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Abbreviations

ASG	Assistant Secretary General
Bi-SC	Project Team established through experts from both Strategic Commands (SACEUR and SACLANT)
CFSP	(European) Common Foreign and Security Policy
CNAD	Conference of National Armaments Directors
DCI	Defense Capabilities Initiative
ESDP	European Security and Defense Policy
EU	European Union
GDP	Gross Domestic Product
GPS	Global Positioning System
IMS	International Military Staff
IS	International Staff
JCS	Joint Chiefs of Staff of the United States Armed Forces
MC	Military Committee
NAC	North Atlantic Council
NATO	North Atlantic Treaty Organization
NRF	NATO Response Force
PCC	Prague Capabilities Commitment
RTS	rate of technical substitution
SACEUR	Supreme Allied Commander Europe (Mons, Belgium)
SACLANT	Supreme Allied Commander Atlantic (situated in Norfolk, Virginia, USA); NATO's Strategic Command responsible for the Atlantic area
SDI	Strategic Defense Initiative
SecGen	Secretary General
SHAPE	Supreme Headquarter Allied Powers Europe (situated in Mons, Belgium); NATO's Strategic Command responsible for the area of Europe and beyond
WEU	West European Union

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“Denn das bloße Anblicken einer Sache kann uns nicht fördern. Jedes Ansehen geht über in ein Betrachten, jedes Betrachten in ein Sinnen und jedes Sinnes in ein Verknüpfen, und so kann man sagen, daß wir schon bei jedem aufmerksamen Blick in die Welt theoretisieren.”

Goethe · *Farbenlehre*

1. Introduction

The Atlantic Alliance, as a scientific subject, could be and is the primary matter of concern for representatives within the fields of political science and history. Conversely, this paper shall describe, explain and evaluate the Alliance from the perspective of the political economy. This contribution aims to enhance the understanding of the Alliance as an institution, historically tested and proven to be the main guarantor of the Western hemisphere's freedom and prosperity.

The philosophies of the old strategists taught us that the mechanisms, which are still the predominant instruments to secure Western wealth and security, are the components of any great strategy. As Peter Paret put it: "Strategic thought is inevitably highly pragmatic. It is dependent on the realities of geography, society, economics, and politics, as well as on other, often fleeting factors that give rise to the issues and conflicts war is meant to resolve" (Paret 1986, 3). In a similar pragmatic manner, this paper shall deal with several present and future issues of NATO.

To put it in the words of Mark Twain: "There is something fascinating about science. One gets such wholesale returns of conjecture out of such a trifling investment of fact" (Twain 1982, 208). This approach will be adhered to subsequently in this paper.

In a similar vein, Jaime Shea posed the question: "Where is the debate about the future of NATO?"[1] Admittedly, the debate on the shape and progress of future Europe gains much more audience and public attention than those devoted to the Alliance's future. This paper could also be conceived of as a contribution to this discussion. Since it originates from a thesis in

[1] Jaime Shea's statement during a presentation for the New Parliamentarians Program conducted by the International Secretariat of NATO Parliamentary Assembly, July 12, 2002.

economics, the following analyses and examinations ought respectively apply and focus on a theoretical framework, which independently combines economic as well as methods from political science.

Right before the Washington Summit in 1999, Todd Sandler and Keith Hartley published a book, which drew significant attention throughout the scientific community in the areas of security and economic problems. Their work, '*The Political Economy of NATO*', dealt with several issues concerning political and economic considerations of security in general and in particular the Alliance (Sandler/Hartley 1999; see also Eland 2000; Webber 2000; Clarke 2000; Gates 2000). This publication actually initiated the motivation for personal research in the field, which finally led to this paper.

However, this paper shall be more than a re-written and updated version of the mentioned monograph. In fact, the referred book appears to be an assemblage of older articles from both authors. Despite its publishing date it could not take in to consideration any of the results from the summits in Washington and Prague. The events following *September 11th* could not, in any case, be discussed in their respective probability, magnitude and occurrence. The only similarity with Sandler and Hartley's work may ensue from the title of this thesis, whereas the discussion from this paper springs from a distinctly different approach.

Michael Ward stated that "little work has probed the black boxes of decision making within either nations or alliances … Nor has there been very much work which has sought to examine, understand, or predict which alliance groupings were likely to form" (Ward 1982, 26). Accordingly, this paper is deemed to take a much closer look at (the Atlantic) Alliance and tries to create a deeper comprehension of the issues. For this purpose, it is necessary first to characterize the organizational structure and decision-making process

of the Atlantic Alliance. The diagramed explanations and interpretations will provide a firm ground for some hypothesis, which shall subsequently be discussed. The conclusions may than be utilized to deliberately establish a theoretical framework to analyze several issues, such as armament co-operation, the interaction of NATO with the European Union, the future enlargement process but also seemingly old-fashioned question of deterrence and nuclear strategies, as well as their practical implications.

Political science and economics are disciplines of social science. Both could be regarded as the 'theory of the best means of the state's authorities to achieve its objectives' (Conrad 1915, 6). Accordingly, it is worthwhile to maintain Karl Popper's plea in regards to the proper application of scientific methods and thinking. Sciences describe, explain and interpret occurring phenomena, which finally enables to draw realistic predictions and assumptions for future endeavors (Popper 1935, 26-7; Mols 1996, 45).

In that vein, to establish a firm theoretical framework, the author does not hesitate to combine a set of equally important ideas and approaches from both political science and economics. Assumptions of the *Realist* school of thought of political science will be merged with economic approaches of public choice and other theoretical concepts. Yet, none of the respective viewpoints shall be given priority over the others. Instead, the aim of this paper is to provide a comprehensive view of the political and economical dimensions in the Alliance arena.

Robert Gilpin argued accordingly that "on the one hand, politics largely determines the framework of economic activities and channels it in directions intended to serve the interests of dominant groups; the exercise of power in all its forms is a major determinant of the nature of an economic system. On the other hand, the economic process itself tends to redistribute

power and wealth; it transforms the power relationship among groups. This in turn leads to a transformation of the political system, thereby giving rise to a new structure of economic relationships. Thus, the dynamics of international relations in the modern world is largely a function of the reciprocal interaction between economics and politics" (Gilpin 1992, 238; see also Waltz 2000).

2. The Atlantic Alliance in Theory

2.1 The Structure of NATO

The North Atlantic Treaty Organization originates from an association of several European states, established immediately after World War II, which was formalized with the Brussels Treaty, a precursor of the WEU, by Belgium, France, Luxembourg, The Netherlands and The United Kingdom in March 1948. In the course of the rising tensions in Europe and the looming conflict, which would become the long-lasting Cold War confrontation, the Washington Treaty established the Atlantic Alliance in April 1949 (NATO 2001, 29). The intentions of the signatory nations of those days could best be described by the enduring desire of the participating states '*to keep America in, Russia out, and Germany down'*, which also followed The Truman Doctrine of Containment (see Issacs/Downing 2001, 80). Of course, this had never been spoken aloud or formulated otherwise by anybody in higher positions. However, it proved to be the clue that served to maintain the transatlantic security and Europe's balance-of-power, for nearly five decades.

The initial twelve contracting partners were subsequently joint by Germany in 1955, Portugal and Spain in 1982, and The Czech Republic, Hungary and Poland in 1999. During the five decades of its existence the Alliance managed successfully to cope with several problems and crises – both among its members as well as its initial objectives. Nevertheless, the ambivalence and ambiguities facing the internal political workings of the Atlantic Alliance since the *September 11th* events are unprecedented in the 55 years of cooperation. To accentuate this fact it is necessary to take a closer look at the Alliance's internal structure, its decision-making processes, and its mechanisms to adapt to and cope with particular challenges to the security of the Atlantic area.

Treaty Analysis

The Washington Treaty was so sophistically crafted, that more than 50 years after the initial 14 Articles were agreed upon, the security framework established by the Treaty is still in existence. This is due to the fact that the legalistic framework was sufficiently designed to accommodate all eventualities. This is even more impressive considering the objectives which the Alliance has dealt with.

NATO's first and foremost objective, "is to safeguard the freedom and security of all its members by political and military means", in direct opposition of the Warsaw Treaty Organization. Despite the enduring debate following the end of the Cold War, which challenged the very existence of the Alliance's initial objective, ceased to exist, NATO is still the very lynchpin of the Western Hemisphere's security even more so to that of Europe's. Moreover, it still serves as a firm basis for transatlantic cooperation (NATO 2001, 30; Varwick/Woyke 2000, 13). Despite the increasing need and subsequent debate for internal multilateral cooperation and communication between the participating states, the turmoil in the Balkans gave the Alliance's initial objective a renewed relevance. However, *September 11th* cemented that relevance into the debate.

The North Atlantic Treaty constitutes a community of *fully independent* and *sovereign* states as defined within the framework of Article 51 of the Charter of the United Nations. The Article provides for the establishment of coalition of states in favor of local cooperation which includes the right of individual or collective defense. Hence, the North Atlantic Treaty Organization is "an intergovernmental organization in which member countries retain their full sovereignty and independence. The Organization provides the forum in which they consult together on any military matters affecting security.

It provides the structures needed to facilitate consultations and cooperation between them, in political, military and economic as well as scientific and other non-military fields". This statement may lead to a partial misperception and misinterpretation of the nature of NATO, but instead, the sequence of the used terms indicates the priorities. Accordingly, the "means by which the Alliance carries out its security policies include the maintenance of sufficient military capability to prevent war and to provide for effective defense; an overall capability to manage crises affecting the security of its members; and active promotion of dialogue with other nations and of cooperative approach to European security, including measures to bring about further progress in the field of arms control and disarmament". With the obvious rise of international terrorism this list had to be extended by the respective means to counter this serious threat to the member states' security. This had been acknowledged and found its way into the Alliance's policies at the Prague Summit as an "agreed military concept for defense against terrorism" (NATO 2001, 31; NATO 2002a).

The North Atlantic Treaty entails a preamble and 14 rather short articles. The treaty includes not only matters purely of defense, but also considers more general issues of security. This two-fold character of the Organization will subsequently be discussed. Article 1 determines the general code of conduct for the peaceful settlement of any disputes of and among the signatories. This also applies to Article 2, which lays the foundation for the cooperation of the contracting parties in non-military areas. Article 3 urges the Allies to maintain and develop the instrumentality for individual as well as collective defense while simultaneously enabling the Allies to cope independently yet with solidarity if an armed attack occurred. Article 4, the procedural precursor to Article 5, provides for consolations among the Allies, if

and when a partner perceives a general threat to its or the territorial integrity, population, and political independence of an Ally.

Yet, the first time this article had been activated the Alliance proved to be not as strong as it was supposed to be. Condoleezza Rice, though, acknowledged it had been a worrisome event that the Allies could not agree in consultations on such a serious issue like the defense of Turkey. However, the relatively loose state of organizational integration, which grants opportunities for bilateral actions, provides for the survival of the organization even in tumultuous times. Accordingly, George Robertson argued that the "measure of any organization is not how it performs when everything is going well, but how it responds when the going gets rough" (Rice 2003; Robertson 2003).

Article 5 constitutes the core of the Alliance's commitment: an armed attack at one or several signatories will be assumed as an attack at the Alliance in general. Accordingly, and complying with the provisions of the United Nations Charter, the entire Alliance will have to respond. Contrary to other defense coalitions like the WEU, the Treaty does not imply an automatic obligation for its members to respond proportionally. There is no compulsory action determined either in the Treaty or any other policy paper. Potential responses may vary from a sympathy card to nuclear strikes, as deemed appropriate. Moreover, military activities are solely an alternative among many. Contrary to general perception and public opinion concerning the character of the Organization, the Treaty established a rather loose assemblage of sovereign nations without any legal entitlement for proportional defense actions. This notion, however, is found across the entire institutional structure of the Organization. Its particular implications will subsequently be subject to further discussion.

Another issue, which needs also to be investigated in greater detail, is the matter of applicable territory and the tendency for actions beyond the treaty area, which is defined in Article 6. The treaty area is limited to the territory of the signatories, to their respective possessions north of the tropic, and to airplanes or vessels belonging to a contracting party. Referring to the provisions of Article 4, it could be assumed that the organization perceives a threat also from outside the treaty territory. An *Assessment of NATO's Long-Term Capability Requirements* by the so-called Bi-SC Integrated Project Team, for example, estimates that, by 2010, NATO operations will expand beyond the NATO Area of Responsibility. It is anticipated that capabilities will increasingly be driven by expeditionary requirements. Alliance's activities are likely to emanate in regions like the Middle East or Sub-Sahara and Central Africa.

If agreed among the Allies, activities of NATO may take place as well outside the initial treaty area, as long as the Alliance's security is perceived to be threatened. Thus, George W. Bush announced that "NATO must show resolve and foresight to act beyond Europe, and it has begun to do so" (Bush 2003b). This goes along with an *implied power*, which some commentators of international law deem to be derived from the Treaty's provisions (Nolte 1994, 102-4). On the other side, the rather vague determination of the Alliance's area of responsibility and commitment, which frankly speaking was more important in the days of Cold War than today, brings about several problems, which affect more than just legalities.

Article 7 emphasizes the Treaty's compliance with the Charter of the United Nations. In addition to this, Article 8 determines that any individual agreement in future, made by the respective member states, must not contradict the Washington treaty and its provisions.

The sole provision directing the organization is Article 9. It provides for the legal foundation of the North Atlantic Council (NAC), which is entitled by the same Article to establish a subordinated structure of committees and working groups as it deems appropriate and necessary. This open character of the organization provides for a flexible approach to any arising challenge or threat to the Alliance's security. Simultaneously, it establishes a firm basis for a considerable number of cooperative activities among the Allies.

Until recently, the number of major working groups and committees has grown to a total of 467. The implied restrictions on and obstacles for any attempt to efficiently manage such a vast bureaucratic organization have failed frequently for various reasons. Only with the Prague Summit an agreement had been reached to reduce the number of these bodies by about 30% (Robertson 2002a).

Article 10 opens the door for the Alliance to invite any state, which complies with the principles of NATO and its member states, to join the Alliance. Finally, Articles 11 to 14 deal with the ratification procedure, and the possibility for the signatories to leave the Alliance with one-year notice. The latter provision had been implemented in the Treaty in 1969 at the occasion of its 20th anniversary – and in times of serious tensions among the Allies. Contrary to other military coalitions, the North Atlantic Treaty had been established without a limitation of the period of validity (Varwick/Woyke 2000, 24-31).

Civilian Organization and Structures

In spite of its open and relatively loose institutional character, which Article 9 provides for, NATO remained more than fifty years in a fixed institutional

form. Although several incidents, including the end of The Cold War and NATO's Kosovo campaign, could have provoked a significant shift within the institutional patterns, the Alliance had hardly changed its shape.

This was even more true for the civilian part of the Organization, even though, a number of commentators identified some epochal breaks in NATO's evolution over the course of the 1990s. Yet, if circumstances related to the end of Cold War and the Kosovo campaign really had shaken and affected the Organization, it would be doubted whether these had in fact had such a strong impact on the Alliance, since the institutional setting was not significantly altered. Where it was deemed appropriate, some new committees and working groups had been established to cover these new phenomena in the Alliance's sphere of influence.

On the contrary, the events of *September 11th* impacted the community of member states seriously enough that, finally, at the Prague Summit, a fundamental re-organization was agreed upon. This, however, elaborates both the civilian and the military structure of NATO to such an extent, that the old and the would-be new structures ought to be illuminated in a receptively limited manner (see also the illustrations in the Appendix).

The civilian element of the institutional arrangement of NATO far outnumbers that of the military component. Yet, it is the most visible one, though it does not have the authority to make decisions on its own. Rather, it provides and facilitates the cooperation and consultation between the Allies within an established institutional setting. In the course of the institutional reform following the Prague Summit, the International Staff (IS) will undergo a fundamental reorganization. For illustration purposes, *FIGURE 1* and *FIGURE 2* in the Appendix explain the organization of the IS.

Among the roughly 3.150 employees of the IS, there are international civil servants either seconded by their respective nation or contracted directly (NATO 2001, 219). They are supposed to take off their national head and serve the Organization as impartial officers. This shall guarantee the intergovernmental character of the Alliance. The IS serves as the main body for inter-Ally consultations. It alone provides an appropriate framework for the needs of the Allies. Accordingly, the IS does not make its own policy, but rather supports the member states and its military to implement a common position.

The executive head of the IS is the Secretary General (SecGen), which is named by the Allied nations by consensus. At the same time, the SecGen is chairman of the NAC which is the main decision-making body and has the highest committees. Though the SecGen may have a personal agenda – to increase, for example, the Alliance's workability – the position is solely eligible to promote and facilitate the consultation and decision-making procedures among the Allies. Simultaneously, the SecGen serves as "*Mr. NATO*". Thus, the position is usually filled with a known, high-ranking politician.

Under direct supervision of the SecGen emerges a remarkable number of committees and working groups to support and facilitate consultation among the Allies in various fields of defense and security related issues. These committees are accommodated within the IS. Over the course of several decades the IS itself was structured in five main *Divisions*, as indicated in *FIGURE 1*. The present organization basically reflected the needs of the Alliance within the Cold War scenario. In the 1990's this structure persisted, but several new tasks – accompanied by a number of new working groups – were added to the Divisions which were deemed most appropriate for this particular issue. During the last decade, this procedure let to some peculiar organizational arrangements.

Due to the relative static structure, some commentators argue that workability of the IS is affected negatively. The latest and new challenges to the Allies' security, which emerged at latest with the events of *September 11th*, pushed the member states to adopt a completely revised structure along with a significant reorganization of the subordinated committees of the IS. At the Prague Summit, the reorganization was agreed upon and inaugurated. Yet, up to this date there is only a general scheme for this process, without being further detailed. Nonetheless, it could be assumed, that the new structure will meet the demands of the approaching years more appropriately. Since the new structure is not yet well-known throughout the public, a general overview shall be presented subsequently.

Along with several improvements of the superior decision-making process, the revised IS's structure shall provide the basis for a smooth and workable institutional environment for the years and challenges to come. The *Division for Political Affairs and Security Policy* has the lead role in the political aspects of NATO's fundamental security tasks. The *Operations Division* leads the operational capability required to meet NATO's responsibilities for deterrence, defense and crisis management. This also includes cooperation with other international organizations, peacekeeping operations, and the civil emergency planning. The *Division for Defense Policy and Planning* has the lead role in the defense policy aspects of NATO's fundamental security tasks. In other words, this Division will maintain NATO's traditional objectives of hard defense and the respective means to achieve them. The *Division for Public Diplomacy* was formed from several parts of former *Divisions* in order to establish a coherent public appearance of the Organization. It will provide public information support across the headquarters and manage the Alliance's Science program, a significant entity. Finally, the *Division for Defense Investment* will accommodate the development of and

investment in future assets and capabilities to enhance the Alliance's defense capacity (NATO 2002b).

In comparison to the current and well-established (Cold War) institutional structure, the new framework does not differ that dramatically. However, the re-arrangements might indeed improve the Organization's capability to cope with future challenges to the security of the Atlantic area.

Military Organization and Military Command Structure

Simultaneously to the re-shuffling of the International Staff of NATO, which will allow it to adapt to potential future challenges, the International Military Staff (IMS) of NATO had to undergo a revision as well. Though military structures need to have relatively stable hierarchical patterns to fulfill their objectives, NATO's twofold command structure did not any longer corresponded to the likely scenarios of future threats and operations.

Thus, the command structure is going to be reorganized significantly in future, while the initial task of the IMS within NATO headquarters will remain unchanged. Following the considerations in the course of the Prague Summit to adapt the Alliance to a *post-Cold War* and *post-September 11th* world, heads of states and governments agreed on a new command structure, as shown in *FIGURE 2* too. As many things within the Alliance, there was first established a theoretical roof, while the walls of the new building will still have to be discussed in some detail among the Allies.

The Military Committee (MC) is subordinated to the NAC and provides assistance and advice to this highest body within the Alliance as well as to the Nuclear Planning Group and the Defense Planning Committee. The MC, as the "military" counterpart to the "civilian" NAC, is constituted by the Chiefs of Defense from all member nations, except France. The

Chairman of the MC is selected among Allies' Chiefs of Defense for a three-year period. To reiterate the Alliance's intergovernmental character, it is important to note that the Chairman of the MC "acts exclusively in an international capacity and his authority stems from the Military Committee". The IMS supports the MC to the extent of implementing the respective decisions made by the NAC. The MC, in contrast, and hence the IMS, is "responsible for recommending to NATO's political authorities those measures considered necessary for the common defense of the NATO area". Moreover, its "principal role is to provide direction and advice on military policy and strategy". To put it in other words, the MC and its subordinate IMS are "responsible for the overall conduct of the military affairs of the Alliance under the authority of the Council [NAC]". Furthermore, the Strategic Commands, SHAPE and SACLANT, are responsible to the MC for the overall direction and conduct of all Alliance *military matters* within their areas of command. Simultaneously, they provide the actual military advice to the MC (NATO 2001, 240-1).

The vast majority of conventional military forces, however, which appear to be at the disposal of the Alliance's integrated military structure, are under national direction. There are two distinct groups of military forces. If need occurs, the former will be assigned to the operative command or operative control of a Supreme NATO Commander (either SACEUR or SACLANT). When Allies decide to assign forces to NATO it will assign the transfer of the national operative command or operative control to a NATO command.

This does not mean to convey full authority over the concerned force to NATO supremacy. Instead the lead of this particular force will remain under national responsibility and control. In times of peace, the command solely rests under national responsibility, apart from some few exceptions.

The exceptions are some integrated military staffs and headquarters, some parts of NATO's integrated Air Defense System, a number of communications infrastructure scattered among the member nations, and the Standing Naval Fleet (Varwick/Woyke 2000, 80-1).

Amendments to these arrangements, especially regarding the command structure, were initiated during the course of the Prague Summit. However, this does not apply to the fact, that NATO does not have its own forces. Indeed, the only small force operated and financed by the Alliance is the integrated Air Defense System along with its AWACS fleet (17 air planes over all) and some communication infrastructure. The rest of the coalition's military forces, however, are national contributions as need occurs. To put it in other words: Despite the multi-nationality in all Alliance affairs, Alliance military forces are not as integrated as it would deem appropriate to consider them as a coherent NATO force. All member states posses fully developed armed forces, including Navies, Armies, and Air Forces. A truly integrated military structure with a trusted division of responsibility and accountability among the Allies does not exist.

Moreover, the initiation of any NATO action implies a consensual vote. It could thus be assumed that single-handed-efforts by a particular nation might prove to be nearly impossible, despite the increasing number of multi-national links and interdependencies among the Allies. Thus, a hegemonic abuse is hardly perceivable (Karádi 1994, 61; Nolte 1994, 121).

These facts are reflected by the respective budgets at the disposal of the Organization. As made visible with TABLE 1-3 in the Appendix, the financial means for NATO institutions constitute only a fraction of the expenditures that nations devote to their defense and security: "With few exceptions, NATO funding does not therefore cover the procurement of military forces of physical military assets … Military manpower and material are

assigned to the Alliance by member countries, which remain fully financially responsible for their provision. An important exception is the NATO Airborne Early Warning and Control Force [AWACS] … NATO also finances investments directed towards collective requirements, such as air defense, command and control systems, or Alliance-wide communications systems which cannot be designated as being within the responsibility of any single nation to provide". Apart from this funding, member countries usually only contribute to expenditures to finance the IS, IMS and subordinates bodies and agencies. The cost-sharing formula is agreed among the Allies and ought to reflect the economic abilities of the respective nation. The Civil Budget, which had an amount of 133 million US $ in 2000, is divided among all Allies, whereas contributions to the Military Budget, which had a proportion of 751,1 million US $ in 2000, covering general expenditures along with the ongoing peacekeeping missions, is divided only among 18 Allies (France is not part of the integrated military structure of NATO) (NATO 2001, 202-5).

Decision-Making Process and National Engagement

The elaboration of the military structure, however, brings us to the very heart of the Alliance. The strong intergovernmental constitution of the Organization is characterized by its decision-making procedure, reflecting the influence of national interests and respective domestic agendas in the Alliance's affairs[2]. Additionally, the following elaboration will provide the basis for further modeling and the application of the particular theories from economics as well as from political science.

As shown with *FIGURE 1* and *FIGURE 2*, the decision-making process within NATO depends upon many actors. The main decision-making body

[2] For a thorough discussion of the term of *national interest* see, for example, Pradetto (2002).

of NATO, which derives its authority directly from the North Atlantic Treaty, is the North Atlantic Council (NAC or *Council*). It convenes on a weekly basis. If need be, consultations can also be undertaken more frequently. The NAC has “effective political authority and power of decision”. Usually it consists of Permanent Representatives of all member nations. At least twice a year, the Council convenes at the level of Foreign Ministers, Defense Ministers or Heads of Government.

In whatever composition it meets, the Council’s decisions have the same status and validity. Each government is represented in the Council by a Permanent Representative with an ambassadorial rank. He or she is supported by a political and military staff or delegation, which also meet with their counterparts and representatives from IS or IMS in the respective working groups or committees on a subordinate level.

As indicated earlier, the SecGen chairs the Council. The Council is called *Permanent Council*, due to the permanent representation of all member nations within NATO headquarters. Items discussed and decisions taken at the meeting of the Council may cover all aspects of the Alliance’s activities. Issues dealt with during Council meetings are often based on reports and recommendations prepared by subordinate committees at the Council’s request. Equally, subjects may also be raised by any of the national representations as well as through the initiative of the SecGen (NATO 2001, 149-50).

However, it is crucial to note, that “Permanent Representatives [or *Ambassadors* with their military pendants in the subordinated MC] act [solely] on instructions from their capitals, informing and explaining the view and policy decisions of their governments to their colleagues round the table. Conversely they report back to their national authorities on the views expressed and positions taken by other governments, informing them of new

developments and keeping them abreast of movement towards consensus on important issues or areas where national positions diverge".

This, however, seems to be a fact, which enjoys only little attention throughout the public, press and academia. Frankly speaking, NATO ambassadors do act and function predominately as "*post-boxes*"[3] between their governments and the Council as the forum for consultation between the member countries. In the same vein, it would be a fallacy to assume that the actual decisions for any activities of the Alliance are taken independently within the framework of the North Atlantic Council. Indeed, it provides solely a location to express the national decision of the respective governments[4].

The regulations regarding the decision-making procedures even emphasize these patterns of so-called *allied policy-making*: "Policy formulation and implementation, in an Alliance of independent sovereign countries, depends on all member governments being fully informed of each other's overall policies and intentions and the underlying considerations which give rise to them. This calls for regular political consultation, whenever possible during the policy-making stage of deliberations before national decisions have been taken" (NATO 2001, 152).

Thus, it could be assumed that the major achievement in forming a *sustaining forum for consultation*, which was made by establishing NATO more than fifty years ago, is still the predominant guarantor among the international community, tackling security and defense challenges. The initial objective to establish a firm but flexible framework among several nations still proves to be extremely valuable. Nonetheless, "political consultation among the members of the Alliance is not limited to events taking place within the

[3] Comment made by Simon Lunn, Secretary General of NATO Parliamentary Assembly.
[4] For a detailed elaboration of the consultation mechanisms see Hill (1978).

NATO Treaty area. Increasingly, events outside the geographical area covered by the Treaty have implications for the Alliance and therefore feature on the agenda of the Council … The consultation machinery of NATO is readily available and extensively used by the member nations in such circumstances, even if NATO as an Alliance may not be directly involved. By consulting together they are able to identify at an early stage areas where, in the interests of security and stability, coordinated action may be taken. Neither is the need for consultation limited to political subjects … The process is continuous and takes place on an informal as well as formal basis with a minimum of delay and inconvenience, as a result of the collocation of national delegations to NATO within the same headquarters". Doing so, NATO "*helps* to provide strong political links among the Atlantic allies and thereby contributes to the maintenance of a firm political bridge between the nations of Western Europe and North America" (NATO 2001, 153; Hill 1978, 9) – both in pleasant and bothersome times.

The need for joint decision-making and the consensus-rule, as delineated in the Treaty, underlines the patterns of limited cooperation among the Allies. Only issues, which deem to seriously affect the security, stability, and wealth of the North Atlantic area, may move all member nations to come to a consensual vote in order to take common action. Any attempts to negotiate or persuade a nation, which does not agree on a particular issue or have at least a distinct conviction, will inevitably result in a failure. To put it in a more convenient form, the NATO Handbook states: "In making their joint decision-making process dependent on consensus and common consent, the members of the Alliance safeguard the role of each country's individual experience and outlook while at the same time availing rapidly and decisively if circumstances require them to do so" (NATO 2001, 154).

Accordingly, the Alliance will only raise its flag if every single member is in consent. It thus could be assumed that it takes some efforts to move this Organization anywhere. Further, the Organization moves only to a very limited extent by itself – in other words, it does not make its own policy or takes decisions by its own. Instead, it can only and has to be moved by the consent of all member nations. In that vein, it could occasionally be noticed that, among the public, contributors from academia, and even politicians, the nature of the Alliance, its capabilities and shortfalls are perceived in the wrong manner. So, for example, Stanley Sloan provides some evidence for this hypothesis (Sloan 2003, especially Chap. 2, 10 and 11). Recent evidence was provided by the disturbances, which the Organization along with governments of its member nations encountered not only during the Kosovo crisis (see, for example, Scharping 1999), but also prior to and during the Gulf War 2003.

In order to understand and evaluate deeds and omissions of the Alliance in the past, present, and future, it is thus inevitable to take a much closer look examining the formation of national positions and national standpoints in the capitals of the respective Alliance members. It is not, as commonly perceived, the North Atlantic Council, the Organization, or parts of it, which determine the conduct of the Alliance. Or, to illustrate it with a well-known example, the Organization did not fight a war against Yugoslavia in 1999, but it facilitated the Alliance of several nations to do so. NATO did not harass Iraq and the Alliance did not break over some decisions, but some member states took actions which deemed appropriate to them while the Alliance as such was only limitedly involved and towards another extent and objective.

Contrary to many contributors in media and academia, the author argues in a significantly distinct manner. In fact, security and all entangled issues will be elaborated from the national viewpoint. Identifying national interest – and disinterest – and the driving forces behind these considerations will then allow to take a closer look at the outcome within the Alliance as a result of the assemblage of several such determinates within the strict intergovernmental institutional framework of NATO. Doing so, the resulting reflections will consequently show several corresponding parallels of theories of International Relations and of Economics, which will have to be applied hereafter.

2.2 The Political Economy of Security and Alliance

General Assumptions

Milton Friedman argues that “truly important and significant hypotheses will be found to have ‘assumptions’ that are widely inaccurate descriptive representations of reality, and, in general, the more significant the theory, the more unrealistic the assumptions” (Friedman 1966, 14).

Bearing this in mind, there is an equal set of assumptions among the various facets of the *Realist* school of thought. It includes “(1) that the international system is based on states as key actors; (2) that international politics is essentially conflictual, a struggle for power [or political influence] in an anarchic setting in which nation-states inevitably rely on their own capabilities to ensure their survival [or at least a decent wealth]; (3) that states exist in a condition of legal sovereignty in which nevertheless there are gradations of capabilities, with greater and lesser states as actors; (4) that states are unitary actors and that domestic politics can be separated from foreign policy; (5) that states are rational actors characterized by a decision-making process leading to choices based on national interest; and (6) that power is the most

important concept in explaining and predicting state behavior" (Dougherty/Pfaltzgraff 2001, 63-4; see also Dunne/Schmidt 2001; Waltz 1959, Chap. 4 and 6).

These assumptions, along with the implications of the *Realist* theory, had been subject to grave discussion throughout the period of Cold War, where they originated. After the Cold War conflict perished, the theory was heavily challenged. Over the course of the past decade, it gained attention again, as it appeared to explain certain phenomena and developments in international relations. Simultaneously, a number of variations of the basic theory were shaped, which, nonetheless, take reference to the general assumptions as indicated above. In that vein, a *Realist* approach shall provide the basis for further discussion, too.

Some of the assumptions need further clarification: An ultimate means to guarantee the survival of state is commonly found in armaments. If each state in the arena arms against one or more other states, the result could easily be a *security dilemma* (Herz 1950). The point of contention, then, is at what point the efforts of one state to ensure its security, and hence its survival, comes to be perceived by another state as a threat to its own security. Given this dilemma, it could further be anticipated that the general level of trust among the actors is low. It could be assumed that the motivation for cooperation is low, too. Yet, this runs counter to some observations especially in the field of defense and security issues and particularly the experience of European integration. This contradiction shall be part of later discussion.

Further, the concept of power ought not to be seen too narrowly. It constitutes the principle force, which, in the view of *Realists*, makes the world spin around. To use the words of Thomas Hobbes: Man has a

“perpetual and restless desire of power after power that ceases only in death” (Hobbes 1990, 64).

Max Weber provides a definition of power as the “possibility of imposing one’s own will upon the behavior of other persons“. The power element of political life is especially evident at the international level due to the fact that “every political structure naturally prefers to have weak rather than strong neighbors. Furthermore, as every big political community is a potential aspirant to prestige, it is also a potential threat to all its neighbors; hence, the big political community, which is simply big and strong, is latently and constantly endangered” (Weber 1972, 542, 520).

Though difficult to define, the power of a state is said to consist of capabilities, some of which are economic in nature, such as the degree of industrialization and productivity, gross national product, national income, and income on a per capita basis. To put it in other words, power is “strength capable of being used efficiently”, which means “strength plus the capacity to use it effectively” when in support of a specified objective (Kindleberger 1970, 56, 65).

The assumable tendency of states to increase the potential to influence one’s own environment and the desire for prestige was identified as a driving force behind all state activities by Hans J. Morgenthau, an important contributor to the classical *Realist* school of thought. Yet, Adam Smith argued in a similar manner for a distinct example: “Without regarding the danger, young volunteers never enlist so readily as at the beginning of a new war; and though they have scarce any chance of preferment, they figure to themselves, in their youthful fancies, a thousand occasions of *acquiring honour and distinction* which never occur” (Smith 1937, 109). For Morgenthau, prestige correspondingly serves states “in support of a policy of the status qou”. And, “prestige is at most the pleasant by-product of foreign policies whose

ultimate objectives are not the reputation for power but the substance of power". Accordingly, the "foreign policy of a nation is always the result of an estimate of the power relations as they exist among different nations at a certain moment. The result of such conduct of statecraft is evident.

As Morgenthau recognized: "The Cold War … was fought primarily with the weapons of prestige. The United States and the Soviet Union endeavored to impress each other with their military might, technological achievements, economic potential, and political principles in order to weaken each other's morale and deter each other from taking an irrevocable step toward war" (Morgenthau/Thompson 2001, 94).

The purpose of foreign policy and the estimation of either of the concerned actors' power focus on well-known patterns in history and international relations – the concept of *Balance-of-Power*. Despite the many meanings of the term and in spite the difficulties to grasp it, "it is theoretically possible to conceive of the balance of power as a situation or condition, as a universal tendency or law of state behavior, as a guide for state leadership, and as a mode of system maintenance that is characteristic of certain types of international systems". The purpose and functions of such a system could be assumed "to (1) prevent the establishment of a universal hegemony, (2) preserve the constituent elements of the system and the system itself, (3) ensure stability and mutual security in the international system, and (4) strengthen and prolong the peace by deterring war – that is by confronting an aggressor with the likelihood that a policy of expansion [through whatever means] would meet with the formation of countercoalition" (Dougherty/Pfalzgraff 2001, 41-2).

The source of such a difficult and potentially dangerous environment for the existence and well-being of states springs from the more or less obvious anarchy in the international system. This should be understood by the

meaning of the term. Anarchy in the meaning of international relations theory illustrates the absence of a higher order (Schmidt 1995, 36). The lack or shortfall of a structured international system urges states to establish procedures to secure their existence and well-being. Kenneth Oye, accordingly, argues that "for no central authority imposes limits on the pursuit of sovereign interests … Relations among states are marked by war and concert, arms races and arms control, trade wars and tariff truces, financial panics and rescues, competitive devaluation and monetary stabilization … The possibility of a breach of promise can impede cooperation even when cooperation would leave all better off.

Yet, at other times, states do realize common goals through cooperation". Anarchy is "therefore said to constitute a *state of war*: When all else fails, force is the *ultima ratio* – the final and legitimate arbiter of disputes among states. The state of war does not mean that every nation is constantly at the brink of war or actually at war with other nations" (Oye 1992, 36; Art/Jervis 1992, 1).

Though the international community achieved to establish the *United Nations* after World War II. But developments after *September 11th* made the relative weaknesses of the institution increasingly apparent. Hence, Kenneth Waltz's remarks again seem to be valid that "wars occur because there is nothing to prevent them" (Waltz 1959, 232). In other words, the assumption of anarchy among the international system reflects the age-old patterns of *homo homini lupus* ("Man is men's wolf").

Some authors argue that anarchy is not the reason for the assumed state behavior, but a competition in power and self-interest, the consequence of such an arrangement generally leads to the establishment of certain institutional patterns. To ensure mutual security and stability, states tend to fall back on traditional methods and techniques of maintaining and restoring the

balance-of-power. These are "(1) the policy of divide and rule (working to diminish the weight of the heavier side by aligning, if necessary, with the weaker side), (2) territorial compensations after a war, (3) creation of buffer states, (4) formation of alliances, (5) spheres of influence, (6) intervention, (7) diplomatic bargaining, (8) legal and peaceful settlement of disputes, (9) reduction of armaments, (10) armaments competition or races, and (11) war itself, if necessary, to maintain or restore balance" (Dougherty/Pfaltzgraff 2001, 42; Wendt 1992). Out of this variety of strategies of retaliation, deterrence, or self-help, one issue shall be discussed in greater detail.

In fact, the pessimism of the illustrated school of thought's worldview regarding the potentially violent aspects of a stateless international system is countered to a certain extent by the acknowledgment of an escape out of this disgraceful situation (Masters 1964). States actually do cooperate. They do it not necessarily voluntarily, but despite external forces. It is obviously more rewarding to cooperate than to be caught in a situation, which Waltz describes as following: "In a self-help system each of the units spends a portion of its efforts, not in forwarding its own good, but in providing the means of protecting itself against others" (Waltz 1979, 105).

Cooperation is thus commonly perceived as a means of self-help to approach a common interest. However, cooperation proves to be difficult because states tend to be very sensitive as to how cooperation affects their current and further capabilities, and if existing, their relative advantage to others. Furthermore, in accordance to David Ricardo's approach of comparative advantages (see Ricardo 1895) Kenneth Waltz argues that, "specialization in a system of divided labor works to everyone's advantage, though not equally so. Inequality in the expected distribution of the increased product works strongly against extension of the division of labor internationally" (Waltz 1979, 105).

Yet, this pessimistic notion of states' behavior stems from assumptions, which exaggerates the emphasis of competitive character in the international system. This bias leads to several misinterpretations. As Charles Glaser points out, that cooperation is essentially a means of self-help, yet saving the state's resources (Glaser 1995).

Economics of Security and Defense

Charles Kindleberger ascertains that in the "international sphere where there is no world government, the question remains how public goods [such as security] are produced" (Kindleberger 1986, 8). It ought to be assumed that goods, like defense and security, are nationally provided. If the provision of security and defense is determined so much locally, and there is enough evidence verifying this hypothesis, the actual character of these products of ultimate state objectives ought to be elaborated in more detail.

A few years after the North Atlantic Alliance had been founded, Arnold Wolfers alleged that problems might arise, which would quickly prove the intentions of states unsuitable to handle their security collectively, and they would hence return to unilateral attempts guaranteeing the concerned country's security (Wolfers 1959, 49-52).

This notion prevailed over the last five decades of the existence of the Alliance. These patterns most likely originate from a divergence in terminology and meaning of *collective defense* and *collective security*, though often condensed improperly. In fact, these two policies differ fundamentally in respects of intention and conduct. Incidents in which they are complementary and supporting each other are most likely "a matter of happy coincidence". Wolfers, argues that nations "enter into collective defense arrangements to ward off threats to their national security interests, as traditionally conceived, that emanate from some *specific* [opponents] regarded as the chief national

enemy, actual or potential. The motive behind such arrangements is the conviction that the creation of military strength sufficient to ward off the *specific threat* would be beyond their national capacity or would prove excessively and unnecessarily costly in view of the opportunities for mutual support and common defense". Given that nations are aware of *who* is the opponent, the geographical and strategic determinants define the size and duration of the military preparations as well as the attached costs to it. It could be assumed that actions deemed necessary to pursue collective defense are limited to a certain extent beforehand serving predominately the deterrence of an escalation of the confrontation. Accordingly, applied means will more or less correspond to resources devoted to it.

Collective security, in contrast, "belongs to a different and presumably better world". It is, contrary to alliance policies, "directed against any and every [rival] anywhere that commits an act of aggression, allies and friends included". Collective security has by definition a significantly different range in geographical as well as in strategic terms. Simultaneously, deeds of collective security require far bigger efforts and resources from the involved countries to shape reliable means, whereas the impact of actions to guarantee collective security will have wider and less definite effects, too.

From the nation-states' perspective collective security could be assumed as supplement to collective defense since the latter correspond much more and much closer to the national autonomy, which, according to *Realist* assumptions, is supposed to constitute the most valued good. Referring to the degree of publicness of both defense and security, the state's well-being in a multipolar, post-Cold War world will, as assumed by the *Realist* school of thought, continue "to worry about the actual reliability of alliance commitments and the nonexcludability of alliance based security" under anarchic conditions (Goldstein 1995, 69). On the other side, states are caught in a

dilemma, as having been discussed earlier, being urged to follow a two-track policy, while simultaneously be committed to both collective defense and collective security.

Because, “a collapse of the collective security system would be a calamity of the first magnitude and would allow no alternative except a return to a highly hazardous and extremely costly policy of ‘going it alone’, withdrawal from collective security commitments and exclusive reliance on collective defense would also be imprudent methods of escaping the dilemma of the two track policy” (Wolfers 1959, 67). On the other side, this field of tensions reflects the enduring conflict between isolationist and internationalist tendencies, for example, in the United States political system (LaFeber 1994).

Contrary to general assumption in economic theory (see, for example, Sandler/Hartley 1999), security and defense must not be intermingled. This applies even more so to the assumptions and conclusions concerning the public good nature of either of them. In accordance with Samuelson’s theory of public goods (Samuleson 1954 & 1955), the pure public good characteristics are not always fully applicable to collective defense and collective security likewise.

The problems attached to the provision of both collective security and collective defense originate from the pure or impure public good character. Defense and security belong to the initial objectives, which Adam Smith identified to be the state’s duty: “first, the duty of protecting the society from violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact

administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions" (Smith 1937, 651).

Problems concerning the adequate and efficient provision of security and defense as goods arise from the fact that in a state – and in an alliance alike – nobody could be excluded from the benefits. Since security is relatively homogenous and, hence, a pure public good, there cannot be a discrimination of or rivalry for quality and quantity of defense and security in a given geographical area among the consuming individuals in a state; or among consuming states within an alliance. On the contrary, the security consumed by one state in an alliance does not reduce the utility of respective means for other allied countries. Referring to the following discussion of the effect of exploitation of a greater country by minor states within an alliance, it does not take wonder that respective actors do not contribute to the production of the good according to the share deemed appropriate.

Supposing states could identify their actual preferences and their willingness for respective commitments, there won't emerge a Pareto-optimal division and participation in the production and consumption of defense and security in an alliance (Buchanan 1968, 49; Musgrave/Musgrave/Kullmer 1975, 54-8). This originates also from a free-rider attitude, which, however, is difficult to prove (see, for example, Pigou 1941, 47; also Boyer 1993, Chap. 5), especially in an alliance scenario with a limited number of actors as presented here. Referring to the notion of exploitation of the larger by smaller states, the free-rider problem becomes an issue, which seems to be accepted by those who are actually exploited. There is little, which economic theory can provide to limit the amount of inefficient provision and free-riding in this case, since strategic considerations both among smaller but more so among larger countries seem to prevail over optimizing and limiting defense efforts.

Contrary to pure security, defense both among neighboring states and within alliances seems to constitute a rather impure public good. As indicated above, collective defense arrangements are determined against a particular opponent. Acts of defensive character are furthermore agreed upon by a limited number of states in an alliance, which both become producer and consumer of the consequences. Simultaneously, the results of those activities are shared among the committed allies, whereas others may be excluded from the benefits of the ensuing peace or agreements with the opponent. On the other hand side, within the alliance and among the contributing states, no partition of the benefits according to the respective commitments is possible – as long as peace is the only result.

Thus, collective defense tends to be rather a *club good* or impure public good exclusively favoring the members of the alliance. Complete security, which might as well be an objective of the alliance members, tilts rather towards a purely public good (Buchanan 1965; Thies 1987; Sandler/Hartley 1999, 35-6). Respectively, the discussion of economic inefficiencies of alliances concerning the provision of both collective defense and collective security has to be more discriminately and carefully regarded. Qualitatively speaking, the economic inefficiencies and the burden through exploitation in the course of provision of collective security through an alliance seem to culminate fewer burdens to the larger nation, while the exploiting smaller countries will commit more resources reflecting a higher marginal rate of substitution of private for public consumption.

Collective security, in contrast, provided through an alliance, will be beneficial not only to its members. The very existent of each individual country, especially smaller states is not at stake. Thus, it could be expected that

an uneven partition and greater inefficiencies of the provision of the good security might occur.

The economic inadequacies of the provision of security and defense and the respective national commitments to alliance as producer of the former has a further source connected with the public good characteristics. James Buchanan ascertains that the definition of public goods generally is hardly applicable due to its strict and polarized criteria. However, issues like "national defense come reasonably close to descriptive purity, but even here careful consideration normally dictates some relaxation of the strict polar assumption" (Buchanan 1968, 49-50).

Exploitation by smaller allies may also take place through the utilization of external effects in the course of the provision of defense and security through larger countries[5]. Externalities are defined here as any costs and benefits which a state imposes on others but does not take into account in deciding what to do (McLean 1987, 195). To put it differently, the exploiting state gains a comparative advantage from doing so, since it can devote more of its resources to ordinary tasks rather then to reserve them for military expenditures as security and defense, which are predominantly provided by other alliance members (Olsen/Zeckhauser 1967, 47). According to Buchanan's arguments, positive "spillovers are generated in the act of consuming" of defense and security.

Usually, the actual consumer will place certain value on the good, and hence will commit itself in the provision in it respectively. The direct beneficiary will adequately evaluate its security for its national interests. The

[5] For a thorough discussion of this subject see Cornes/Sandler (1986).

country's marginal rate of substitution of other goods to defense and security will equal the marginal costs. Despite the indivisibility of security, allied nations will also benefit from the security, which is initially provided by the formerly mentioned nation for its own purposes. Accordingly, to the value of security of this country "will normally be added, not a string of zeros, and not a string of equal values, but a whole series of lower but still positive values" (Buchanan 1968, 67). In contrast, the marginal costs of the provision of security will not be shared equally in accordance to this pattern or otherwise, since the spillover in security does not produce costs but benefits among the smaller alliance members. Hence, defense is regarded domestically less central to the nation's well-being. Fluctuations in priority of this field thus regularly occur, while the country's commitment to it remains disproportional (Palmer 1990, 209).

Avery Goldstein showed at a Cold War example that states even tend consciously to discount their own defense and security efforts through the gains from alliance benefits (Goldstein 1995). However, as indicated earlier, the larger ally will do little – or at least renounce harsh means – to urge smaller allies to commit more of their resources respectively to their receiving benefits. Suppose the larger alliance members gain more benefits from an enlarged alliance territory than costs of maintaining their own military capacity and transaction costs within the alliance are modest.

In fact, John Oneal provides empirical evidence for such tendencies among NATO allies, at least for the initial four decades of the Alliance's existence. Depending on the incentives to maintain the domestic order, perceived economic or political gains, or influence not related to Alliance's interests, some member countries pursue primarily private benefits. Thus, he concludes, relaying a similar argument: "The logic of collective action indicates that the United States [the larger ally] should bear a disproportionate

share of allied defense expenditures as long as it believes that its security depends upon [or is better and cheaper served by] NATO, allows its allies to act independently, and is economically preponderant". Hence, the additional benefits gained through a bigger circle of security and sphere of influence may balance the costs and burdens implied by the exploitation through the other allies (Oneal 1990, 402; Kupchan/Kupchan 1995; for a discussion of the effects of regional diverting defense spending, which was not subject to this discussion, see Braddon 1995).

Cooperation under Security Dilemma

The security dilemma under anarchic conditions of the international system urges states to cooperate. This applies even more when the discussion turns explicitly from considerations of *power* towards *military capabilities*. Under given assumptions, Robert Jervis designed a model to illustrate the preferable code of conduct for states' behavior. The security dilemma for states arises from the situation of being exploited after decision for cooperation with other states in an anarchic world has been taken. Jervis applies an indefinitely repeated *Prisoner's Dilemma* game and poses the question, which variables make the concerned actors to cooperate or to defect from the agreement[6].

Prisoner's Dilemma commonly has a dominant strategy equilibrium for both players to defect (DD), whereas the Pareto-optimal strategy would be to cooperate (CC). Both players would be better off if they play individually (CC). But they are also individually better off to play (DD), no matter what the opponent does. Actors have short-run incentives to take advantages without taking into consideration the long-run benefits of cooperation. To

[6] For the discussion concerning the applicability and limitations of the use of game theoretical models in international relations see Quandt (1961).

rely upon one's own resources and capabilities seems to provide more security to a state than to consider the potential problems, which cooperation with and eventually assistance for an ally may imply.

The situation is altered, if long-term considerations prevail. In that case, both players are better off to be cooperative (CC) in every round. Despite the fact that (CC) is not Nash equilibrium, the tendency of the actors to defect continues to exist. This is because both actors assume a so-called *Trigger strategy*. It is implicitly agreed that as of the moment one party decides to defect in order to gain a relative advantage in one round, cooperation will be precluded for any further rounds. A relative gain in one round will hence be by far over-compensated by the price for future non-cooperation. All involved actors thus will stick to the initial agreement to enjoy the relatively smaller benefits of cooperation, but for an infinite period of time (see Gibbons 1992; Grieco 1988; Holler/Illing 2000; Morrow 1994).

	A: **C**ooperate	A: **D**efect
B: **C**ooperate	2 / 2	4 / 1
B: **D**efect	1 / 4	3 / 3

FIGURE 3: **Iterated Prisoner's Dilemma**

Since either (DD) or (CC) is independent of the history of the game, Jervis draws some conclusions from an iterated Prisoner's Dilemma scenario regarding the intention of states to be cooperative in security issues.

The probability that the players will cooperate and arrive at (CC) depends upon several factors. In particular the "chance of achieving this outcome will be increased by: (1) anything that increases incentives to cooperate by increasing the gains of mutual cooperation (CC) and/or decreasing the costs the actor will pay if he cooperates and the other does not (CD); (2) anything that decreases the incentives for defecting by decreasing the gains

of taking advantage of the other (DC) and/or increasing the costs of mutual noncooperation (DD); (3) anything that increases each side's expectation that the other will cooperate" (Jervis 1978, 171).

The fear of states of being exploited, which constitutes the security dilemma, derives from the state characteristics. A state may absorb the defection of another state from a security agreement without its very survival being endangered. Clausewitz even anticipated such conduct, while asserting that one state will fight for another only for its own sake, not necessarily in favor of the state it is fighting for (Clausewitz 1940, 668).

If the costs of CD is tolerably low and affordable (i.e. burden for being exploited), security is attained easier by this state. In the same vein, a relatively low level of arms along with a relatively passive foreign policy will characterize this state in comparison to the actions of a more threatened state. Accordingly, smaller (and by definition weaker) states will experience much more of the effects in an anarchic international system than larger (and more powerful) nations. Thus, cooperation and coalition forming between a number of potent states and several smaller nations is likely to appear even under the conditions of a stateless international system.

Simultaneously, it then appears to be rather difficult to find a situation where two major powers, or status-quo powers, agree to cooperate since the estimated costs of exploitation, hence the vulnerability of either of the states will be estimated more severely. In this case it is more likely that a (DD) situation will occur: "The main costs of a policy of reacting quickly and severely to increases in the other's arms are not the price of one's own arms, but rather the sacrifice of potential gains from cooperation (CC) and the increase in the danger of needless arms races and wars (DD). The greater the costs, the greater the incentives to try cooperation and wait for fairly

unambiguous evidence before assuming that the other must be checked by force" (Jervis 1978, 176).

Thus, (CC) or (DD) scenarios between major powers tend to tilt towards a *Game of Chicken*. Even if both benefit from cooperation, either side frequently and thoroughly has to assure the other of its intentions. On the contrary, the side which can reliably threaten to disrupt the relationship, unless its demands are met, can exploit the other. The initiative for a state to choose a strategy of (DC) will be rewarding only once. Yet the repeated nature of the scenario – or as Kenneth Oye argues the *shadow of the future* – may prevent rational statesmen from such deeds, as cooperation in the next round will be rendered unlikely (Oye 1992).

To summarize, cooperation in an anarchic international system is likely to occur if states anticipate the relative gains from cooperation high enough not to defect, or if costs of the exploitation of a status quo power are relatively low for the exploited nation and hence initiatives of the exploiting states do not have further intentions than to live a decent life. It could thus be argued that states form alliances under such circumstances.

Economic Theory of Alliances

These lessons correspond to conclusions, which Mancur Olson and Richard Zeckhauser, among others, draw both from theoretical considerations as well as from empirical analyses of the relationships within NATO.

In fact, the issues of defense spending in general and appropriate burden-sharing among the Allies of NATO have been a source of contention since the Organization was established. Regardless of circumstances and the political situation in Europe and beyond, claims had been raised over the years that The United States devote a significantly larger portion of national

resources to the Alliance than smaller members do. Yet, Olsen and Zeckhauser pose the question, whether the different sizes of national contributions to NATO like other international organizations "could be explained in terms of their national interests … The European members of NATO are [were ?] much nearer the front line than the United States, and they are [still ?] less able to defend themselves alone" (Olsen/Zeckhauser 1966, 266).

The actual problem originates from the public good character of the objective, which the Alliance was established for. It is in the common interest of every citizenry among the member nations, and hence tasks of each state, to provide defense and security to its peoples. However, interests among the individuals within a state are usually best served by individual action. But, as Olsen and Zeckhauser point it out, if a group of individuals pursue a common objective, an institution may provide assistance.

Defense is a collective good. Though the characteristics of the products, which NATO is providing, were discussed earlier, it is necessary to mention the issue here as well. Common objectives as a collective good have some characteristics, which are peculiar to publicly provided goods. There is a non-rivalry in consuming the fruits of the state's deeds. Nobody could be excluded from the consumption of the good *security*.

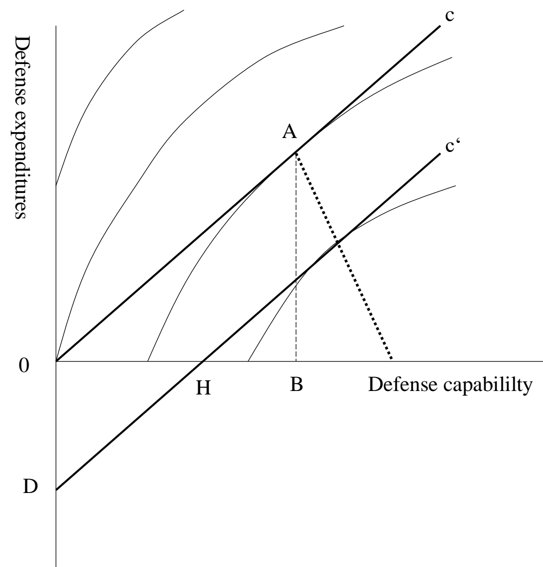


FIGURE 4: **Interference Map**

For an organization providing this good or serving this objective it could then be assumed that "if the common goal is achieved, everyone who shares this automatically benefits, or, in other words, nonpurchaser cannot feasibly be kept from consuming the good, and if the good is available to any one person in a group it is or can be made available to the other members of the group at little or no marginal costs". The same applies to individuals, states, and international organizations equally (see Musgrave/Musgrave/Kullmer 1975, 69-71; Olsen/Zeckhauser 1996, 267; Olsen 1968, Chap. 1).

Typical for public goods is the fact that they are usually sub-optimally provided. The peculiar behavior of particular members of alliances shall thus be more closely illuminated. Olsen and Zeckhauser developed a model to show the inherent logic for smaller, economically and politically or otherwise less potential members of an alliance to contribute less than it would be appropriate for their respective national interest. On the other side, larger members devote significantly more resources to the alliance than it would deem necessary and sufficient to satisfy this national interest.

The effect could be explained by the phenomena that the amount a nation in alliance spends on defense would be affected by the amount, which its allies provide. This can be illustrated by an indifference map, which is shown in *FIGURE 4*. Moving the cost curve (c) down towards the vertical axis represents defense expenditures of allied nations. The actual expenditures are illustrated through the distance between the origin and the juncture of the cost curve and the vertical axis. Suppose that alliance members spend OD on defense and their cost curves are the same, which is assumed to be linear. Then the country receives OH of defense for free, which is the direct equivalent to OD (the alliance expenditures on defense). On the other side it only has to provide further HB, instead of OB. Accordingly, the more the nation's allies spend on defense, the more the cost constraints are moving towards the lower right-hand area. Finally, the nation's reaction curve is made visible by recording all points of tangency of the total cost curve with the indifference curve, which is illustrated by the dotted line. The reaction curve indicates the actual defense efforts of the exploiting country for all feasible levels of defense expenditures by the allies.

Similarly, the defense expenditure of this country will affect the expenditures of another alliance member. As made visible in *FIGURE 5*, the two-ally model shows how much of the common good, i.e. defense, each ally will provide. The result is that in "equilibrium, the defense expenditure of two nations are such that the 'larger' nation – the one that places the higher absolute value on the alliance good – will bear a *disproportionately* large share of the common burden. It will pay a share of the costs that is larger than its share of the benefits" (Olsen/Zeckhauser 1966, 269).

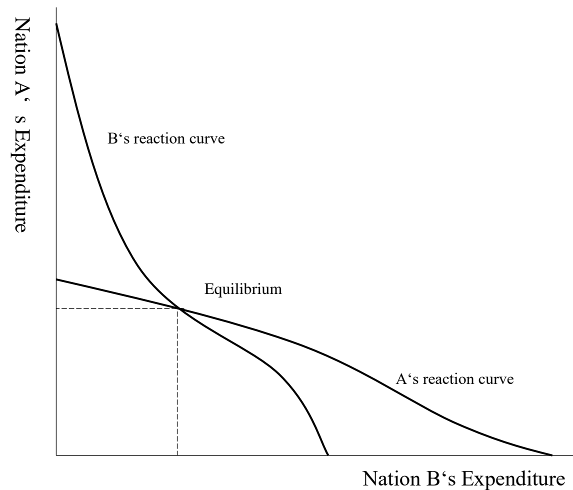


FIGURE 5: **Reaction Curve**

In other words, national interests drive larger nations to devote more resources to their security, than it would be deemed appropriate. This is because the provision of the alliance good is always suboptimal as long as the members of the alliance judge the worth of a marginal increase in defense with a marginal positive value. Due to the fact that each member nation contributes up to the point where its marginal rate of substitution of money with the alliance good (*MRS*) equals the marginal costs of the good. Hence, the "result of independent national maximization in an alliance, when the cost function is linear and the same for all members, is that $MRS_1 = MRS_2 = \ldots = MRS_N = MC$". On the contrary, an efficient provision of the alliance good could only be achieved if the total value is attained, which all member nations together perceive regarding any additional unit of the good correspondents the marginal, costs of it, i.e. $MRS_1 + MRS_2 + \ldots + MRS_N = MC$. Only then, if the alliance members agree upon a formula that divides shared marginal costs (*MC*) in the same proportions in which member countries share the benefits, the particular nations have an incentive to provide means for the objectives of the alliance until the Pareto-optimal level.

As Sandler and Hartley point out, this scenario hinges on the purely public nature of defense, “so that one ally’s defense provision is perfectly substitutable for that of the other ally”. They also argue that the suboptimal provision of the good defense inevitably requires a central authority in the alliance in order to coordinate spending and provision. This role is actually played by the International Staff of NATO (Beer 1972; Boyer 1993, Chap. 2; Sandler/Hartley 1999; Olsen/Zeckhauser 1966, 271; Sandler/Hartley 1999, 31).

Sandler and Hartley, among others (see, for example, Smith 1980 & 1987), have also provided an alternative illustration of the problem, which draws conclusions from the impact of military expenditures on the welfare of society. The demand equation for defense is based upon a unitarian decision maker within the respective member countries. Further, each ally is eager to optimize its welfare, which, in turn, is subject to budgetary constraints as well as *spill-ins* in defense, which occur due to defense efforts of other allies. Accordingly, the demand function could be presented as following: $DEF = f(PRICE, INCOME, SPILLINS, THREAT, STRATEGY)$. Hence, defense efforts of a nation (*DEF*) is determined by the opportunity costs of defense for the concerned society (*PRICE*), the national income (*INCOME*), positive external effects of spill-ins resulting from defense efforts of the allies (*SPILLINS*), the enemy’s or opponent’s defense spending (*THREAT*), and the strategic posture and military doctrine of the alliance (*STRATEGY*) (Sandler/Hartley 1999, 31-2).

An increase in the (opportunity) costs of defense will decrease the demand in defense. An increase in the nation’s income or an increase in the perceived threat, which will have an effect on the allies’ defense expenditures, will also have a positive impact on the country’s defense efforts. The

negative relationship between the relative price of and the demanded quantity in defense is assumed, holding all prices constant.

This law, however, underlies to two phenomena. The *substitution effect* implies that a nation (or a buyer) substitutes away from a good, which becomes relatively more expensive after its price rises. The *income effect*, in contrast, occurs while a demander can acquire less of a good following a risen price for it – and vice versa. These microeconomic mechanisms of perfect sustainability can also be applied to the issues discussed here (Samuleson/Nordhaus 1998, 68-71)[7].

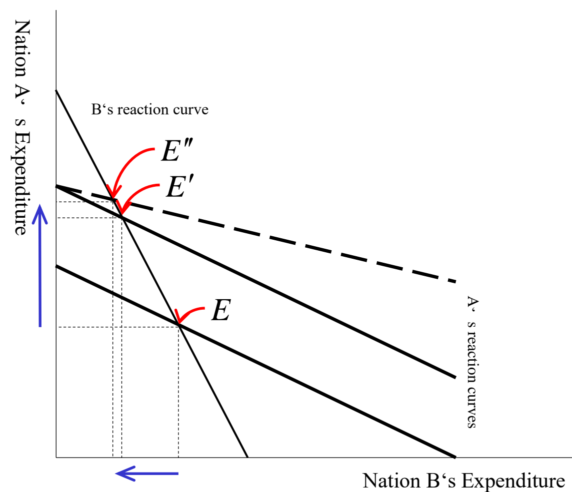


FIGURE 6: **Income and Substitution effect**

Accordingly, as a nation's income grows – as a society becomes richer – it has more to protect, and it will do so. In the same vein, it will acquire more means to accomplish this necessity. Thus, increased income stimulates higher defense expenditures. The same applies while a threat to the nation's security rises. On the contrary, the consequences of the assumed public good nature of defense, along with motivation to take a free ride, result in a decrease of national defense efforts as allies devote more resources to their own

[7] For an approach with imperfect substitution and differentiated comparative advantages, see Olsen/Zeckhauser (1966) and McGuire (1990).

defenses as well as that of the alliance. This constitutes another explanation for the generally assumed phenomenon of the bigger nations' exploitation by the smaller nations. Finally, an altered strategic posture of the alliance may as well affect defense efforts of alliance members (Conybeare/Murdoch/Sandler 1994; Sandler 1993; Sandler/Hartley 2001; Sandler/Hartley 1999, 33)[8].

Similar to *FIGURE 5* a two-ally model is illustrated in *FIGURE 6*. Here, the exploitation hypothesis is represented by the reaction curve of Nation A, yet, amended through both income and substitution effect (the equilibrium moves from E to E', and to E''). Certainly, despite the assumed public good nature of defense, the resulting equilibrium is prone to even more suboptimal provision of defense as the potential for free riding and potential spill-ins from allies' efforts increases (Olson 1968)[9].

Despite the vague nature of the good 'security' these patterns of suboptimal provision of it and the disproportional share of burdens will prevail. Accordingly, a phenomenon occurs in such alliances, which lead to the exploitation of the large by the smaller nations. On the other side, this very much corresponds to the findings of the considerations regarding cooperation under the security dilemma! The national interests of larger, more powerful, or otherwise more potential nations is served in the terms as Robert Jervis illustrated them, whereas smaller, less powerful, or otherwise less potential nations seem to resign to their fate and enjoy but also exploit this peculiar nature of an alliance. This could lead to the conclusion that, despite the complaints

[8] See also Grimes/Rolfe (2002); Konrad (1994). For statistical evidences, see Conybeare/Murdoch/Sandler (1994); Olsen/Zeckhauser (1966); Murdoch/Sandler (1984); Sandler/Forbes (1980).
[9] For a *n*-allies model, see Murdoch (1995); Murdoch/Sandler (1984).

from various sides, alliances like NATO constitute a firm institution with stable structural patterns within the international system.

Only the rhetoric behavior of political leaders seems to counter these findings. This phenomena, however, that political leaders are caught domestically by their rhetoric and announcements of policies to particular ends, which occasionally evolves into a self-fulfilling prophesy and hence determines further political decisions, seems very much to dominate the conduct of international politics. This has at least been proven in several Cold War incidents (see, for example, Fordham 1998a; LaFeber 1994; Thompson 2001). Though this subject will not be further discussed here, the aspect of the linkage between domestic and foreign policies constitutes another issue, which must be subsequently illuminated.

Domestic Issues and Foreign Policy

Contrary to *Realist* assumptions, which were strictly applied up to this point, domestic political issues do affect the conduct of a state's foreign policy. Though the actual impact on an alliance, namely NATO, will be discussed in the next chapter, this issue demands more attention.

Practically all facets of *Realist* theory make reference to Hans Morgenthau's fundamental work '*Politics Among Nations*'. Morgenthau asserted that a student of international relations should attempt to evaluate the embattled subjects from the "position of a statesman who must meet a certain problem of foreign policy under certain circumstances, and we ask ourselves what the rational alternatives are from which a statesman may choose who must meet this problem under these circumstances …, and which of these rational alternatives this particular statesman, acting under these circumstances, is

likely to choose". These assumptions are conceivable, supposing statesmen and political leaders are affectionate to the "concept of interest defined in terms of power" (Morgenthau/Thompson 2001, 5). International politics is a process in which both national interests and individual policy makers' preferences for power and positions are accommodated or resolved otherwise on the basis of diplomacy or war (Dougherty/Pfaltzgraff 2001, 76). This does strongly correspond to an assumption made by Olsen and Zeckhauser regarding the independent national maximization of benefits resulting from any maneuver of a nation within the international system (Olsen/Zeckhauser 1966, 269). However, as Morgenthau put it: "As long as the world is politically organized into nations, the national interest is indeed the last word in world politics" (Morgenthau 1952, 972). In that respect, Morgenthau's plea does not so dramatically diverge from Machiavelli's seminal manual for power politics, '*Il Principe*' (Machiavelli 1990). Where it does differ is the origin of and driving force behind the national interest. Morgenthau perceives foreign policy independent from domestic politics. Machiavelli, in contrast, considers all means and facets of politics between and within states as decisive for the conduct of any policy field. However, the national interest ought to resample what Jean-Jacques Rousseau once identified as the *general will* of the people and sovereign – its *volonte generale* (see Rousseau 1977, 30; Schmidt 2000, 97). This is most often the "lowest denominator" and an "uneasy compromise", and, as Morgenthau conceives to be substantial, the "concept of the national interest … may well fall short of what would be rationally required by the overall interests" of a nation (Morgenthau 1952, 974). Gordon Tullock, thus, contents that concept. The relation of the *sovereign* to political leaders has to be regarded vigilantly since "the term sovereign refers only to the people immediately above the reference politician who actively take an interest in his affairs". Moreover, Tullock gives the advice

that the “person who desires to rise in any hierarchy will find that careful study and analysis of his sovereigns is highly rewarding” (Tullock 1965, 51). Even worse, Thomas Dye and Harmon Zeigler argue that public policy, which ordinarily should pursue the nation’s interests, “does not reflect demands of ‘the people’, but rather the preferences, interests, and values of the very few who participate in the policy-making process. Change or innovations in public policy come about when elites redefine their own interests or modify their own values. Policies decided by the elites need not be oppressive or exploitative of the masses. Elites may be very well-regarded by the public, and the welfare of the masses may be an important consideration in elite decision making, yet it is *elites* that make policy, not the *masses*”. The representatives of rent-seeking theory apply their argumentation similarly (Dye/Zeigler 2000, 447; Märtz 1989, 12, 37; Tullock 1967, 224-5; Buchanan 1980; see also Tullock 1989; Rowley/Tollison/Tollock 1988).

Policy-makers have to and eventually do consider domestic issues. Robert Putnam thus argues that international politics is actually a two-level game where political leaders appear at both game boards: “At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign”. This might prove to be the origin of Clausewitz’s confession that war is a means of policy. Even worse, Machiavelli already recognized the dogma that says *all foreign policy is domestic* (Putnam 1988, 434; see also Singer 1961; Clausewitz 1940, 672).

To rely on a more recent illustration, of which there could be found countless examples in history, it is worthwhile to take a closer look at the development of the domestic and foreign policy of the United States of America. Despite the historically rather unbiased conduct of its policies – contrary, for example, to those of Germany (see Gardner Feldmann 1999; Hoffmann 2000) or Japan (see Bobrow/Hill 1991) – it shall provide some evidences later in the discussion (see Clark 2001; Halberstam 2001; LaFeber 1994). Anthony Downs raised the question whether the assumption of a government, pledged to maximize the social welfare of a nation, is appropriate. In fact, this deems rather to be a by-product of the private motives of policy and decision-makers, which actually are to attain income, power, and the prestige of office. Hence, the conduct of a government both in domestic and foreign policies rests on the assumption of imperfect knowledge among the voters. The costs of coping with and improving this situation often exceed the limits set by the propensities of both the government and the voters. While both sides refrain from devoting efforts to close the information gap the result is rational ignorance of either side's will. Downs suggests that the government's conduct in foreign policy is not directly affiliated with the will and preferences of the voters (Downs 1957).

Thus, James Morrow raises the question, why nations choose *allies* or *arms* or both: "Foreign policies have both external and internal consequences, as there can be both external and internal costs and benefits". And, because "arms and alliance policies have both domestic and international consequences, they cannot be considered separately" (Morrow 1993, 213).

In accordance with this argument, Michael Altfeld developed a microeconomic model investigating a nation's decision to ally. The model's essential assumptions correspond to those discussed earlier. It implies that

political leaders and decisions-makers in governments behave in a rational manner insofar as they seek to maximize the expected utility of particular deeds. Secondly, each nation's preference is collectively transitive, which means that foreign policy is made and directed solely by one decision-maker within the government. Thirdly, true Machiavellian opportunism, no potential alliance partner is excluded or irrelevant to a government *a priori*. And fourthly, decision-makers act according to a simple Cournot type rule, which implies that, except for their particular choice and its consequences, the remaining alternatives, since not chosen, will not alter the environment (Altfeld 1984, 523).

Adapting microeconomic theory to this problem will lead to the following findings. Assuming that a nation's foreign policy decision-makers have collective preferences, then a utility function $U = U(X,\ldots,X)$ could be established, where $X,\ldots,X$ are various entities determining the government's internal (domestic) consideration for foreign policies. This could be national security (S), wealth of the country not devoted to security (W), and the nation's freedom of action and choice, sovereignty, or autonomy (A). Hence, $U = (S,W,A)$. Ceteris paribus, $\partial U/\partial S$ is the marginal utility of security, representing the change in U for adapting S. Accordingly, $\partial U/\partial W$ represents the marginal utility of wealth and the change U in the case W is amended. And, $\partial U/\partial A$ is called the marginal utility of a nation's autonomy and connotes the change in U after a change in A. Finally, it is assumed that $\partial U/\partial S, \partial U/\partial W, \partial U/\partial A > 0$.

Though the public good character of the security was subject to earlier discussion, it shall further be assumed that governments produce this good from the factors R (which stands for procurement of armaments) and L (which means military alliances). The production function for security could

thus be established as $S = S(R, L)$. Then, $\partial S / \partial R$ is, ceteris paribus, the marginal product of armaments and illustrates the change of security following an alternation of the level of armaments procurement for a nation. To keep the model simple, it is further assumed that $\partial S / \partial R > 0$. However, other commentators argue that an increase in a country's armaments may have a contrary effect, as neighbors may perceive this as a provocation, and an arms race may break out. Yet, it is at least anticipated that an exaggerated procurement of arms by this means may have the effect of an increased security, but of a declining rate as higher levels of armaments are reached (hence, $\partial^2 S / \partial R^2$ could be negative).

This does not apply to alliance formation as a means to increase national security. It could be assumed that $\partial S / \partial L \geq 0$. Allying with other nations may increase a country's security, or not. Depending on the type of an alliance, an association with an alliance may constitute a risk by placing the country in a more vulnerable position. The rate of technical substitution of armaments production and alliance support, RTS, could then be defined as $RTS_{Arms, Alliance} = \frac{\partial S / \partial R}{\partial S / \partial L}$. It describes the rate at which the government would be willing to substitute alliances for armaments per unit of alliance in order to keep a certain level of security. Contrarily, $RTS_{Alliance, Arms} = \frac{\partial S / \partial L}{\partial S / \partial R}$ illustrates the government's intention to substitute armaments for alliance per unit of armaments to maintain security.

What makes a government to choose either of the alternatives, armaments procurement or a policy to ally is the price or the cost it has the bear for the respective decision. In other words, costs "is that which the decision-taker sacrifices or gives up when he makes a choice. It consists in his own evaluation of the … utility that he anticipates having to forego as a result of

selection among alternative courses of action". This means that the government has to restrict itself otherwise in exchange for security. These are the opportunity costs of the respective decision (Buchanan 1969, 42-6). Increasing security implies to abandoning other goods, either something of the society's wealth (W) or its political autonomy (A). The latter issue, i.e. the nation's restriction in its freedom of choice within an alliance, could constitute the actual costs of security through alliance policy $S(L)$, whereas the costs of armaments $S(R)$ could usually be assessed more directly. Altfeld further establishes two functions or budget restrictions, $W = g_1(R)$ and $A = g_2(L)$, which relate wealth to armaments and autonomy to alliance policies, assuming that $g_1, g_2 < 0$. Hence, civilian wealth declines as the amount of armaments increases, whereas the government's decisional autonomy shrinks as the integration in an alliance grows.

Given these assumptions it follows from $U = U(S, W, A)$ that $U = U(S(R, L), W, A)$. Recalling the trade-off relations between alliance and autonomy and arms and wealth, a government might maximize U under the constraints g_1 and g_2. This set of assumptions becomes an issue to optimize according to the *Lagrange* approach (see, for example, Varian 1994, 502-4)[10]. Accordingly, equilibrium will be reached when either of the two conditions is met:

(1) $$\frac{\frac{\partial U}{\partial S} \cdot \frac{\partial S}{\partial L}}{\partial U / \partial A} = -\frac{dA}{dL}$$

and (2) $$\frac{\frac{\partial U}{\partial S} \cdot \frac{\partial S}{\partial L}}{\partial U / \partial W} = -\frac{dW}{dR}.$$

[10] For the analytic solution of the problem see the respective section in the Appendix.

In words, the equilibrium in the government's choice between arms and allies is reached when the rate of the marginal utility of alliance to the marginal utility of autonomy corresponds to the absolute value of the derivative of autonomy with respect to alliance; and when the rate of the marginal utility of armaments to the marginal utility of wealth is equal to the absolute value of the derivative of welfare with respect to armaments. If the rates of transformation both between alliance/autonomy and between armaments/wealth are linear, then the result shrinks to

$$\frac{\partial U}{\partial S} \cdot \frac{\partial S}{\partial L} = \frac{\partial U}{\partial A} \text{ and } \frac{\partial U}{\partial S} \cdot \frac{\partial S}{\partial R} = \frac{\partial U}{\partial W}\text{; or } \frac{\partial U}{\partial L} = \frac{\partial U}{\partial A} \text{ and } \frac{\partial U}{\partial R} = \frac{\partial U}{\partial W}.$$

Altfeld draws the conclusions that it will be rational for a state to join or create an alliance in any of the following scenarios: First, if the marginal productivity of an alliance, thus its efficiency increases, a nation could be expected to accumulate more alliance support in exchange for some national autonomy, but simultaneously gaining more wealth due to a reduced demand for armaments. Second, this move from armaments to alliances is likely to occur at a rate equal to the $RTS_{Alliance,Arms}$. Third, preference to alliance polices over armaments procurements will be witnessed if the government's utility for wealth increases or if the marginal productivity of armaments declines. Fourth, this applies equally if the marginal utility for autonomy declines. Fifth, if the government's utility for security is supposed to increase the government could acquire alliance support as well as more armaments at the expense of both civilian wealth and political autonomy.

Contrarily, the dissolution of alliances is likely to occur when "an increase in the marginal product of armaments; an increase in the marginal utility of political autonomy; a decline in the marginal utility of civilian wealth; a decline in the marginal productivity of alliances; or a decrease in

the marginal utility of security. In the first four instances the increased purchase of armaments will be accompanied by an increase in the amount of autonomy possessed by the government and a decrease in civilian wealth … In the fifth case both armaments and alliances would be reduced while wealth and autonomy were increased" (Altfeld 1984, 528).

What is peculiar to Altfeld's considerations is the focus on the government's utility – and only on it. To put it in the words of Hans Morgenthau: "An alliance, in its day-to-day operations, rests in good measure upon the mutual confidence in the willingness and ability of its members to cooperate effectively in achieving the common purpose. That confidence, in turn, rests upon the quality of the over-all policies pursued by the members of the alliance and upon the character and ability of its leading statesmen" (Morgenthau 1959, 199). National governments pursue the particular alternative that "at the margin provides a fixed increment of security more cheaply than the other. Otherwise, a nation would be more secure at the same cost by pursuing the other alternative. In equilibrium, nations should balance the [domestic political] cost of each means to security against its efficacy in producing security and set these ratios (efficacy versus cost of allies and arms) equal". Morrow, hence, suggests the following relationship: (cost of alliances)/(efficacy of alliances in providing additional security) = (cost of arms)/(efficacy of arms in providing additional security) (Morrow 1993, 214). Apart from these qualitative assertions it is predictable and evident that the costs and benefits of military assets may imply political costs.

In a similar vein, Benjamin Fordham recognizes that foreign policy is much more domestically driven than might be commonly assumed (Fordham 1998a & 1998b). He suggests another model, examining the United States'

history of the use of force, originating from a motivated bias in the threat perception of the country. Among the indicators for such incidents are unemployment rates, investor confidence as well as election terms resulting in a complementary set of consequence, i.e. making military force both more useful and less costly to deploy.

In the well examined political history of the United States there is a number of incidents where national leaders *consciously* argued against a particular threat in order to gain domestic support for respective purposes, while pursuing allegedly foreign policy (see Truowitz 1998; Auerswald 1999)[11]. In other words *public opinion* is neither controlled, nor controlling, nor irrelevant to the political decision-makers. Instead the *public* and the *political leadership* attempt to interact over the medium of public opinion. Hence, publicly determined foreign policy is rather a means than an end. Gordon Tullock thus states that to a political leader it "will be more important to him to appear right than to be right" (Tullock 1965, 52; Russett/Graham 1996, 244-6).

There could also be observed an *unconscious* perception or ignorance of actual threats. Robert Jervis noted that expected rewards as well as conceivable punishments for a political leader for perceiving a particular stimulus might influence whether a threat to a nation's security will be realized at all (Jervis 1976, 358). So occasionally, political and economic circumstances make the application or threat of force an attractive policy option. James Meernik found in a study that the executive's decisions "are more often motivated by national interest than political gain" (Meernik 1994, 136). Another empirical study found that, immediately before a regular election

[11] For examples concerning the Clinton administration see Halberstam (2001); for the Johnson administration see Berman (1993); for the Truman administration see Kofsky (1993). Everts (2002) elaborates the direct link between public opinion and war. For the practical application of this approach in actual warfare see various JCS doctrines (i.e. 1996; 1997; 1998; 2002).

approaches, there is an apparent increase in national decisions to go to war (Gaubatz 1991). Hence, the use and application of force in foreign policy depends on whether these means appear practical under given domestic political and economic conditions. Moreover, there is a multitude of facets and factors among the domestic economic and political situation as well as international conditions, which, at the same time may increase the attractiveness of the use of force. This could put a significant burden on the respective domestic political system in order to deter the application of particular means (see also TABLE 4 and *FIGURE 7* in Appendix).

Either of the scenarios depends on the point of departure (Hibbs 1977). This could also be represented as $F_t = f(E_t, P_t, I_t)$. Accordingly, F_t is the attractiveness of force as a policy instrument in the year t; E_t are economic conditions, including investor confidence and level of unemployment in the year t; P_t are domestic political conditions, namely the position on the respective electoral cycle, in the year t; I_t are the international conditions, namely the presence or absence of an ongoing war in the closer periphery, in the year *t* (Fordham 1998b). The index *t* attached to every variable also implies that history does not necessarily matter for actual political considerations. However, Fordham, among others (see James/Oneal 1991), shows empirically that the threat and application of force through a nation's executive branch as a means of its foreign policy, but originating from domestic factors, may serve only as relatively ambivalent evidence. The "economic and political conditions that make military force both less costly and more useful are most likely to be associated with the frequent use of the instrument over time". Accordingly, the "influence of domestic political and economic circumstances on the threat perception underlines the reality that 'national interests' are not given by the international system. Instead, they are chosen by

individuals [the policy-makers] who must live with the political consequences of both the threats they identify and the means they select for handling them" (Fordham 1998b, 584-5). In many respects, these findings seem to strongly correspond to the political struggle in the Atlantic area preceding the military campaign against a number of alienated regimes, including the operations against Yugoslavia, Afghanistan, and Iraq.

There are a number of studies dealing with the costs and benefits of political and economic actions in the international system, as elaborated upon above (see Barnett 1990; Barnett/Levy 1991; Halberstam 2001; Lamborn 1991). In particular, attempts to identify proper indicators and benchmarks appear to harbor some difficulties. Concerns were raised especially regarding the predictability and value of such surveys. Yet, these studies usually examine ex-post examples, having sufficient data at their disposal[12]. More rewarding, however, for immanent political problems and advice of the individuals in responsible positions would be the estimation of the real costs and anticipated political burdens of future conflicts.

Nonetheless, it is inevitable that such predictions will suffer from an ever deficient foundation of reliable data. As of May 2003, for example, the macroeconomic impact of the military campaign of the United States in Iraq was assumed to vary in the next decade between a gain of 17 billion US$ in the best case to a loss of 400 billion US$ in the worst case (Nordhaus 2002). This estimation does not include the burden to the ordinary defense budget, but represents the domestic effects on the economy, which any government will have to take in consideration. However, it would be a fallacy to assume that the determination of defense and security issues is solely subject to

[12] For a rather quantitative approach see Organsiki/Kugler (1977). Kennedy (1988) provides a comprehensive qualitative and all-out study in political history.

political consideration (Musgrave/Musgrave/Kullmer 1975, 54). Instead, this brings us to the next point to be discussed.

Armaments and Defense Industry

Hans Morgenthau ascertains that "whether or not a nation shall pursue a policy of alliances is … not a matter of principle but of expediency" (Morgenthau 1959, 185). This applies even more if the discussion turns to armaments cooperation and the effects to national defense industries.

Armaments cooperation among nations is a complicated issue. As George W. Bush holds it is essential to "be prepared to meet the challenges of our time", and hence it is "a matter of capability and a matter of will" (Bush 2003b). It is the subject that is most likely associated with considerations regarding the political economy. This may be due to the fact that there are a number of evident facts and figures, which, solely relying on economic models, allow determining particular decisions by the members of an alliance. On the other side, the political consequences and frictions, working behind the scene, are often not considered. Moreover, military expenditures, as approved through governments' budgets, often do not reflect indirect and intangible cost and benefits (Brzoska 1995, 50; see also Kapstein, Chap. 5 & 7). The importance, however, devoted to states' defense expenditures and national defense industries in academics and public seem often to be overestimated. The value added through defense industries to a nation's gross domestic product is always comparably low since there are usually only one or a few purchasers of defense products and hardly any market[13]. Admittedly, the defense industry of a country can significantly contribute to a nation's welfare, as it must necessarily be a highly innovative sector in order to keep

[13] For an overview of empirical surveys evaluating the potential stimulating effects of defense expenditures on the national economic growth see Ram (1995).

pace with other nations' industries. Thus, much admiration must still be devoted to Heraklit's affirmation that '*war is the father of all things*', which remains valid to this day (Snell 1989, 18-9)[14]. Armaments cooperation among members of an alliance relies heavily on trust. Given the above assumptions, the following paragraphs will tend to assume a rather limited confidence – and hence restricted forms of cooperation – among the allies.

This scenario attempts to resample the patterns within the Atlantic Alliance. Cooperation among NATO allies in the field of armaments is the responsibility of the Conference of National Directors (CNAD), "which meets on a regular basis to consider political, economic and technical aspects of the development and procurement of equipment for NATO forces" (NATO 2001, 181). However, as the title of the body indicates, armaments cooperation among the Alliance members is organized nationally. The *Conference* along with a number of working groups and committees does solely facilitate the national efforts. Thus, over five decades, CNAD is still struggling to harmonize military requirements on an Alliance-wide basis; promoting essential battlefield interoperability; and pursuing cooperative opportunities. Whether or not nations comply with the recommendations made by the CNAD is beyond the influence and control of this body. Bearing this in mind, it is no wonder that Secretary General Lord Robertson urges the members of the *Conference* to increase their collective efforts and consider more and increased cooperation both in developing, and procuring defense products. Otherwise, as he stated, he will no longer be able to sell this eccentric behavior to public in general and, as announced right before the Prague Summit, to heads of states and governments in particular (knowing that Robertson was formerly a representative of the Scottish whisky boilermakers'

[14] Heraklit: *Πόλεμος πάντων μέν πατηζ έδτι.*

association) (NATO 2002c). Nonetheless, it has to be admitted that cooperation and consolation in the field of armaments among NATO members yield a significant number of positive results. Thus, by "formulating, agreeing, implementing and maintaining standards for equipment and procedures used throughout NATO, a significant contribution is made to the cohesion of the Alliance and to the effectiveness of its defense structure" (NATO 2001, 183).

Defense markets are characterized by several peculiarities. Depending on the respective national economic conditions – whether or not the domestic defense industry is in private or state ownership – states are likely to act both as purchaser and as supplier of defense goods. This leads to several problems and phenomena, as observed in monopolized markets with a monopsonist as purchaser, the nature of which are difficult to determine exactly (Dumne 1995, 406). In 2001, 17 and 25 percent of total military expenditures from European NATO members and the United States respectively were devoted to weapons procurement (SIPRI 2002, Chap. 6; see also TABLE 5 in the Appendix). This does not include the multiplying effects connected to development and maintenance of the respective systems (Sandler/Hartley 1995, 113). Actual problems affiliated with the processes of production and provision of armaments are, for example high costs of weapons, cost escalation, delays in delivery, deficiencies in performance, poor reliability, cancellation of costly projects, producers being accused of yielding excessive profits, of waste, fraud, and inefficiencies. Accordingly, both sides of the market suffer from high transaction costs which partly originates from the uncertainties connected with long development periods, the fast pace of innovation, and the limited reliability of estimated costs for development, benefits from learning effects, and rapidly changing production process of defense goods

in the future[15]. On one side, governments as the major or sole purchaser can determine the market conditions regarding the direction of technical progress and development, whether certain assets are to be bought domestically or to be imported, the size of the actual production, entries and exists, the connected, occasionally prohibitive costs, as well as the ownership, and, hence, the structure of the sector, and even the profits of the producers (Dumne 1995, 408-9). Depending on the particular national industrial policy attitude, the armaments and defense industry might become a decisive tool for economic and fiscal policies. On the other hand, it is widely known that states, in comparison with conditions under free competition, use to have only a limited competence as entrepreneurs. Moreover, the persisting tendency towards fewer, larger firms in the sector tends to limit the pressure from free market condition as assumed in a market with perfect competition, simultaneously reducing the abilities for innovation. A counter argument might be that these firms have far greater financial means at their disposal for innovative purposes. Simultaneously the benefits from decreasing costs through economics of scale and scope, despite of larger quantities to sell, some commentators identify crowding-out effects through state initiated R&D activities in domestic industries[16].

The demand side of defense markets, in contrast, has to cope with rivaling claims from the particular services, Army, Navy, and Air Force, while being urged to choose the most cost-effective asset. The necessity to maintain a certain size of domestic defense industry, hence, to answer the question whether to *make* or to *buy* a particular system, is often answered only in regard to the nation's domestic economic requirements. The opening of a

[15] For a more detailed discussion of the transaction cost approach see Williamson (1996).
[16] For the discussion of defense expenditures on both military and civilian R&D activities see Lichtenberg (1995). See also Morales-Ramos (2002).

national defense market may endanger the domestic industrial capabilities for the provision of defense goods through unexpected competition. Accordingly, the question to be raised is “whether the aims of defense procurement policy are to protect the nation’s citizens or its domestic defense industries”. The trade-off relationship between the supply of more cost-effective goods and the perceived threat of a nation’s sovereignty and independence in providing itself with a decent amount of arms seems often to favor the former choice. Referring to the *Realists’* assumptions, this corresponds even to the inevitable necessity of a nation state to ensure its survival in an anarchic system of international politics (Hartley 1995; Sandler/Hartley 1995 & 1999; see also Weidacher/SIPRI Arms Industry Network 2002).

To balance off the worst inefficiencies, the state as purchaser may choose among a number of different types of contracts. In particular, there are firm price contracts, fixed-price contracts, cost-plus contracts, or other intermediate cost-incentive sharing arrangements. While the first type fixes a particular price for a particular quantity of defense goods without the possibility for variation of either of the variables, the fixed-price contracts are less strict. The latter allows for variations of prices based on an agreed index reflecting inflation in the particular inputs. With a cost-plus arrangement the producer of a defense product will be reimbursed for the costs plus an agreed profit rate, either based on the costs or with an agreed fee. The actual problems to be considered are, firstly, the distribution of risks of the particular project between the state as purchaser and the producer. Secondly, the effects of particular contracts on firm behavior and efficiency and for efficiently meeting the buyer’s requirements which needs some further elaboration but shall not be further discussed here (see Scherer 1964 & 1994; Hitch/McKean 1975; Sandler/Hartley 1995).

Regulation of the defense market by governments may have the objective of limiting the potential inefficiency gap arising from the previously explained characteristics of national defense markets. However, “an obsession with zero fraud and zero waste in procurement is likely to ignore the fact that the marginal costs of reaching zero targets can be prohibitive”. The desire of governments to manage the defense market in great detail may easily raise the costs of regulation, which will have an adverse effect on the willingness of firms to do business with the government at all (Austin/Larkey 1992; Sandler/Hartley 1995, 142). Public pressure, on political leaders, exercised through various governmental and non-governmental bodies, to expand regulatory arrangements might provoke even worse conditions and graver inefficiencies. Depending on whether or not the defense industry is considered to be a device for national economic policy adjustments, the described shortcomings are bound to influence other respectively negative economic determinants.

Making a brief reference to the relationship between the domestic and foreign policies of a country, the macroeconomic concept of the *Philips curve* seems to be applicable. Both low inflation and a low unemployment rate are objectives of any national economic policy. Yet, both determinants conflict in the necessary means to achieve a decent economic development. If monetary policy is utilized to increase the demand in the short run, it induces inflation in the next period. Contrarily, if economic policy causes a reduction in demand, inflation will be limited at the costs of an increased unemployment rate (Mankiw 2000, 401-4; see also Haynes/Stone 1988). This negative relationship is applicable and had been utilized, for example, in the United States domestic economic policy during the 1960s to 1980s to cure either of the determinants.

The dependencies between domestic and economic policies and the political business cycle could simultaneously provide an alternative explanation for a country's foreign policy deeds. As indicated at *FIGURE 7* there seems to be an inherent motivation of the United States' government to engage in foreign policy, including even conflicts overseas, when the determinants were not in a certain range. In particular, when inflation and unemployment rate were either rather low (probably too low to induce domestic economic growth), or rather high, the United States' government seems to feel less restricted to intervene in international conflicts. It did not do so when inflation and unemployment rate were at appropriate levels and the national security was not at stake. To illustrate this it is worthwhile to take a closer look at certain events in the United States political history. The endogene or domestically initiated engagement in the Korean War (1950–53), the Suez crisis (1956), the Vietnam War (1960-1973, fighting accelerated last in 1968 with the Tet offensive), and the reinforced arms race with the inauguration of the SDI program (1983) could be seen as an attempt of the government to focus domestic attention on other issues than economic development. On the other side, the exogene initiated engagement or abstention from several conflicts, for example during both Oil Crises (1973/74 and 1979/81), the Jom Kippur War (1973/74), the Gulf Wars (1990 and 2003), the Kosovo campaign, the war in Bosnia (1992-1994), and the counter terrorism activities in Afghanistan and elsewhere following the events of *September 11th* (2002-3), might be seen as actions of self-defense and defense of immediate national interests[17]. At least concerning the Gulf War in 2003 the notion of military Keynesianism might prevail, while some commentators argue that defense expenditure in the United States moves pro-cyclical and thus might

[17] For political and historic details see Kissinger (1994); LaFeber (1994); Halberstam (2001); Issacs/Downing (2001); Müller (1996).

jeopardize the domestic political and economic situation (Steltzner 2003; Gerace 2002; Tigges 2003).

In that regard and referring to the problem of domestic issues and foreign policy, as discussed earlier, domestic economic conditions may cause political leadership to emphasize one or another direction.

National Interest and Sovereignty

What appears to be a vigorous motive for international and alliance policy was hereto suggested as being particular national interests along with domestic considerations. It is a sovereign decision of a nation to join an alliance advocating the country's welfare and security. Doing so, nations, whether being exploited or eventually exploiting others, improve their position in an assumable anarchic international environment. On the contrary, alliance members, while pursuing integration with other states, abandon some of their independent sovereign rights. It is necessary to elaborate the various degrees of integration and the loss of sovereignty connected with this process. This ought to provide another explanation for states' intentions to seek security and stability for their own sake and, though to a limited extent, for the sake of others.

Hans Morgenthau ascertains that "universal moral principles cannot be applied to the actions of states in their abstract universal formulation, but they must be filtered through the concrete circumstances of time and place. The individual may say for himself: '*Fiat justitia, pereat mundus* (Let justice be done, even if the world perish)', but the state has no right to say so in the name of those who are in its care. Both individual and state must judge political action by universal moral principles, such as that if liberty. Yet while the individual has a moral right to sacrifice himself in defense of such a moral

principle, the state has no right to let its moral disapprobation of the infringement of liberty get in the way of successful political action, itself inspired by the moral principle of national survival. There can be no political morality without prudence; that is, without consideration of the political consequences of seemingly moral action" (Morgenthau/Thompson 2001, 12). This opportunistic view echoes Max Weber's observation that "interests (material and ideal), not ideas, directly dominate the action of men. Yet the 'image of the world' created by these ideas have very often served as switches determining the tracks on which the dynamism of interests kept actions moving" (Weber 1920, 252; see also Weber 1926, 347-8). Thus, international politics pursued by national political leaders has to be understood and evaluated in the light of an enduring bargaining process in order "to balance international and domestic concerns in a process of 'double-edged' diplomacy". Andrew Moravcsik argues that "diplomacy is a process of strategic interaction in which actors simultaneously try to take account of and, if possible, influence the expected reactions of other actors, both at home and abroad. The outcome of international negotiations may depend on the strategy a statesman chooses to influence his own and his counterpart's domestic politics. By exploiting control over information, resources, and agenda-setting with the respect to his own domestic polity, the statesman can open up new possibilities for international accord or bargaining advantage" (Moravcsik 1993, 15).

Supposing states and their leaders apply such a pragmatic course of action, it could be credibly assumed that any attempts of states to reconcile their interests and harmonize their posture against particular challenges or even integrate their performances are results of inevitable political necessities, but less of good will and conscience or altruism. So, for example, the reasons for the progress in European integration have been disputed over the

last century[18]. Security and national survival have ever been a theme of this discussion. Eventually the question is whether a voluntary rapprochement of states will result in greater security through permanent consultation, or whether an insecure environment urges states to cooperate and, hence, force them to form a coalition. For Europe the issue was raised whether institutions affect states to integrate – or whether international organizations are formed through states' bargaining and integration is solely a result of the nations' willingness to confer certain functions and authorities to common institutions (Haas 1958; Sandholtz/Zysman 1989; Moravcsik 1993).

The latter assumptions do comply with those of *Realist* school of thought. This rather pessimistic view applies to the lessons, which Bismarck taught that *states do not have friends – states have only interests* (Bismarck 1922; 284, 296). States' interests are primarily focused on their survival. John Mearsheimer suggests that states first and foremost "seek to maintain their territorial integrity and the autonomy of their domestic political order" (Mearsheimer 2001, 31). To achieve the state's objectives, however, the *raison d'être*, as advocated through Machiavelli, would allow for all legal as well as illegal means to meet these interests (Machiavelli 1990, 49). However, before resorting to means beyond the scope of moral restraints, states have a variety of instruments at their disposal to establish a firm basis for their well-being and security. States may rely on self-defense. They can also decide to form a coalition. By doing so it could be asked whether it is amoral to seek to exploit other coalition members.

The autonomous national decision on how to meet the national security interests, however, is in reality not too independently. Indeed, James Morrow

[18] For early examples see Naumann (1915); Coudenhove-Kalergi (1926).

suggests that their two types of alliances ought to be distinguished. His approach differs from the assumption that alliances only provide security and defense to their members, though in a varying degree and, as discussed earlier, at a suboptimal level to each participating state. Morrow challenges the dominant view, originating from the writings of Hans Morgenthau and Kenneth Waltz that states perceive the alliance option solely as a tool to aggregate their capabilities with those of other nations in order to increase the common security by massing their resources against a common threat or opponent (Morgenthau/Thompson 2001; Waltz 1979). This had also been the point of departure for Olsen and Zeckhauser's approach. This conception, however, seems to draw an incomplete picture. In fact, as Robert Jervis laid out and had presented earlier in an iterated *Prisoners' Dilemma* game, states, particularly great powers, seem to choose alliances to better their standing in the international *status quo*. Morrow delicately argues that this symmetric explanation of alliances focuses on the provision of security and defense to the member countries.

Complementarily, Morrow argues that, in an asymmetric perception, alliances can provide security to smaller members, while simultaneously increase a greater ally's autonomy and freedom of choice in the international environment. There is a trade-off relationship between *autonomy* and *security*. The prohibitive penalties and costs of leaving or not complying with alliance policies urge states first to form an alliance and later to remain a member, which increases the relative and absolute gains in security, but consequently limit nations' autonomy to make independently sovereign decisions (Snyder 1984). To define security, Morrow suggests that "a nations security is its ability to maintain the current resolution of the issues that it wants to preserve. Some issues are easier to preserve than others; consequently, a nation's security will change as its government's security concerns

change”. On the contrary, a nation’s autonomy ought to be perceived as “its ability to purse [successfully] the internal and international politics that it wants”. Following then Ricardo’s theory of complementary advantages, a nation “will judge the attractiveness of an alliance by comparing the benefits of the ally’s ability to advance its interests to the costs of advancing the ally’s interests. When the former exceeds the latter for both nations, they will want to form an alliance” (Morrow 1987, 426; Morrow 1991, 905). Each nation might then further focus on its particular abilities, while the overall situation improves in terms of the security provided by the alliance (Boyer 1993, Chap. 4).

An alliance can advance either autonomy or security for a particular state. Each member of the alliance evaluates autonomy and security individually, and at a given instant in time and given its capabilities, may if needed, alter the position or maintain the *status qou*. Over time a nation’s autonomy and security rises and falls with its abilities and the received support from its allies. Supposed autonomous goals, which had been realized, turn into security concerns to maintain, and vice versa. The decision of a country to ally originates from the effects which this decision has on the nation’s security and autonomy. Being both in the national interest and, hence, increasing the country’s welfare, a moderate increase in both is preferable to high levels of either of them. Given a convex preference curve over concerned issues, Morrow supposes that a state’s conduct reflects these convex preferences between autonomy and security as well. Though an exact trade-off between both of them will hardly be determined, it could be assumed that a state is faced with those considerations. If a nation is eager to alter the status qou in an alliance, hence to execute its sovereign rights for autonomous decisions, it jeopardizes its own security and the footing of the alliance. By restricting itself in its eagerness to reach a particular sovereign goal, the alliance will

rather keep its function to provide security. The provided security must be perceived and evaluated higher than the losses anticipated for the autonomy which are deemed to be sacrificed. However, to assume that a nation enjoys full security in an alliance, if it renounces all of its sovereignty, might prove wrong. Complementarily, full freedom of choice might not rip a nation completely off its security despite the fact that it can maneuver freely in the international system. The decision for and degree of integration of a nation into international agreements and alliances depends upon the following determinants: "Purchasing arms raises a nation's security at the cost of some wealth; forming an alliance can raise a nation's security at the cost of some autonomy. Different nations will acquire different combinations of arms and alliances based on their utility for each of these three 'goods'" (Morrow 1991, 911).

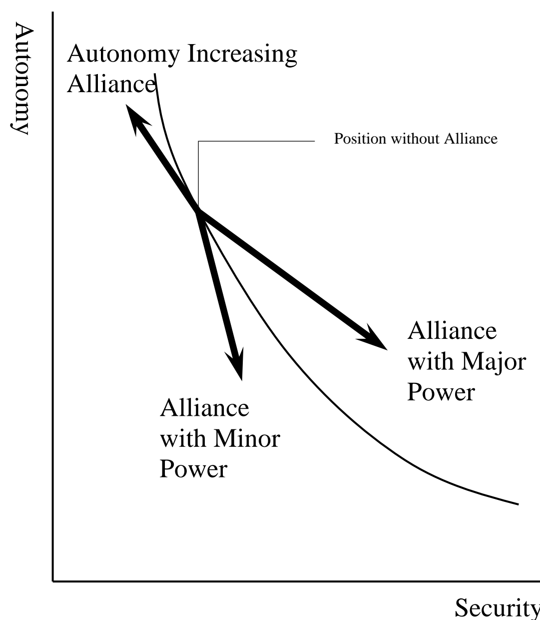


FIGURE 8: **The Security and Autonomy Consequences of Alliances for Minor Powers**

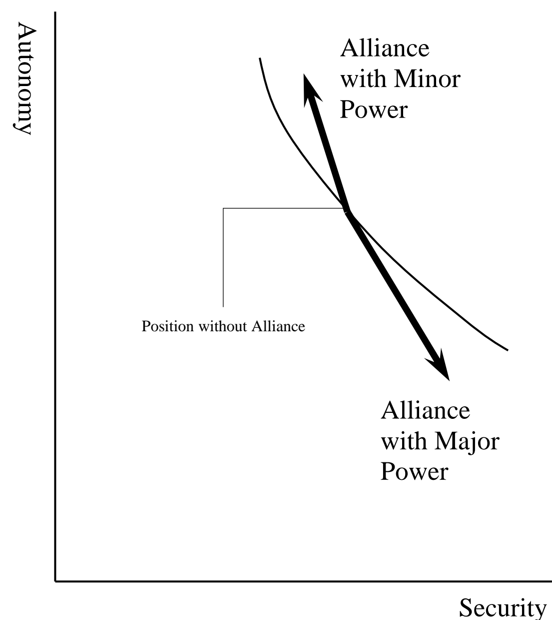


FIGURE 9: **The Security and Autonomy Consequences of Alliances for Major Powers**

Given an anarchic international system where small countries have a low level of security and a high degree of autonomy, naturally they tend to form

an alliance for increasing their security at the cost of some autonomy. Major powers in this system, despite their capabilities, have both autonomy and security. They have no overriding desire to further increase either of them. Some may be eager to enhance their security while other major powers might be satisfied. The motivation for both types of states, Morrow argues, could be that a "major power can offer a potential ally a large increase in its security, but it demands a high price in autonomy to form an alliance. Minor powers cannot offer much security to a prospective ally but may be able to offer concessions that increase its ally's autonomy" (Morrow 1991, 913; see also McGinnis 1990).

FIGURE 8 indicates the attractiveness of various types of alliances to minor powers. An alliance with a major power provides a significant increase in security at large costs of autonomy. Respectively, allying with other minor powers does provide an increase in security, yet, for disproportional loses in autonomy. An alliance that increases the autonomy rather reduces security. Supposedly the minor state seeks to enter in any alliance that increases its security mix above the indifference curve it requires to ally with a major power. Moreover, the attractiveness of an alliance that increases security is more likely to be preferred by a minor power over a higher degree of autonomy in a coalition of minor powers.

FIGURE 9, in contrast, illustrates the options of a major power. Similarly, an alliance with another major power is bound to increase the security at the cost of autonomy. A major power could also form an alliance with minor powers, which will decrease its own security but advance the autonomy of the major one. The concessions made by minor powers, however, could subsequently be utilized by the major ally to further its own objectives regarding security, while the alliance might also benefit from the larger state's maneuvering in the political system.

Since both sides may make offers and bargain over a number of issues, Morrow argues that the former type of asymmetric alliances (*asymmetric* – since minor and major powers gain divergent benefits, security *and* autonomy) seem to be easier to establish and tend to be more durable. Symmetric alliances (symmetric – since alliance members receive similar benefits, *either* security *or* autonomy), in contrast, will be rare “because they require great harmony of interests” (McGinnis/Williams 1989; Morrow 1991, 915). At the same time this argument corresponds to Jervis’ game theoretical approach as discussed earlier.

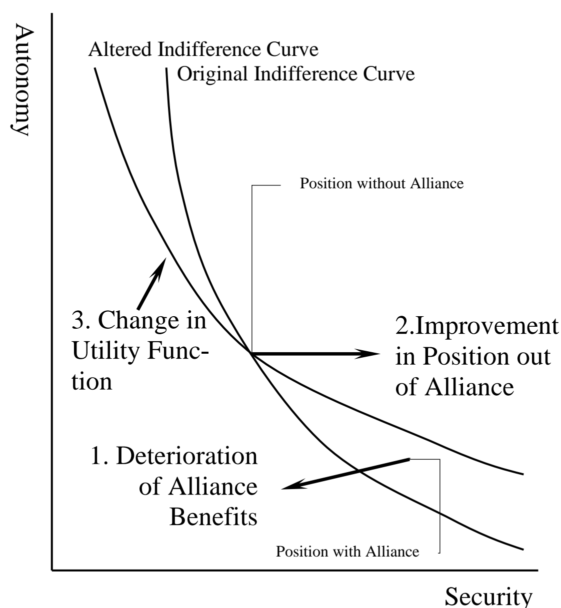


FIGURE 10: **Three Changes That Could Break an Alliance**

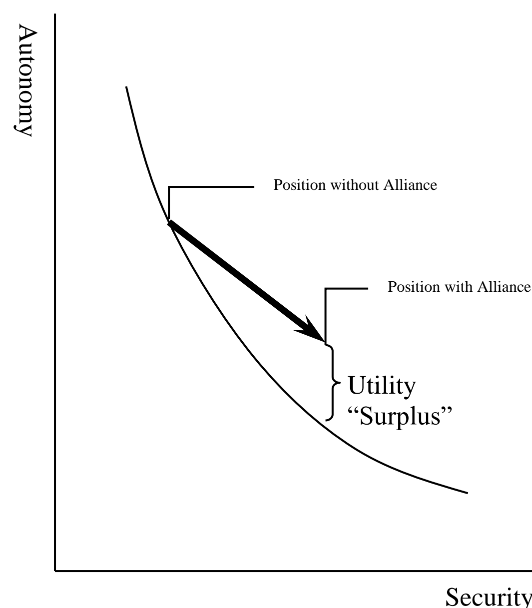


FIGURE 11: **Utility “Surplus”**

Likewise, minor powers may be unable to participate in an alliance due to the fact that they are unable to offer sufficient autonomy benefits to the major power, which would be perceived as an incentive for the latter to be drawn into the alliance. Asymmetric alliances may also increase the minor powers’ security because the higher autonomy of the major power within the alliance may satisfy the latter’s ambitions and hence reduce the risk and incentives to threaten its allies or their neighbors. David Mares identifies the major power

in this last scenario as being hegemonic since its moves directly and indirectly urges other alliance members to adapt their conduct to that of the minor power, regardless of the benefits the other members offer (Mares 1988, 454). Finally, there could be identified a number of smaller states, which value their national autonomy higher then any security benefits (for example Hoxha's Albania, Hussein's Iraq, Kims' North Korea, or Switzerland). This makes respectively high investments in national security provisions inevitable (Morrow 1991, 916; see also *FIGURE 12*).

FIGURE 10 illustrates an altered indifference curve indicating the preference of a state as well as the trade-off relationship between security and autonomy. In particular, the growth of an ally's capabilities raises its capacity to provide its security through its own means. The perception of benefits gained from membership in the alliance decreases so that autonomy is evaluated relatively higher than security received from the alliance. Secondly, a major power may request – and be denied – greater autonomy from the allies as the overall security situation of the alliance improves. Thirdly, shifts in either ally's utility function in the course of an altered domestic attitude towards foreign policy commitments could make existing alliance policies no longer attractive.

Incentives to defect from an alliance for both major and minor states arise from improvements in the concerned state's situation as well as its domestic evaluation and perception of this progress. In the same manner that a decision to ally may improve the minor power's position in an anarchic international system, an alliance may also restrict its further development. Thus, Bruce Berkowitz postulates that "diplomatic history has shown that as circumstances change, states may alter their commitments to international organizations by either adopting policies that are more in line with those of the group, or by adopting policies that conflict with those of most of the

others members" (Berkowitz 1983, 77). The same author provides an approach and empirical evidence indicating that an altered commitment in international organizations in general or in alliances in particular ensues from an amended evaluation of the costs and benefits following an alliance policy.

The factors which urge both minor and major states to keeps their alliance commitments over time, especially in asymmetric alliances, emerge from increased capabilities of all allies. Though it could be assumed, as explained before, that an improved position in the international environment affects the state's perception regarding the utility and benefits of the alliance. Instead a change in the weaker power's capabilities does not necessarily alter the nature of the trade with the major power. The utility surplus, as illustrated in *FIGURE 11*, originates from the fact that after all the minor power may contribute externally to the alliance's security and thus benefit to both minor and major allies (Morrow 1991, 917-8).

As an alternative to the graphic depiction, the considerations of a state to keep its alliance commitment or to quit could also be illustrated as follows: States evaluate their membership in an alliance by comparing the actual situation to conceivable alternatives. Given that a continued membership would be too restrictive to a nation's autonomy to make sovereign decision, it might be better off leaving the alliance. The outcome could be described as O_s. The evaluation for obtaining this outcome then is U_{O_s}. Contrarily, another outcome, O_f, might ensue if a state leaves the alliance and later finds itself in a weaker situation this outcome is evaluated with U_{O_f}. The alternative would be to remain committed to the alliance obligation – and benefits. The outcome will be described as O_m, evaluated with U_{O_m}. In other words,

U_{O_s} and U_{O_f} are *Neumann-Morgenstern* utilities[19]. In the real world the likely outcomes when leaving the alliance reasonably occur under certain probabilities, while the outcome of persisting in all alliance commitments has a probability of 1. If a decision is considered to abandon the alliance, there is indeed a probability to be better off after all, but there is also a certain probability, or risk, to be by far worse off, respectively p_s with $p_f = (1 - p_s)$. The probabilities are influenced and determined by factors both within and beyond the control of the state. Accordingly, the formal parameter for a state's decision to defect from or to remain in an alliance is

(3) $$E(U_i) = p_s(U_{O_s}) + p_f(U_{O_f})$$

and (4) $$E(U_m) = U_{O_m},$$

where $E(U_i)$ is an ally's expected utility for independence and $E(U_m)$ is the expected utility for continued membership. Berkowitz argues that the "difference between the utility of continued membership, $E(U_m)$, and independence, $E(U_i)$, can then be considered to be the state's estimate of the advantage it accrues by being a member" of the alliance (Berkowitz 1983, 81).

In other words, a state decides to defect from alliance commitments if $E(U_i) > E(U_m)$. Hence, a crucial criterion for state's behavior in alliances is the uncertainty of events potentially faced and dealt with in an anarchical international system. This has to be compared with the security enjoyed while staying in the alliance, $(p = 1)$, of being able to retrieve the allies' support when needed. Probably contradicting the assumptions of the *Realist* school of thought, no sunk costs of a nation's continued commitment to alliance are considered. Thus, a sole estimation – as it is possible and feasible –

[19] For the discussion of the applicability of numerical rather than ordinal utilities see Neumann/Morgenstern (1944), p. 15-20; Luce/Raiffa (1985), p. 378-80.

of the expected utility of the pursed policies does not seem to be appropriate to reflect actual political decisions in international politics. However, it seems genuine to alliance commitments of states that sovereignty and national autonomy are voluntarily restricted in favor of the realization of other national interests, namely security, wealth and stability. Robert Jervis thus argues that the "vision of a zero-sum world is implausible". In evaluating alliance membership, each individual state has to consider mutual gains other than the prospects of the actual alliance objectives (Jervis 1999). Moreover, *Realist* and zero-sum assumptions are supposedly misappropriated while discussing alliance formation and maintenance from the perspective of expected utilities. Presumably, nation states' consent "to engage in cooperative ventures with others will be affected not only by whether and how much it believes it will gain in absolute terms, but also by its perception and assessment of which states will gain more in relative terms … It would be prepared to accept less benefits in absolute terms, if by so doing it could narrow the gap in benefits that favored its partners. On the other hand, such a state would be willing to increase cooperation and mutual benefits, as long as the resulting distribution of benefits did not widen the gap to its disadvantage" (Mastanduno 1991, 79). Accordingly, the *distribution* of the *joint gain* is a zero-sum solution. While one agent gains in power, the other must necessarily refrain from it. The gains emerging from *increased interdependencies*, in contrast, are most likely *more than zero-sum* distributions. Instead, the expected gains in security for all members of an alliance are likely to exceed the accumulated costs resulting from restrictions in national autonomy. However, Joseph Nye argues that both zero-sum and non-zero-sum aspects are present in mutual dependence, which includes far more than solely military capabilities (Nye 1997, 163-6; see also Keohane/Nye 1992).

Apparently, membership in alliance has an impact on states' freedom of choice and autonomy to take sovereign decisions. The $E(U_i) > E(U_m)$ scenario is likely to occur because when "a nation enters into the standard coalition it is much less of a free agent then it was while non-aligned. That is, its alliance partners now experience an inhibiting effect – or perhaps even a veto – upon its freedom to interact with non-alliance nations. This reduction in the number of possible dyadic relations produces, both for any individual nation and for the totality of those in the system, a corresponding diminution in the member of opportunities for interaction with other actors" (Deutsch/Singer 1964, 392-3). But, in an increasingly multipolar world, as it became apparent after the end of the Cold War, the utility of being a member of an alliance seems to prevail over the benefits *and* uncertainties imposed by the circumstances of a less predictable international system. Hence it could be assumed that $E(U_i) < E(U_m)$.

These findings suggest that a less pluralistic world brings more political stability with it: "With the Cold War over, it is said, the threat of war that has hung over Europe for more than four decades is lifting". John Mearsheimer, in summer 1990, anticipated and gave evidence that eventually rather the opposite scenario may probably unfold. In fact, states "seek to survive under anarchy by maximizing their power relative to other states, in order to maintain the means for self-defense. Relative power, not absolute levels of power matter most to states. Thus, states seek opportunities to weaken potential adversaries and improve their relative power position". A means to do so is to choose the option to ally with other states. Mearsheimer ascertains that this "competitive world is peaceful when it is obvious that the costs and risks of going to war are high, and the benefits of going to war are low" (Mearsheimer 1990, 11-5). An international system with less actors

reduces the risk and probability of states to become entangled in conflicts while an alliance, leveling the power gap, inevitably increases the costs of confrontation. Hence being or remaining a member in an alliance serves the state's objectives and increases $E(U_m)$.

Bruce Bueno de Mesquita identified the driving forces of the international system in general and the formation of alliances in particular: "The theme is the self-interested pursuit of gain by national leaders on their own behalf and on the behalf of their nation" (Bueno de Mesquita 1996, 143; see also Bueno de Mesquita 2002). The application of the theory of expected utilities might thus provide another rational basis to evaluate decisions made by political leaders of a nation exercising sovereign rights for their own good and for the good of the national interest. An ugly outcome may then be understood as the result of underestimating certain situations and miscalculation of the utility of specific steps, regardless of whether it includes immoral conduct of foreign policies, domestic considerations or military action.

Not necessarily the indefinite complexity of reality, but at least the motives and moves of states in an alliance, might become elucidative and predictable through the application of some of the tools presented here. One thus always has to ask what a state or policy-maker might gain through a commitment in the alliance or outside. This shall lead the discussion to the rather more practical problems of the Atlantic Alliance.

3. The Atlantic Alliance in Practice

John Mearsheimer states that great powers are “always searching for opportunities to gain power over their rivals, with [regional] hegemony as their final goal”. Arthur Pigou holds that the causes for international conflict lay beyond the powder magazines. Instead the fundamental causes are “the desire for domination and the desire to gain” (Pigou 1941, 19). This might be disputable. Yet, hegemony seems to be related “in complex ways to cooperation and to institutions”, and so does not patronize a state’s intentions for universal autocracy. It is rather the case that “cooperation may be fostered by hegemony, and hegemons require cooperation to make and enforce rules. Hegemony and cooperation are not alternatives … they are found in symbiotic relationship with one another” (Keohane 1992, 254, 265). Because “great powers care deeply about the balance of power, their thinking focuses on relative gains when they consider cooperation with other states. For sure, each state tries to maximize its absolute gains; still, it is more important for a state to make sure that it does not worse, and perhaps better, than the other state in any agreement” (Mearsheimer 2001, 138, 52). In so doing nations in alliance benefit from the security and regional stability it provides while taking into account to suffer loses in autonomy and, for the greater states, being exploited by smaller. On the contrary, states intending to keep a hegemonic position within a particular group of states are subject “to the imperative of efficiency in domination”, otherwise they “will soon find their sphere of control slipping away … This is true regardless of the goals of hegemony”; be it to cover their own sphere of influence or purely security considerations (Snyder 1996, 297). It has been discussed, applying a variety of economic and political concepts that especially smaller states in alliances tend to take a free-ride in order to exploit the greater countries. At the same time, the

latter, eager to maintain their relative position in the international system, allow for a limited abuse of their respective national efforts by the smaller allies in order to provide a firm ground for both their own and the allies' security efforts. Having said this it could be assumed that there seem to emerge rather stable patterns of states in alliances seeking protection under the umbrella of both the alliance as a whole and the national efforts of a dominant ally. While none of the respective efforts and national commitments represents a just or economically optimal provision of security and defense, the trade-off relationship between the nations of *being exploited*, *letting others exploit*, and *actual exploiting* needs further be elaborated as taking a closer look at the patterns within the Atlantic Alliance. It should be kept in mind that the cited numbers cannot illustrate the *worth* of particular efforts in national defense and security, whereas "the people look hypnotized at the monetary figures alone and are completely at sea when it comes to real assessment, i.e. the values of the weapons systems [military manpower or other assets] for the defense of the country" (Morgenstern 1959, 204).

Referring to TABLES 6 and 7 as well as *FIGURE 8*, states devote independently certain amounts of their budgets to defense purposes. Noticing the previously assumed notion of exploitation of the greater through smaller states it becomes obvious that emphasis is given to nationally provided security, yet discounting the benefits and burdens within the Alliance. On the contrary, if national defense expenditures are assumed to be an *Insurance Fee*, which the state invests to secure the well-being of each individual citizen, the numbers suggest that a rather small amount of the national budget seems to be reserved for security concerns. Focusing on absolute numbers, spillovers

within the Atlantic Alliance might be presumed[20]. Moreover, the *Per Capita Defense Expenditures* could be perceived as in indirect applied taxation of a country's citizens. It measures the ratio of national defense expenditures in regard to the per capita GDP. Accordingly, the individual has to forgo the benefits of those private financial means. The *Insurance Fee*, in contrast, illustrates the efforts, which the state invests per capita in security for its citizen. Compared to other consumptive activities, the actual amount, though significantly varying over the spectrum of the cited countries, does not seem to be too excessive. Finally, the *Active Military Personnel* illustrates the ratio of standing military forces (in peace time; without reserve and other para-military units) compared to the overall population of the concerned countries. The military manpower could equally be considered as opportunity costs of a society (see Duindam 1999; Buchanan 1969). The deliberated numbers provide a series of instructive explanations. For the purpose of this paper, it is also necessary to graphically illustrate the actual amount of free-riding and exploitation of the larger countries by the smaller in present and future NATO, but also in comparison to other regional groups of states.

Compared respectively to the average of NATO with 26 members, the columns in *FIGURE 8* illustrate several phenomena similar to the findings above. Focusing on the *Insurance Fee*, the amount of resources which states devote to the security of its citizens, it becomes apparent that the United States invests three times more than the rest of the Alliance does, whereas the burdens for its people, the figures of *Per Capita Defense Expenditure* as well as *Active Military Personnel*, is much closer to those of other Allies. On the contrary, other Allies, obviously considered economically potent, such

[20] This applies only partially, disregarding varying degrees of efficiencies of the particular military national forces. Accordingly, the international community could witness a revival of rather heavily armored weapon systems obeying the newly developed concept of *Network Centric Warfare* during the Gulf War 2003. See, for example, Reinhardt (2003); Busse (2003).

as Canada, Germany, Italy, and others, seem very much to veil their efforts and discount the benefits from Alliance membership.

This phenomenon becomes even more evident taking into consideration other regional groups of states. In particular, Australia and Japan seem to trust they will be assisted by others in critical situations (see Green 2000; Economist 2003b). It is noteworthy, however, that Japan does posses a certain deterrence capability as it has complete command of the nuclear cycle for civilian use. It thus might have the ability to build nuclear weapons in a considerably short period of time. In comparison, South Korea, being faced as equally as Japan with a threat originating from North Korea, follows a rather autonomous course regarding the provision of its security, regardless of the foreign troops stationed on its soil. The same applies to Israel, which burdens its society over the issue of the state's security. In comparison, Hussein's Iraq seemed to put relatively fewer burdens on both the state's resources (*Insurance Fee*) as well as on its citizens (*Per Capita Defense Expenditure* and *Active Military Personnel*).

Disregarding the applicability and probable inconsistencies of the indicators used, the delineated figures (see TABLES 6 and 7) for the inter-Alliance defense and security efforts suggest that practically all Alliance members seek to exploit the efforts of the United States. Curiously enough, the latter allows its Allies to do so. In the light of *September 11th*, the country even increased the share to defense and security expenditures. Obviously, the gains from a secure backyard seem by far to exceed the costs of this disproportional provision of the good security to the own nation as well as the citizenry of the Allies' countries. The assumptions and predictions provided by economic theory, as elaborated above, seem thus to be confirmed. Noteworthy, however, August Pradetto speaks of a mystification of *September*

11th and of a hysteriazation of the societies following this event, hence of departure from the assumptions of rational actors in international politics.

A rather practical example may be seen in the dilemma, the United States is caught concerning the Global Positioning System (GPS). Given its current set-up, a differentiation between friends and foes is not possible. Thus, growing civilian access to GPS leads to larger economic benefits, but it also increases the risk that some nations or terrorist groups will use GPS for attacks against U.S. assets (Lachow 1995, 126)[21]. The national interests eventually impel the policy and decision-makers to pursue a course, which is intended to increase the national net benefits. With regard to security polices, it can be assumed that the commitment to the Atlantic Alliance will be kept as long as the net benefits exceed the net costs; as long as the marginal benefits exceed the marginal costs of alliance commitments and the marginal costs concerning the restrictions of national autonomy.

In other words, the rhetoric frequently voiced by various Alliance officials, commentators, journalists, and even prominent political scientists (see, for example, Carpenter 2001), which every now and then predict the immediate dissolution of the Alliance over the issues of appropriate burden-sharing and a disappeared Cold War opponent, have to be regarded as incorrect. It seems to be rather the case that the Atlantic Alliance, despite its lose patterns of integration, is more vital than a decade ago. At latest the events following *September 11th* made the ambivalent security situation even in the Atlantic area evident and quite visible (see NATO 2002a). An Alliance as dominant an actor as the United States is, and a number of less capable and less powerful allies preferring security over autonomy should to be rather stable, if it is regarded by its initial objectives, to provide security and

[21] This situation might improve after the installation of GPS III not before 2005.

defense when the need arises. In fact, the organizational patterns of NATO make a conduct necessary, which is very much like the traditional diplomacy Henry Kissinger and Hans Morgenthau have pleaded for, emphasizing the inevitable national responsibility for security and peace (Morgenthau 1992; Kissinger 1994).

The problems for the Alliance emerge from other sources. The seriousness of the actual capability gap may endanger the workability of the Alliance, since too high frictions and less credible deterrence might shape the image of it. This applies equally to the established patterns of the inter-Ally relations. As soon as a minor power raises its intentions to be *more equal* with the major power, the United States, in both capabilities as well as influence on the Alliance affairs and its member, the perceived benefits of the dominant power are bound to shrink rapidly. This had been the case when de Gaulle's France pursued its peculiar course in the 1960s. This had partially been the case regarding the Fight against Terrorism. This was also the case when the United States pursued its course concerning Hussein's Iraq. The result was – despite the prohibitively high costs of urging a consensus among the Allies – that NATO is not part of this campaign.

To understand the distasteful and considerably diverting policies pursued by either side of the Atlantic over the Iraq issue, it is necessary to acknowledge what Robert Kagan described so instructively: "It is time to stop pretending that Europeans and Americans share common view of the world … On the all-important question of power – the efficacy of power, the morality of power, the desirability of power – American and European perspectives are diverging" (Kagan 2002, 3, 13; Kagan 2003). The national interest of all Allies was paid attention to during the times of Cold War when the division of labor looked like the United States making the diner and the Europeans doing the dishes. Kagan ascertains that European members of the

Alliance took the opportunity with the end of Cold War to "cash in on a sizable peace dividend" being relieved from the haunting memoirs of a martial century[22]. The resulting weakness of European Allies – or respectively considering the relative rise in American power and military potential – led to consequences, which now and in future constitute a burden for the transatlantic cooperation. Accordingly, criticism arising from European countries concerning the increasing tendency of the United States to act unilaterally originates not from moral considerations. European policy-makers object unilateralism because Europeans "have no capacity for unilateralism". Though the resolution of current and future threats to the entire Western hemisphere ought to be in the national interest of every nation. But, the military and political "incapacity to respond to threats leads not only to tolerance but sometimes to denial". Hence, the transatlantic problem, which partially leaks into institutionalized patterns of the Atlantic Alliance, is "not a George Bush problem. It is a power problem. American military strength has produced a propensity to use that strength" (Kagan 2002, 10; Kagan 2003). This became obvious when the ultimatum against Hussein's Iraq was given. George Bush then rightly argued that the "United States has the *sovereign authority* to use force in assuring its own national security" (Bush 2003a). Another illustration of this issue derives from the position, which the United States took towards the United Nations. The renowned Jesse Helms argued that, by signing and ratifying the UN charter, "America did not cede *one syllable* of its sovereignty to the United Nations" (Helms 2000, 32). In contrast, "Europeans have a deep interest in devaluing and eventually eradicating the brutal laws of an anarchic, Hobbesian world, where power is the

[22] For the elaboration of the German attitude see, for example, Heilbrunn (2000); Siemon-Netto (2002).

ultimate determinant of national security and success" (Kagan 2002, 10; Kagan 2003).

Nonetheless, emerging threats, which may feasibly affect the considerations of all Allies, will inevitably grant higher importance to the Alliance, being the principal and only organization in Europe that can credibly deal with issues of this kind and seriousness. In fact, as Ronald Asmus and Kenneth Pollack put it, today "the United States and Europe once again face a potentially existential threat. There is little doubt that the same values and civilization that Truman spoke about defending in 1949 [in the course of NATO's inauguration] are again at risk". Perhaps "unilateralism and ad hoc coalitions will not be good enough" (Asmus/Pollack 2002, 17). Indeed, some commentators argue that, apart from pure considerations of *power politics*, the assemblage of member countries developed towards an Atlantic community since the inception of NATO suggesting that the *whole* is more than the sum of its pieces (Thomas 1997).

The national interests and the peculiar characteristics of sovereignty and autonomous national decisions – in other words, the estimated gains in and influences on *national power* – determine whether or not to join the Atlantic Alliance. This applies equally to the degree of the respective national commitment regarding financial and military means to the Alliance's objectives. It thus seems worthwhile, in a considerably limited scope, to focus on some contemporary issues, which the Alliance currently has to deal with.

Coalitions of the Willing

Robert Kagan holds "given that the United States is unlikely to reduce its power and that Europe is unlikely to increase more than marginally its own power or the will to use what power it has, the future seems certain to be one

of increased transatlantic tensions. The danger – if it is a danger – is that the United States and Europe will become positively estranged. Europeans will become more shrill in their attacks on the United States. The United States will become less inclined to listen, or perhaps even to care" (Kagan 2002, 27; Kagan 2003). Despite the fact that both the United States and its European Allies will kept tied together within the NATO framework, this scenario poses several questions concerning the future workability and the actual code of conduct within the Alliance. Accordingly, Ronald Asmus and Kenneth Pollack suppose that the transatlantic cooperation will be beneficial and feasible facing the new, asymmetric threats of terrorism and weapons of mass destruction (Asmus/Pollack 2002, 5). The need to forge decision in consensus implies high transaction costs for negotiations. The workability of the Atlantic Alliance is thus restricted to rather hard and fundamental issues. This *lowest denominator attitude* is successfully applied to the initial objectives of the Alliance as laid down in the Treaty – the defense of the member countries' territories.

The fundamental changes, which the Alliance experienced in the course of the developments after the end of the Cold War and the subsequent crises, broadened the scope and magnitude of issues, which the Alliance is confronted with. It could further be assumed that not all Allies deem particular issues important to their national interest. Moreover, the subsequent rounds of the enlargement up to 26 member countries in the foreseeable future increased the number of variables in the formula. To illustrate the problem, it is worthwhile to refer to the seminal writing on decision-making of James Buchanan and Gordon Tullock. Accordingly, it "seems reasonable to expect that more will be invested in bargaining in a group composed of members who have distinctly different external characteristics than a group composed of roughly homogenous members … The over-all costs of decision-

making will be lower, given any collective-choice rule, in communities characterized by a reasonably homogenous [group of states] that in those characterized by a heterogeneous [group of states]". Though already the *Preamble* of the Washington Treaty holds that members of NATO comply with certain values. The Allies are likely to be considered homogeneously in this respect. Contrarily, given the variety of themes – apart from sole defense –, which the Alliance currently is dealing with, as well as the differences in military capabilities and national commitments, the Atlantic community has to be regarded rather heterogeneously. Buchanan and Tullock further argue that the community of homogenous [states] is more likely to accept less restrictive rules even though it can 'afford' more restrictive ones. By contrast, the community that includes sharp differences among individual [states] and groups cannot afford the decision-making costs involved in near-unanimity rules for collective choice, but the very real fears of destruction of life and property from collective action will prompt the individual to refuse anything other than such rules" (Buchanan/Tullock 1965, 115).

In a similar view, Sandler and Hartley provide an alternative explanation for the predictable rising importance of *Coalitions of the Willing*. When less is required than decisions in consensus, the majority imposes external political costs on the minority. The larger the minority, the larger the political burden for the whole organization. Only a decision, which touches serious issues or even the very existence of the community, will lead to a consensual agreement regardless of the nearly prohibitively high costs connected with negotiations for this decision.

In FIGURE *13*, curve *C* reflects the political costs for such negotiations. The horizontal axis illustrates the number of Allies, while the expected costs of political negotiation are depicted by the vertical axis. Political costs are largest when a decision is imposed from outside. Moreover, these costs

decline, as fewer of the N alliance members must concur with an action. When all members must agree in point N the political costs, which the majority intends to impose on the minority, is zero. On the other side, each ally has certain decision-making or transaction costs, illustrated by curve D. Few involved allies imply little accumulated costs for decision-making. If all allies must comply, these costs rise prohibitively high. The optimal majority is identified at the lowest point of the sum of both cost curves, hence in K. In K, the marginal decision-making costs of increasing the required majority equals the negative of the corresponding marginal political costs, or

(5) $$\min_K [C(K) + D(K)],$$

hence (6) $$-\frac{dC}{dK} = \frac{dD}{dK}.$$

Suppose that for each K the political costs are indeed higher than those of C due to a greater burden being imposed on each minority so that the dashed curve C' applies. Given that decision-making costs are unchanged then the optimal number of participating allies moves right.

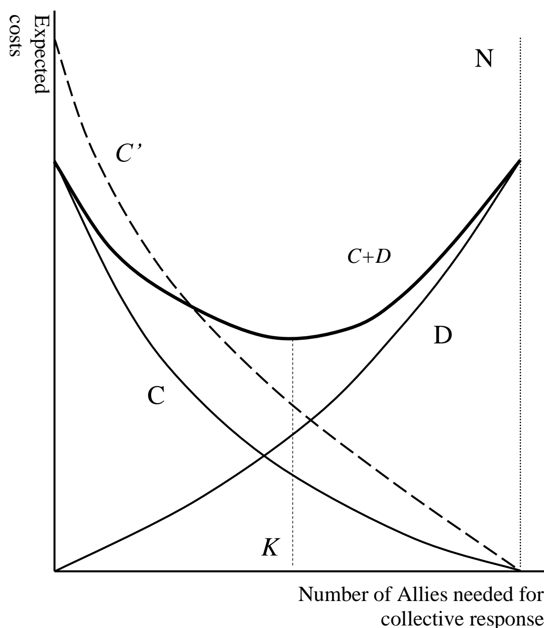


FIGURE 13: **Optimal majority**

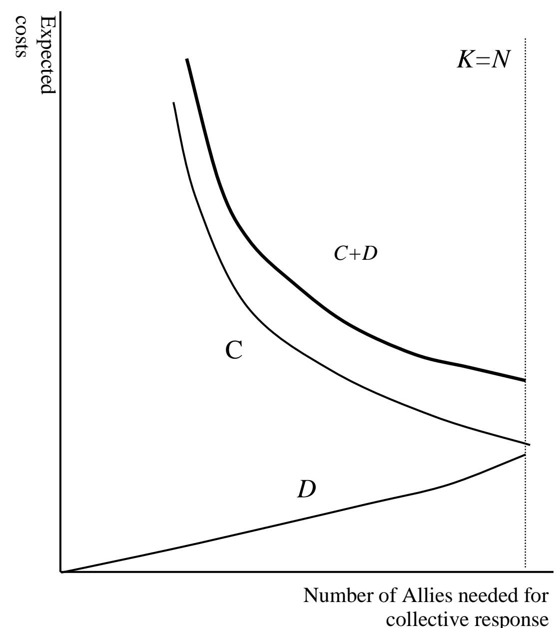


FIGURE 14: **Unanimity as an optimal decision rule**

FIGURE 14 illustrates the scenario if alliance members pursue a purely consensual decision. The lowest sum of the political and decision-making costs is at unanimity, hence $K = N$. The cost curves may be realistically established while alliance members deem the consequences of not forging a decision accordingly higher and more serious. However, as the Alliance grows in size and subjects, the decision-making curve moves further right and down for consensus, since a larger alliance is anticipated to have more allies with similar interests. This, however, implies that at a given number of supporters it is easier to build a *Coalition of the Willing* from a larger pool of allies. The estimated decline in decision-making costs is not supposed to be proportional to increasing in the number of Allies (Sandler/Hartley 1999, 75-7; Buchanan/Tullock 1965, 111-6; Mueller 1989, 54-5).

The results from this observation for the actual conduct of the Atlantic Alliance policy by every single member is that the Alliance is less likely engaged in a rising number of issues, while it is re-focusing on its initial Treaty objectives. Consequently, other activities are pursued increasingly by certain Allies, which have an interest in solving this or that particular problem for their security concerns. This is due to the likely decrease of negotiation costs. Furthermore, the rather limited military capabilities of some Allies and national good-will for Alliance purposes imply such high political costs posed by a majority that the domestic evaluation will inevitably let this country to refrain from further Alliance activities.

However, referring to Buchanan's theory of clubs, as a theory of "optimal exclusion, as well as of inclusion", the publicness and hence the workability of such *Coalitions of the Willing* is finite. Though these issues shall not be part of this discussion in great detail, it should be taken in consideration that the utility functions of the involved states might be negatively influenced by the number with which it has to share the benefits from the

coalition's actions. The transaction costs for maintaining and managing a coalition will be increased as its membership rises. Inevitably, a Pareto-optimal solution will be reached not at the absolute maximum of the membership but at a lower rate where marginal rate of consumption between the purely public good of security and the rather private good of the particular coalition's purpose equals the marginal rate of substitution between the provision of purely public security and private coalition objective (Buchanan 1965).

The fact that a larger coalition might not always serve the participating nations is graphically shown in *FIGURE 15*. The lessons, which might be drawn to predict future NATO operations, suggest that the Alliance is less likely to act in the increasing number of selective operations *as a whole*. Instead these objectives might be pursued through a rising number of coalitions of a reasonable size.

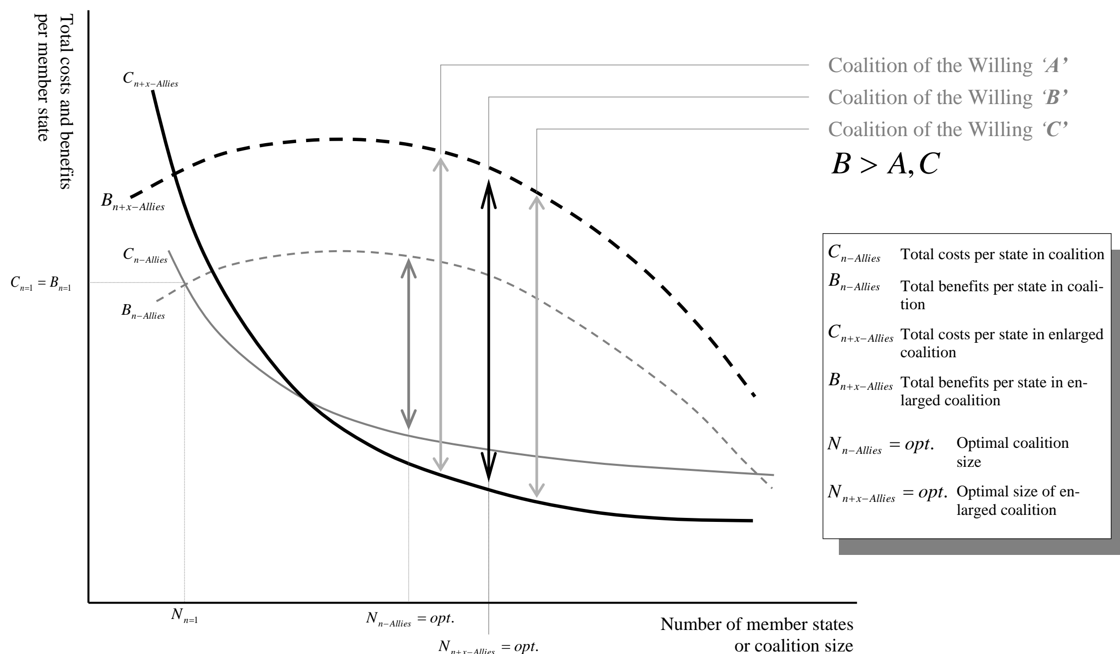


FIGURE 15: **Club theoretical approach of Coalition of the Willing**

Inevitably, there is a positive trade-off between an increasing number of Alliance members and the necessity to improve and elevate the Allies' military capabilities. For the same reasons the current SecGen's motto "*Capabilities, Capabilities, Capabilities*", which Lord Robertson articulated in his inauguration speech, is highly significant: "In today's dangerous world, there is no credibility without capability. And NATO goes into the 21st century as the most credible security organization in history precisely because we are capable" (Robertson 2000). NATO therefore established the *Defense Capabilities Initiative (DCI)*, which was followed by the *Prague Capabilities Commitment (PCC)* "continuing Alliance efforts to improve and develop new military capabilities for modern warfare in a high threat environment" (NATO 1999a & 2002a & 2002c).

Economically speaking, it is a contribution to reduce the decision-making costs for – or the costs to agree with – smaller Alliance operations. Politically speaking, it contributes to the Alliance credibility and its potential for deterrence and actual provision of security throughout the Atlantic area[23]. Marc Kilgour and Frank Zagare thus argue that the only necessary condition for the success of deterrence – the avoidance of major conflict through the increase of predicable costs of conflict – is *capability*, defined as the ability to hurt physically as well as psychologically (Zagare/Kilgour 2000, 290). In the words of Robertson: "Military capability is the crucial underpinning of our safety and security. It directly translates into political credibility" (Robertson 2002b).

[23] This, at least, had been rational for a series of letters, which Robertson wrote to the Alliance's defense ministers.

Asymmetric Threats and Terrorism

In his speech in Kraków, George W. Bush identified the most contemporary issues of our days: "Today our alliance of freedom faces a new enemy, a lethal combination of terrorist groups, outlaw states seeking weapons of mass destruction, and an ideology of power" (Bush 2003b).

In fact, deterrence – along with attempts to integrate the member countries' armed forces, defense industries, and other relevant fields – seems to remain the Alliance's most valued tool to achieve its objectives. Fortunately, the doomsday scenario of a full-out activation of Article 5 of the Washington Treaty with all its consequences – which the respective strategies provide for (see NATO 1999b & 2001; Issacs/Downing 2001; Varvick/Woyke 2000; Art/Waltz 1993, Part III) – has never occurred and is not likely to occur in foreseeable future. Commentators argue that the activation of this Article following the events of *September 11th* was rather been a symbolic act and was an expression of the Allies' societies' true affection with the United States (Asmus/Pollack 2002).

However, NATO, as an assemblage of sovereign nations, was established to defend and counter a threat originating from nation-states similarly. In this regard, the Atlantic Alliance came of age in times of traditional, symmetric posture. Despite dramatically increasing costs for extensive military forces only few states are able to maintain a capable force. In this regard, Zbigniew Brzezinski states that "war has become a luxury that only poor nations can afford" (Brzezinski 1991, 5). Contrarily, Herfried Münkler argues that it is more likely for smaller actors to successfully pursue their ends with much cheaper means. The resulting asymmetry in the economics of violence, which was utilized over the course of history by several Partisan movements to rather defensive ends, is applied remarkably offensively by

those individuals or groups who are commonly assigned to the *new type of terrorism*, which pursue other objectives than the so-called *freedom fighter*. Münkler, in his seminal writing, states accordingly that this development is far from being terminated. The vulnerability of our societies along with the availability and low costs of the means to wage an attack draws the future scenario of likely conflicts in international politics (Münkler 2002). Moreover, other considerations, equally in the national interest of each member country of the Alliance as any other security issue, will determine the characteristics and probabilities of future conflicts in international politics (see Klare 2001; Münkler 2002; IISS 2002b; UNHCR 2000; Manwaring 2001; Steele 2002).

NATO, though prevailing over the Cold War conflict, did not comply with the strategic necessities of these new threats. It did not until *September 12th*, the day when the Alliance activated Article 5 of the Treaty. And it took several months more until the Alliance officially ceased to exist in its Cold War posture and procedures and adapted to the new scenario. Though NATO became occasionally active in the course of the turmoil in the Balkans, only the Prague Summit gave evidence that the Alliance is not and – more important – will not be irrelevant in order "to meet the grave new threats and profound security challenges of the 21st century" (NATO 2002c; Bennett 2003; Robertson 2003). Traditional mechanisms to oppose perceived threats might thus no longer be appropriate and feasible. Though the definition of deterrence originates from times of Cold War confrontation, the statement of John Foster Dulles still provides an instructive elucidation: "Local defenses must be reinforced by the further deterrent of massive retaliatory power … The way to deter aggression is for the free community to be willing and able to respond vigorously at places and with means of its own choosing" (Dulles 1954). Early in Cold War it became apparent that the strategy of *massive*

retaliation along with the subsequent strategic approaches (see Isaacs/Downing 2001; McNamara 1983), which predominately relied on the use of nuclear weapons but also on conventional forces, was not applicable to a number of emerging crises during the Cold War and after. Inevitably, it helped to prevent to clash of the superpowers (Dougherty/Pfaltzgraff 2001, 378-82; Gaddis 1997). Deterrence being as much a psychological-political concept as a military-technological one, made the moves of major powers and alliances predicable, as any deterrent capability cannot be kept secret to be assured of its effectiveness. Steven Brams thus elaborated that superpower confrontation and robust deterrence resamples a *Game of Chicken*, which, despite the uncertainties in the equation, renders the actual use of force unlikely (Brams 1985; see also Brams 1975, Chap. 1; Schelling 1970, Chap. 6).

The advocates of deterrence were frequently accused to facilitate all-out arms races or to initiate otherwise the search for innovative means to keep a reasonably high level of conventional arms (Dougherty/Pfaltzgraff 2001, 356, 361-5). Contrarily, Raymound Aron argued that "there is no deterrent in a general or abstract sense; it is a case of knowing *who* can deter *whom*, *from what*, *in what circumstances*, *by what means*" (Aron 1969, 9). In other words, the considerations of the concerned policy-makers regarding the expected costs and benefits, or utility for whatever purpose, either to keep a reasonable level of potential for deterrence or other conventional forces, or to predict the involved costs concerning the risks of actual conflict, cannot be made blue-eyed. For the United States' commitment to NATO, meant that the strategic evaluation had to regard the threat from the Soviet Union or the Warsaw Pact respectively. After having past this episode in history it needed other focal points to adjust the country's nuclear deterrence potential. The same applies to the considerations of the conventional forces.

Kilgour and Zagare suggest that even after the end of Cold War confrontation "deterrence remains a primary policy objective, at least in the United States, and therefore has some conceptual importance. Still, not much has changed since the Roman [empire]. To be sure, the international system has evolved, states have grown more powerful, and technology has marched on. Nonetheless, some countries now have, as some empires then had, a strong interest in avoiding war and conflict. And when they do, the goal they are pursuing, whatever it is called and however it is packaged, is deterrence" (Zagare/Kilgour 2000, 286).

The limits of deterrence were shown when it came to limited wars. This already became apparent in the course of the Gulf War 1991. The United States military even illuminated the vulnerability of modern societies to those threats and anticipated that subsequent conflicts would be increasingly asymmetric (Metz/Johnson 2001, 3, 12). Though William Perry still argues that, despite the fact that nuclear as well as biological or chemical weapons are eventually non-options, the increase of effectiveness of conventional weapons system might make deterrence through conventional forces more credible (Perry 1991; Kaysen/McNamara/Rathjens 1991)[24]. Already during the turmoil in the Balkans it became obvious that the smaller and more diverse a limited and regional conflict might be the less effective deterrence becomes. The members of the Atlantic Alliance, among the international community, could witness their triviality in this conflict. The denial of the events on their side suggests either that deterrence did not work or the

[24] For the discussion of nuclear and weapons as non-options see Bundy (1991); Price (1995); Tannenwald (1999). Though the United States withdraw most of its tactical and strategic nuclear weapons form Europe also to comply with particular disarmament agreements, it has to be taken in consideration that NATO did and still does maintain a stock of sub-tactical munitions, which is regarded to provide still sufficient deterrence to potential adversaries in the nuclear dimension. See also Zarimpas (2002); Bunn/Zaitseva (2002).

thinks at stack were too trivial to become an issue on the major power's political agenda.

The proliferation issue might not always foster this development. As long as states are the predominant actors it is likely that erupting conflicts are going to become violent. On the contrary, states pursue a reasonable level of arms in order to secure their existence and maintain or build-up certain deterrence capabilities in order to prevent actual combat. During Cold War conflict, it was occasionally suggested that more nuclear weapons might even be better in order to cast in concrete the stalling balance-of-power establishing rather symmetric and predicable landscape in international relations. Contrarily, the issue of a missile defense system, which is presently becoming increasingly operational, might also contribute to balancing the threats of ballistic missiles and the delivery of weapons of mass destruction over wide ranges (see Sagan 1997; Pearson 1994; Waltz 1981; Baylis/O'Neill 2000; Chellaney 1991). Robert Bell, Assistant Secretary General (ASG) for Defense Support – and likely the ASG for Defense Investments – rightly states that "unlike during The Cold War, we cannot look to nuclear weapons for compensation in addressing the new security challenges of the 21st century" (Bell 2002).

The phenomenon of global acts of terrorism runs counter to this tendency and suggest that the pendulum sways even more in the direction of asymmetric threats, which eventually renders traditional means for the provision of security ineffective. As the new millennium approached it became obvious that several terrorist groups and individuals possessed modern weapons technology and the means to deliver them, electronic communications, international transportation facilities, and computer operations. At latest the events of *September 11th* made evident that the new kind of "catastrophic terrorism" is inclined to posses and eventually use weapons of mass

destruction (Carter/Deutch/Zelikow 1998). Yet, the definition of terrorism is quite vague, because "one person's terrorist is often another's freedom fighter". The term, however, indicates the "use of violence by nonstate entities against institutions or citizen of states for political or ideological purposes, in a manner calculated to produce maximum shock and fear effect because of its apparently bizarre, random, absurd, senseless character" (Dougherty/Pfaltzgraff 2001, 387). Due to the fact that the states, as the possessor of the domestic monopoly for the use of force, ceased to be the main actor, the means of deterrence are not applicable any longer.

Charles Gati argued that the "NATO that [admitted] new members in Prague is not the same military political organization it was before September 11" (Gati 2002, 86). The lessons drawn from the developments during the last decade suggest that the more asymmetric the threats become the less effective deterrence might be applied. If deterrence fails policy-makers might be asked how to limit the damaging effects. NATO thus urgently needs other means to handle and resolve conflicts, which affect the security of the Treaty area and the interests of its member states. Since traditional armed forces still offer the best response for such problems NATO could and actually does serve as the forum for consultation and coordination of national efforts. NATO might thus assume a role as "a center for information exchange, advice-giving, and decision-making among the Atlantic allies" again (Hill 1978, 9). Obviously, it needed such a catalytic moment as *September 11th* to define the role of the Atlantic Alliance in the emerging *New World order*. In the same vein, the new challenges are apt to be met as "negative asymmetry can be mitigated, but not eliminated" (Metz/Johnson 2001, 23). Thus, a number of multifaceted actions were officially endorsed in the course of the Prague Summit, which might enhance the national and collective ability "to help national authorities to deal with the consequences of terrorist

attacks” (NATO 2002c; see also Rotfeld 2002; Payne/Walton 2002; Kiras 2002).

Nonetheless, the current developments in this field ought to be watched vigilantly from public and politics. Not unlikely, we are loosing the fight against terrorism as liberal nations scarify their freedom and burden their societies with the severe economic consequences of counter-terrorism while ignoring the deadweight losses of doing so.

Cooperation with the European Union

Among the newly developed ideas, agreed upon at the Prague Summit to leave the Alliance’s Cold War posture behind, is the commonly seen NATO Response Force (NRF) “consisting of a technologically advanced, flexible, deployable, interoperable and sustainable force including land, see, and air elements ready to move quickly to wherever needed” (NATO 2002c). Though some commentators argue that this force might render the emerging European Union’s efforts to establish its own response force meaningless it rather ought to be perceived as a diplomatic means to enhance the Allies political willingness and actual commitment to general Alliance capabilities. Hence, the NRF “will also be a catalyst for focusing and promoting improvements in the Alliance’s military capabilities” to urge European governments not only to spend more but also on the right things. This might equally apply to the initiative of a number of European states in favor of a European Security and Defense Union, while the converse could result if the ESDU would indeed constitute a counter-weight to the Atlantic Alliance (NATO 2002c; Andréani/Bertram/Grant 2002, 56; European Defence Meeting 2003; see also Economist 2003a).

George Robertson put it rightly: “It is that diplomatic credibility requires military capability. If diplomacy is to be successful in stopping trouble spots becoming crises, then credible military resources have to be available to back it up” (Robertson 2000). This is also valid for NATO and the European Union with its emerging military capabilities. This was also articulated earlier. But who, in the year 1944 at the height of the war, when the cruelest battles were still to be fought, could have ever thought of a common European foreign and security policy? Richard Coudenhove-Kalergi and his associates did, proposing a European parliamentary military force (Coudenhove-Kalergi 1944. Ultimately, the turmoil in the Balkans made the impotence of Europe evident. Then the same member nations in NATO were able to carve their own foreign and security policy and were likewise not able to take actions when ethnic cleansing had already taken place. Serb diplomats even joked that “a village a day keeps NATO away” (Daalder/O‘Hanlon 2000, 43; see also the respective chapters in Halberstam 2001; Clark 2001). The lessons drawn in Europe from those days urged policy-makers to reconsider their respective national interests and security necessities and similarly to rethink and mentally prepare for their own efforts. It is important to keep one’s own backyard if the United States tend to focus on distant strategic regions. Indeed, Brzezinski argues, the “staggering fact is that ‘Europe’ not only cannot protect itself but cannot even police itself” (Brzezinski 2000, 26). And, “Kosovo brought home to the Europeans that the gap had widened since the end of Cold War and that they needed to react” (Andréani/Bertram/Grant 2002, 53). Over the course of several summits the EU formally established the Common Foreign and Security Policy (CFSP), which constitutes the third pillar of the European framework (see European Council 1999a & 1999b; for a chronicle overview of ESDP see Hunter 2002; Lachowski 2002). Soon concerns were raised that the EU’s efforts might

undermine and weaken the member nations' contribution to their Alliance commitments while duplicating certain assets unnecessarily. Kori Schake argued that the "Clinton administration's policy towards [the EU's efforts] was marked by three major concerns, which Secretary of State Madeleine Albright described as 'the three Ds'. No duplication of NATO assets, no discrimination against non-EU NATO members … and no actions that would decouple the U.S. from Europe" (Schake 2002, 5). Already in October 2000, Condolezza Rice suggested contrarily a "new division of labor", demanding from the Europeans an increased material commitment in their own peacekeeping operations on the continent (quoted in Gordon 2000). This could be perceived as an acknowledgement of the European's intention to create something of their own, which might serve political decision-makers domestically to prove their enthusiasm for Europe, while simultaneously being beneficial to the Alliance. By doing so, the European members of the Atlantic Alliance might themselves reap the received benefits of exploiting the alliance patterns.

Strangely, newly created CFSP instruments, including the proposed European Rapid Reaction Force, will still rely heavily on NATO resources and structures in a bilateral manner. On one side this might help prevent the duplication of any assets, while parallelly reducing the efforts to put from the Europeans in this institution – making it rather acceptable to its politicians, national budgets, and public. On the other side the emerging European security architecture will become an increasingly important determinate for United States' strategy. United States national interest in Europe and its troublesome periphery may best be served through NATO. Europe's emerging military forces will finally complement NATO from the U.S. perspective, eventually providing an alternative to it. Jürgen Chrobog, then ambassador of Germany to the United States, argued that a strong Europe is very much

in the interest of the United States (Chrobog 2000). Another friction in transatlantic relations will definitely arise as soon as the security of future EU members is at stake while they are not members of NATO. In an enlarged European Union, NATO cannot any longer serve solely to keep the Atlantic cooperation satisfactory. Kissinger assumes NATO's functions too limited, its core membership too small, and its associated membership too large to deal with the tasks ahead. Hence, it is not possible "in a well-conceived Atlantic partnership for NATO to ignore security threats to member states of the European Union, whether or not they are formally members of the Alliance. Strangely, in view of the frequent affirmations of European identity, the European Union insists that membership in it involves no security guarantees" (Kissinger 2001, 93).

CFSP's High Representative of the EU, Javier Solana, and Secretary General of NATO, George Robertson, recently announced that the cooperation between both organizations, and despite varying agendas and perceptions, ever has worked in practice and is now also working in theory through a number of formal agreements (NATO 2002e). This statement, however, is only partially true since the EU's commitments are always under a proviso clause that, if NATO with its consensus principle, decides not to act, the EU with majority rule might take action. Since the intergovernmental Atlantic Alliance's major objective is the provision of security and defense, whereas the supranational EU has a number of diverging interests, it could be assumed that if the need occurs, NATO might always be in the forefront. Brzezinski thus argues that "the operative words … of a truly united Europe are 'would be'" (Brzezinski 2000, 17). And, as long as neither the major European countries, such as Germany, which is as eager as other nations to minimize the expenditures of the international military engagement while

trying to maximize the national gains[25], nor the European Union have not definitely determined nor formulated, and eventually work to realize their interests in pursuing international policy it could be assumed that so far the EU will remain *a superpower put in hold* (Weidenfeld/Algieri 1999, 893). To put it frankly and in the words of Brzezinski, "Europe – despite its economic strength, significant economic and financial integration, and the enduring authenticity of the transatlantic friendship – is a *de facto* military protectorate of the United States … Nonetheless, it is not only a fact that the alliance between America and Europe is unequal, but it is also true that the existing asymmetry in power between the two is likely to widen even further in America's favor". According to Brzezinski and resembling the major/minor power patterns, theoretically elaborated above, "good is a Europe that is more of a rival economically, that steadily enlarges the scope of European interdependence while lagging in real political-military independence, that recognizes its self-interest in keeping America deployed on the European periphery of Eurasia, even while it chafes at its relative dependence and half-heartedly seeks gradual emancipation" (Brzezinski 2000, 18, 25).

[25] For an overview of current military commitments of Germany see Feldmeyer (2003).

4. Instead of a Conclusion

The Cold War is over. This might be true historically speaking. This might be true considering the bi-polar superpower confrontation. This might also be true in terms of the applicable and deployable, newly available weapons systems. But within the Atlantic Alliance little change was achieved so far. This might be a result of a thorough institutional architecture, which leaves much room for individual states to pursue their own interests and policies. For many commentators, the Atlantic Alliance was doomed every now and then before and after the Cold War confrontation ceased to exist and so was the major objective of NATO. Instead, the Alliance seems to be more vital than ever as Allies have deployed troops in various regions of the world under NATO banner and command.

Though patterns of a dominant power among a group of other states produces security in rather suboptimal margins while the former tends to be exploited through the latter, it has been the subject of this discussion to prove that such institutional arrangements are apt to form rather firm organizations and steadfast and reliable alliances. On the other side it has been argued that even in these days the concept of sovereignty and national autonomy is deemed to be vital and enjoys much importance in the area of security polices. Simultaneously, it is inevitable that the conduct of a nation's foreign policy is determined by a number of factors. Military force, for the purposes and objectives of NATO *is* a means of international politics. Much of the discussed factors, however, are obviously immaterial considerations and perceptions. Hence, it might prove difficult to provide actual evidence for the assumptions and assertions made in this discussion.

Recent illustration of the problems and frictions connected to those patterns within the community of the Atlantic area were delivered over the issue of the Gulf War 2003. Once more, divergent concepts of the pursuit of national interests have clashed within the Atlantic Alliance. It shall not be the objective of this discussion to judge the conduct of the concerned actors. But, as pragmatically as any strategy for the good of the Atlantic community should be, Jack Straw, British Foreign Secretary, asked: 'Would there be more or less peace and stability in the world if America retreats into isolation? If Europe weakens our relationship with America we are going to weaken our ability to do good in the world and to pursue those objectives of foreign policy, which we deem necessary to be realized' (Straw 2003; see also Lankowski/Serfaty 1999; Kurth 2001; Moens 2002). Similarly, Joseph Nye asserts that America, as the sole remaining superpower cannot alone prove right while accentuating the previously identified patterns. Accordingly, to succeed in such a world, "America must not only maintain its hard power but understand … to combine … the pursuit of national and global interests" (Nye 2002, 171). Remarkably, Robert Kaplan expresses some concerns that the "presidential rhetoric may get nobler even as American policies become more ruthless" (Kaplan 2002, 56). Whether the current code of conduct of American foreign, security and Alliance policy, as Emmanuel Todd and Jürgen Habermas argue (Todd 2003; Habermas 2003), is the beginning of the end of American dominance in the Atlantic area might be debatable and should be dealt with elsewhere. However, it is vital to recognize and to accept the existing conditions set in the international system, which pretty much resample the assumptions of the *Realist* school of thought, in order to successfully anticipate the behavior and conduct of the particular actors in their capacity and capabilities. It is true though, as the German Foreign Minster argues that the emerging *New World order* must not retract in

a manner similar to the 19th century circumstances. It could at least be speculated whether an Alliance like NATO, resting heavily on the concept of sovereignty and national autonomy, is passionate enough for a "*Welt-Innenpolitik*", a world domestic policy, occupied first and foremost with issues affecting all nations in a globalizing world (Fischer 2003). Jack Straw thus urges policy-makers and the Atlantic societies to become accustomed to innovative and strategic thinking, which allows them to adapt pragmatically to the conditions set on the stage of international politics.

Studying NATO might then serve as a catalyst for identifying the driving forces and crucial relationships within and among the members of the Atlantic area. Accordingly, Antoine de Saint-Exupery once stated "if you want to build a ship, don't round up men to get wood, to perform jobs and to divide work, but teach them the desire of the wide and endless sea" (Saint-Exupery 1993). In doing so, this paper ought to be seen as a contribution towards this end, to shed some light on some issues from a reasonably different perspective, which might increase the understanding of both NATO and the environment it is based upon and is bound to be a substantial actor in.

In that vein, Dieter Wellershoff provided for a reasonable metaphor, illustrated through the instructive photograph on the front-page: International and security policy is far from being "digital" – there is no black-or-white; zero-or-one; or even right-or-wrong solution (Wellershoff 1999). Instead it shall rather be conceived in various shades and gradually approached. Accordingly, the Atlantic Alliance has not been and will never be a machine for triggering violent solutions or war over particular problems in the international system. Instead, it is a multi-faceted assemblage of the member state's national interests and a place for consultations among them.

Appendix

The North Atlantic Treaty

Washington D.C. - 4 April 1949

The Parties to this Treaty reaffirm their faith in the purposes and principles of the Charter of the United Nations and their desire to live in peace with all peoples and all governments. They are determined to safeguard the freedom, common heritage and civilization of their peoples, founded on the principles of democracy, individual liberty and the rule of law. They seek to promote stability and well-being in the North Atlantic area. They are resolved to unite their efforts for collective defense and for the preservation of peace and security. They therefore agree to this North Atlantic Treaty:

Article 1

The Parties undertake, as set forth in the Charter of the United Nations, to settle any international dispute in which they may be involved by peaceful means in such a manner that international peace and security and justice are not endangered, and to refrain in their international relations from the threat or use of force in any manner inconsistent with the purposes of the United Nations.

Article 2

The Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well-being. They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them.

Article 3

In order more effectively to achieve the objectives of this Treaty, the Parties, separately and jointly, by means of continuous and effective self-help and mutual aid, will maintain and develop their individual and collective capacity to resist armed attack.

Article 4

The Parties will consult together whenever, in the opinion of any of them, the territorial integrity, political independence or security of any of the Parties is threatened.

Article 5

The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defense recognized by Article 51 of the Charter of the United Nations, will assist the Party or Parties so attacked by taking forthwith, individually and in concert with the other Parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area.
Any such armed attack and all measures taken as a result thereof shall immediately be reported to the Security Council. Such measures shall be terminated when the Security Council has taken the measures necessary to restore and maintain international peace and security.

Article 6

For the purpose of Article 5, an armed attack on one or more of the Parties is deemed to include an armed attack:
on the territory of any of the Parties in Europe or North America, on the territory of or on the Islands under the jurisdiction of any of the Parties in the North Atlantic area north of the Tropic of Cancer;
on the forces, vessels, or aircraft of any of the Parties, when in or over these territories or any other area in Europe in which occupation forces of any of the Parties were stationed on the date when the Treaty entered into force or the Mediterranean Sea or the North Atlantic area north of the Tropic of Cancer.

Article 7

This Treaty does not affect, and shall not be interpreted as affecting in any way the rights and obligations under the Charter of the Parties which are members of the United Nations, or the primary responsibility of the Security Council for the maintenance of international peace and security.

Article 8

Each Party declares that none of the international engagements now in force between it and any other of the Parties or any third State is in conflict with

the provisions of this Treaty, and undertakes not to enter into any international engagement in conflict with this Treaty.

Article 9

The Parties hereby establish a Council, on which each of them shall be represented, to consider matters concerning the implementation of this Treaty. The Council shall be so organized as to be able to meet promptly at any time. The Council shall set up such subsidiary bodies as may be necessary; in particular it shall establish immediately a defense committee which shall recommend measures for the implementation of Articles 3 and 5.

Article 10

The Parties may, by unanimous agreement, invite any other European State in a position to further the principles of this Treaty and to contribute to the security of the North Atlantic area to accede to this Treaty. Any State so invited may become a Party to the Treaty by depositing its instrument of accession with the Government of the United States of America. The Government of the United States of America will inform each of the Parties of the deposit of each such instrument of accession.

Article 11

This Treaty shall be ratified and its provisions carried out by the Parties in accordance with their respective constitutional processes. The instruments of ratification shall be deposited as soon as possible with the Government of the United States of America, which will notify all the other signatories of each deposit. The Treaty shall enter into force between the States which have ratified it as soon as the ratifications of the majority of the signatories, including the ratifications of Belgium, Canada, France, Luxembourg, the Netherlands, the United Kingdom and the United States, have been deposited and shall come into effect with respect to other States on the date of the deposit of their ratifications.

Article 12

After the Treaty has been in force for ten years, or at any time thereafter, the Parties shall, if any of them so requests, consult together for the purpose of reviewing the Treaty, having regard for the factors then affecting peace and security in the North Atlantic area, including the development of universal as well as regional arrangements under the Charter of the United Nations for the maintenance of international peace and security.

Article 13

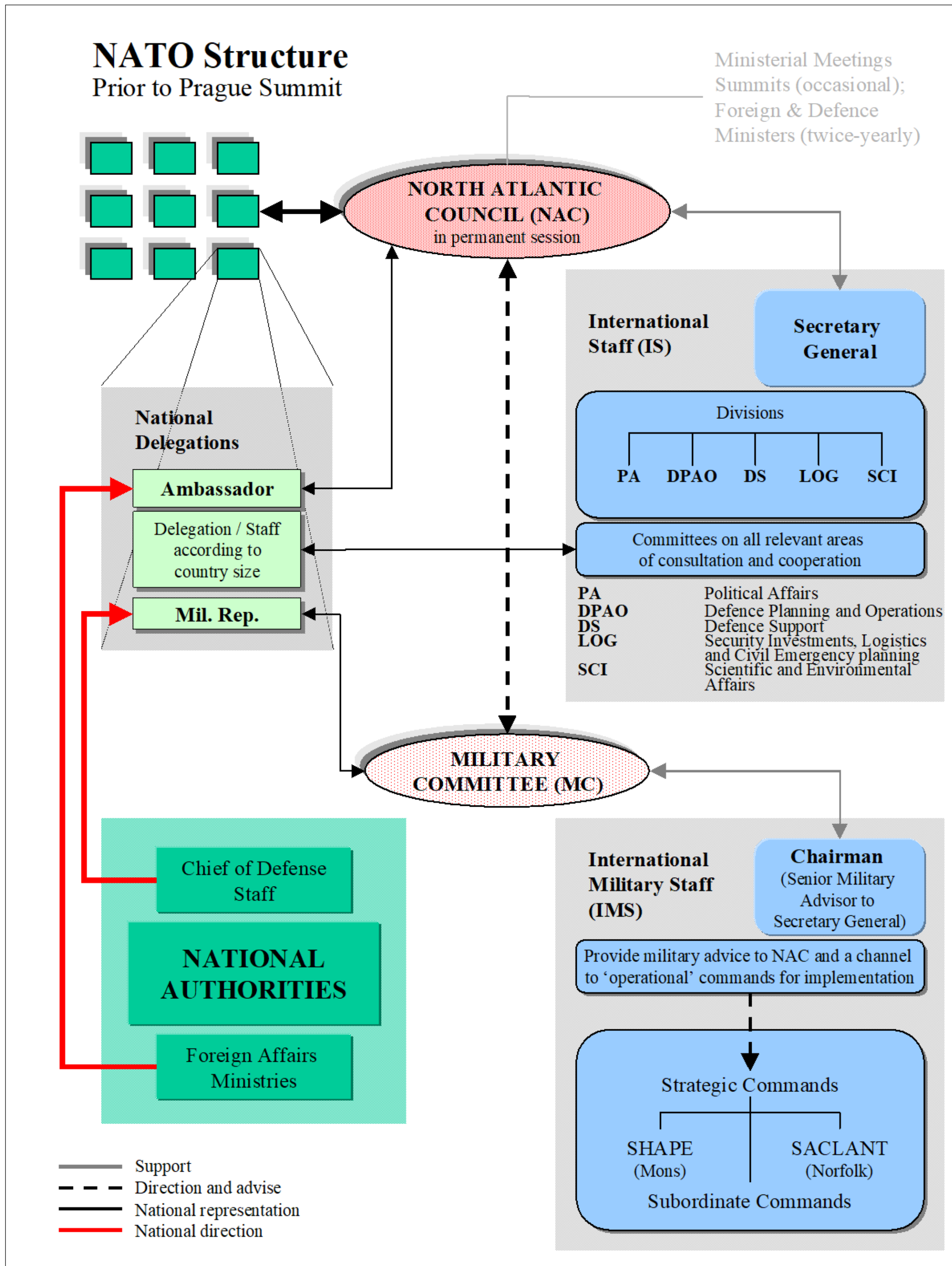
After the Treaty has been in force for twenty years, any Party may cease to be a Party one year after its notice of denunciation has been given to the Government of the United States of America, which will inform the Governments of the other Parties of the deposit of each notice of denunciation.

Article 14

This Treaty, of which the English and French texts are equally authentic, shall be deposited in the archives of the Government of the United States of America. Duly certified copies will be transmitted by that Government to the Governments of other signatories.

NATO Structure and Decision-Making Procedure

FIGURE 1: **NATO Structure and Decision-Making Procedure**

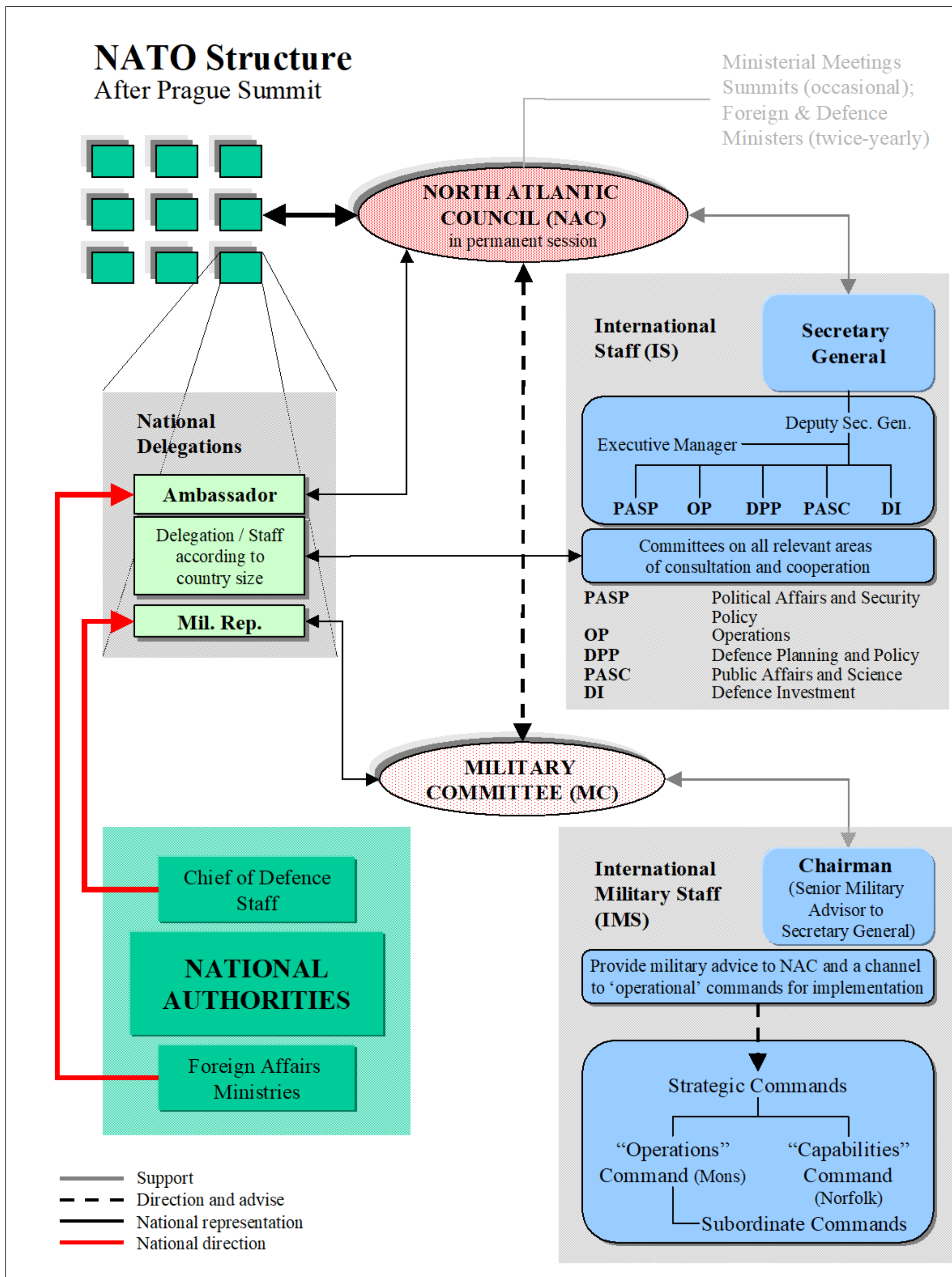


prior to the Prague Summit

Source: NATO (2001)

FIGURE 2: **NATO Structure and Decision-Making Procedure after the Prague Summit**

Source: NATO (2001 & 2002c)



NATO Civil and Military Budget & National Defense Expenditures

TABLE 1: **NATO Budget and National Defense Expenditures**

Civil and Military Budget; and National Defense Expenditures Year 2000; in millions US $						
	Cost Share				**Defense Expenditures**	
	Civil Budget		**Military Budget**			
	%	*US $*	*%*	*US $*	*% GDP*	*US $*
Belgium	2,76	3,67	3,30	24,80	1,4	3.4 bn
Canada	5,35	7,12	5,95	44,71	1,2	8.4 bn
Czech Republic	0,90	1,20	1,08	8,12	2,3	1,1 m
Denmark	1,47	1,96	1,94	14,58	1,5	2.4 bn
France*	15,25	20,28	-	-	2,7	34.0 bn
Germany	15,54	20,67	18,20	136,77	1,5	27.9 bn
Greece	0,38	0,51	0,46	3,46	4,9	5.5 bn
Hungary	0,65	0,86	0,78	5,86	1,7	804 m
Iceland**	0,05	0,07	0,05	0,38	-	-
Italy	5,75	7,65	7,08	53,21	1,9	22.5 bn
Luxembourg	0,08	0,11	0,1	0,75	0,7	98 m
Netherlands	2,75	3,66	3,28	24,65	1,6	6.2 bn
Norway	1,11	1,48	1,36	10,22	1,9	2.9 bn
Poland	2,48	3,30	2,97	22,32	2,0	3.1 bn
Portugal	0,63	0,84	0,75	5,64	2,2	2.2 bn
Spain	3,50	4,66	4,19	31,49	1,3	7.1 bn
Turkey	1,59	2,11	1,90	14,28	6,0	10.0 bn
United Kingdom	17,25	22,94	19,12	143,69	2,4	35.6 bn
United States	22,41	29,81	27,49	206,59	3,0	9.9 tr
Total NATO Europe	**72,24**	**96,08**	**66,56**	**500,20**	**2,1**	**163,7 bn**
Total NATO North America	**27,76**	**36,92**	**33,44**	**251,30**	**2,9**	**9,908 tr**
Total NATO	**100**	**133,00**	**100**	**751,50**	**2,5**	**10,072 tr**

Source: NATO (2001); IISS (2002a).

* France does not participate in the integrated NATO military planning processes.
** Iceland does not have military forces, but hosts forces from the US.

TABLE 2: **Gross domestic product and defense expenditures annual variation (%) in NATO countries (based on constant prices)**

	Average 1980 - 1984	Average 1985 - 1989	Average 1990 - 1994	Average 1995 - 1999	1998	1999	2000	2001	2002 expected
Belgium	0,4	2,9	1,2	2,3	2,2	3,0	4,0	1,1	1,1
Canada	1,5	3,5	0,3	3,2	3,9	5,1	4,4	1,5	3,2
Czech Republic	-	-	-	-	-	-0,4	2,9	3,6	3,4
Denmark	1,5	1,8	1,2	2,6	2,5	2,3	3,0	0,9	1,7
France	1,7	3,1	0,9	2,0	3,4	3,2	3,8	1,8	1,2
Germany	0,4	2,5	5,7	1,3	2,0	1,8	3,0	0,6	0,7
Greece	-1,0	0,7	1,3	3,1	3,5	3,6	4,1	4,1	3,8
Hungary	-	-	-	-	-	4,2	5,2	3,8	3,5
Italy	1,0	3,0	0,8	1,6	1,8	1,6	2,9	1,8	1,3
Luxembourg	1,3	6,9	6,0	5,9	5,8	6,0	7,5	5,1	2,7
Netherlands	0,1	2,5	2,0	3,6	4,3	3,7	3,5	1,1	1,4
Norway	1,7	2,1	3,4	3,9	2,4	1,1	2,3	1,4	2,1
Poland	-	-	-	-	-	4,0	4,0	1,1	1,3
Portugal	1,1	5,7	1,5	4,6	4,6	3,8	3,7	1,6	0,8
Spain	0,9	4,5	1,3	3,5	4,3	4,1	4,1	2,8	2,4
Turkey	4,7	6,0	3,2	5,1	3,1	-4,7	7,4	-7,4	4,0
UK	1,0	4,2	0,5	2,9	2,9	2,4	3,1	2,0	1,9
United States	1,9	3,6	1,7	4,0	4,3	4,1	4,1	1,2	2,5

Source: NATO (2002d).

	1980-1984	1985-1989	1990-1994	1995-1999	1998	1999	2000	2001	2002
	% devoted to personnel expenditures								
Belgium	61,8	63,4	68,3	69,3	68,5	68,4	65,8	68,7	70,7
Canada	50,7	46,2	49,7	44,2	43,2	42,1	43,9	42,9	43,5
Czech Republic	-	-	-	-	-	46,9	42,8	46,0	45,5
Denmark	54,6	56,6	57,5	59,8	60,0	60,0	54,6	52,3	51,1
France	..	..	..	58,2	60,6	60,3	60,4	60,5	60,3
Germany	46,6	48,9	57,4	61,5	61,2	59,8	60,7	60,3	60,2
Greece	54,6	60,5	63,0	61,7	60,4	61,4	62,5	64,0	66,1
Hungary	-	-	-	-	-	46,7	48,7	47,9	43,1
Italy	59,1	57,8	63,6	71,8	73,3	74,0	71,4	72,3	71,9
Luxembourg	77,5	76,9	76,2	79,1	77,1	76,1	76,0	68,4	66,7
Netherlands	55,3	52,8	56,9	54,6	52,3	49,8	50,8	48,0	46,2
Norway	48,8	43,9	40,6	38,0	37,7	39,0	40,8	39,1	35,1
Poland	-	-	-	-	-	62,4	62,3	64,3	64,9
Portugal	66,6	67,7	77,3	80,8	82,8	83,2	81,8	80,9	78,2
Spain	..	..	64,9	66,5	67,5	66,0	63,9	63,4	65,0
Turkey	45,3	37,1	50,1	48,2	48,5	47,0	45,1	44,7	43,8
United Kingdom	37,4	38,6	42,2	39,4	38,0	37,9	38,2	39,4	39,3
United States	41,9	37,0	39,3	39,0	39,0	38,1	37,7	36,2	34,7
	% devoted to equipment expenditures								
Belgium	13,8	12,1	7,8	5,8	5,9	6,5	5,8	7,1	8,1
Canada	17,8	19,7	18,1	12,7	11,0	8,2	12,4	11,1	13,2
Czech Republic	-	-	-	-	-	16,3	22,5	20,3	17,5
Denmark	16,9	14,0	15,8	12,8	13,8	11,4	14,8	16,8	17,5
France	..	..	..	21,3	19,4	19,4	18,9	19,4	19,6
Germany	20,0	19,6	13,5	11,8	12,7	13,2	13,5	14,0	12,2
Greece	17,4	18,2	22,8	20,1	20,6	19,4	17,8	15,2	14,2
Hungary	-	-	-	-	-	21,0	12,4	10,5	11,2
Italy	17,4	19,7	16,3	12,9	12,4	11,7	14,3	10,3	13,3
Luxembourg	1,8	3,5	3,4	4,1	6,5	5,0	4,6	12,1	19,7
Netherlands	20,5	19,8	15,6	16,4	15,3	16,9	17,0	16,7	17,0
Norway	19,4	21,7	24,9	24,5	25,0	22,6	19,4	21,2	23,8
Poland	-	-	-	-	-	11,1	8,8	8,8	10,3
Portugal	5,5	7,6	5,7	5,5	3,8	4,2	6,4	5,2	5,6
Spain	..	..	12,4	12,8	12,0	11,5	12,9	12,7	13,7
Turkey	9,1	18,2	23,7	26,5	20,6	25,5	28,3	33,0	33,1
United Kingdom	26,2	24,8	21,0	24,8	26,5	26,9	25,7	24,1	24,2
United States	21,9	25,6	25,1	26,2	25,6	24,9	21,9	25,7	24,9

	1980-1984	1985-1989	1990-1994	1995-1999	1998	1999	2000	2001	2002
	% devoted to infrastructure expenditures								
Belgium	5,5	4,0	3,4	3,9	3,4	3,6	1,9	3,7	2,8
Canada	2,3	2,8	3,2	3,9	5,1	5,4	5,3	4,0	4,3
Czech Republic	-	-	-	-	-	7,1	3,3	4,6	6,1
Denmark	2,8	3,4	3,2	2,2	1,8	2,0	1,4	2,6	4,2
France	..	..	..	3,9	3,9	4,4	4,5	4,5	4,3
Germany	5,4	5,9	4,9	4,8	4,6	5,1	4,9	4,4	4,1
Greece	2,8	2,2	1,7	1,9	2,1	2,1	1,8	1,4	1,3
Hungary	-	-	-	-	-	4,0	2,9	5,7	6,7
Italy	2,3	2,6	2,4	0,8	0,8	0,8	1,2	0,9	0,9
Luxembourg	10,3	7,3	10,4	4,2	4,5	6,7	4,9	7,9	2,7
Netherlands	3,7	5,2	5,2	3,8	3,7	3,7	4,3	4,2	3,9
Norway	5,0	8,2	9,2	6,3	6,9	5,2	5,0	5,1	7,6
Poland	-	-	-	-	-	1,4	1,9	2,2	1,2
Portugal	5,9	3,7	2,3	1,0	0,6	0,6	1,5	0,7	0,7
Spain	..	..	1,2	0,8	0,8	1,8	1,7	2,2	2,5
Turkey	13,2	5,4	3,0	4,4	6,1	8,5	7,2	6,2	5,4
United Kingdom	2,7	3,9	5,2	5,2	4,6	5,1	4,3	0,8	1,9
United States	1,6	1,8	1,5	2,3	2,2	2,0	1,7	1,6	1,6
	% devoted to other expenditures								
Belgium	18,8	20,4	20,4	21,0	22,2	21,4	26,5	20,4	18,5
Canada	29,0	31,2	29,0	38,1	40,7	44,4	38,4	42,0	39,0
Czech Republic	-	-	-	-	-	29,8	31,5	29,1	30,9
Denmark	25,7	25,8	23,3	25,2	24,3	26,6	29,3	28,2	27,2
France	..	..	..	16,4	16,1	15,9	16,2	15,6	15,7
Germany	27,9	25,5	23,9	21,9	21,5	21,9	20,9	21,3	23,6
Greece	24,9	18,4	12,2	16,2	16,8	17,2	17,9	19,4	18,4
Hungary	-	-	-	-	-	28,3	36,1	35,9	39,1
Italy	21,0	19,8	17,7	14,3	13,5	13,5	13,1	16,4	13,9
Luxembourg	10,2	11,9	9,4	12,0	11,9	12,1	14,5	11,6	11,0
Netherlands	20,3	22,0	22,1	24,7	28,7	29,6	27,8	31,1	32,9
Norway	26,7	26,0	24,8	31,1	30,4	33,3	34,8	34,6	33,5
Poland	-	-	-	-	-	25,1	27,1	24,6	23,6
Portugal	21,9	19,8	13,8	12,3	12,8	12,0	10,3	13,2	15,5
Spain	..	..	21,2	19,7	19,7	20,8	21,4	21,7	18,8
Turkey	30,1	38,4	22,5	20,0	24,8	19,0	19,4	16,2	17,7
United Kingdom	33,5	32,5	30,5	30,5	31,0	30,1	31,7	35,7	34,6
United States	34,5	35,5	33,6	32,5	33,2	35,1	38,7	36,5	38,8

Source: NATO (2002d)

TABLE 3: **Distribution of total defense expenditures of NATO countries by category**

Solution of the Constrained Maximization Problem

As elaborated above, the maximization problem under side conditions is solvable through the *Lagrange approach*. Accordingly, the following relationship could be established:

Maximize $U = U(S, W, A)$ subject to the conditions

(1) $S = S(L, R)$ (2) $W = g_1(R)$ (3) $A = g_2(L)$

For the purpose of simplification, the intervening variable S shall temporarily be ignored so that $U = U(L, A, R, W)$. Then the *Lagrange* approach implies that

$$V = U(L, A, R, W) + \lambda_1 (W - G_1(R)) + \lambda_2 (A - G_2(L))$$

and (4) $\partial V/\partial L = \partial U/\partial L + (\lambda_2 \cdot -dA/dL)$

(5) $\partial V/\partial A = \partial U/\partial A + \lambda_2$

(6) $\partial V/\partial R = \partial U/\partial R + (\lambda_1 \cdot -dW/dR)$

(7) $\partial V/\partial W = \partial U/\partial W + \lambda_1$

Setting these equations equal to zero and transforming leads to

(8) $\partial U/\partial L = \lambda_2 \cdot dA/dL$ (9) $\partial U/\partial A = -\lambda_2$

(10) $\partial U/\partial R = \lambda_1 \cdot dW/dR$ (11) $\partial U/\partial W = -\lambda_1$

Dividing the upper and the lower pair will result in

(12) $$\frac{\partial U/\partial L}{\partial U/\partial A} = \frac{-dA}{dL}$$

(13) $$\frac{\partial U/\partial R}{\partial U/\partial W} = \frac{-dW}{dR}$$

while recalling that $$\frac{\partial U}{\partial L} = \frac{\partial U}{\partial S} \cdot \frac{\partial S}{\partial L}$$

and $$\frac{\partial U}{\partial R} = \frac{\partial U}{\partial S} \cdot \frac{\partial S}{\partial R};$$

so that (14) $$\frac{\frac{\partial U}{\partial S}\cdot\frac{\partial S}{\partial L}}{\partial U/\partial A}=\frac{-dA}{dL}$$

and (15) $$\frac{\frac{\partial U}{\partial S}\cdot\frac{\partial S}{\partial R}}{\partial U/\partial R}=\frac{-dW}{dR}$$

If, assumable, the rates of transformation both between alliance/autonomy and between armaments/wealth are linear, then the result shrinks to

(16) $$\frac{\partial U}{\partial S}\cdot\frac{\partial S}{\partial L}=\frac{\partial U}{\partial A} \quad \text{or} \quad \frac{\partial U}{\partial L}=\frac{\partial U}{\partial A};$$

and (17) $$\frac{\partial U}{\partial S}\cdot\frac{\partial S}{\partial R}=\frac{\partial U}{\partial W} \quad \text{or} \quad \frac{\partial U}{\partial R}=\frac{\partial U}{\partial W}\,^{*}.$$

[*] See Altfeld (1984).

TABLE 4: **Effects of Domestic and International Conditions on the Attractiveness of the Use of Military Force**

Condition	Supply Effect	Demand Effect
	Economic Conditions	
Economic growth	Low or negative growth makes the use of force more costly because it implies that less revenue will be available to fund any ensuing commitments.	Low or negative growth harms the economic welfare of voters and makes the diversionary use of force more attractive.
Inflation	High inflation makes the use of force more costly, because war may make inflation worse.	Inflation harms the economic welfare of voters and makes the diversionary use of force more attractive.
Unemployment	High unemployment makes forces less costly by reducing labor costs.	High unemployment harms voters and makes the diversionary use of force more attractive.
Investor confidence	Low investors confidence makes the use of force more costly, because international conflict undermines investor's confidence.	Investor confidence generates no demand for the use of force because it does not necessarily reflect hardship for the mass public.
	Domestic Political Conditions	
Presidential popularity	High presidential popularity makes the use of force less costly by making it easier to mobilize support.	Low presidential popularity makes a diversionary use of force more attractive
Approaching elections	Approaching elections make the use of force costly when there is an ongoing war, because additional military action is unpopular.	Approaching elections make the use of force more attractive except during ongoing wars, when additional military action is unpopular.
	International Conditions	
International threats	More frequent international threats increase the opportunity cost of any given use of force.	More frequent international threats increase demands for the use of force.
Ongoing war	Ongoing war makes the use of force more costly by reducing the force‘s availability	Ongoing war makes the use of force less popular.

Source: Fordham (1998b), p. 571.

TABLE 5: **Personnel and Equipment expenditures in millions US$ in United States and among European NATO Allies**

		1999	2000	2001
United States	Personnel	104.710	107.778	101.986
	Equipment	68.530	62.610	61.792
NATO Europe	Personnel	99.610	99.948	102.888
	Equipment	30.410	30.662	29.829
NATO Total	Personnel	187.961	191.338	184.561
	Equipment	94.275	89.385	87.968

		1999	2000	2001
Belgium	Personnel	2.539	2.442	2.430
	Equipment	243	215	195
Czech Rep.	Personnel	529	490	572
	Equipment	184	257	253
Denmark	Personnel	1.698	1.493	1.454
	Equipment	323	331	323
France*	Personnel	24.364	24.104	24.087
	Equipment	7.833	7.527	7.952
Germany	Personnel	20.221	20.091	19.882
	Equipment	4.464	4.475	4.215
Greece	Personnel	3.751	4.029	4.218
	Equipment	1.183	1.149	992
Hungary	Personnel	330	356	374
	Equipment	149	90	82
Italy	Personnel	18.060	18.574	17.803
	Equipment	2.852	3.732	3.076
Luxembourg	Personnel	110	112	115
	Equipment	7	7	28
Netherlands	Personnel	3.570	3.493	3.329
	Equipment	1.211	1.171	1.265
Norway	Personnel	1.303	1.319	1.348
	Equipment	755	628	765
Poland	Personnel	2.049	2.007	2.263
	Equipment	365	282	312
Portugal	Personnel	2.044	2.070	2.067
	Equipment	103	162	160
Spain	Personnel	5.092	5.112	5.165
	Equipment	890	1.035	1.051
UK	Personnel	13.950	14.256	17.781
	Equipment	9.848	9.601	9.160

		1999	2000	2001
US share	Personnel	**55,7%**	**56,3%**	**55,3%**
	Equipment	**72,7%**	**70,0%**	**70,2%**
NATO Europe share	Personnel	**53,0%**	**52,2%**	**55,7%**
	Equipment	**32,3%**	**34,3%**	**33,9%**

Source: SIPRI (2002).

* Note: France's *Gendarmerie* and other civilian security forces belong to the national armed forces.

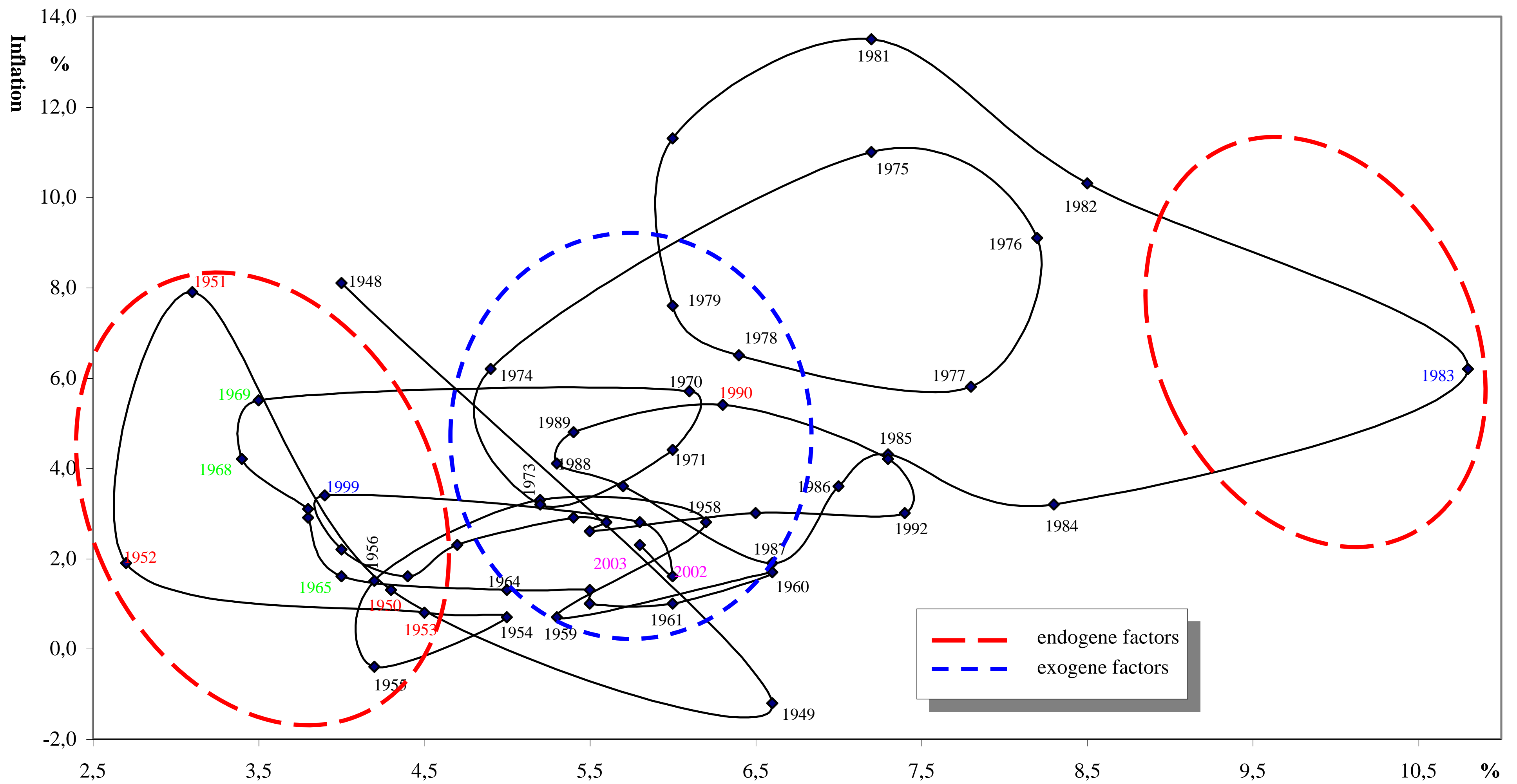
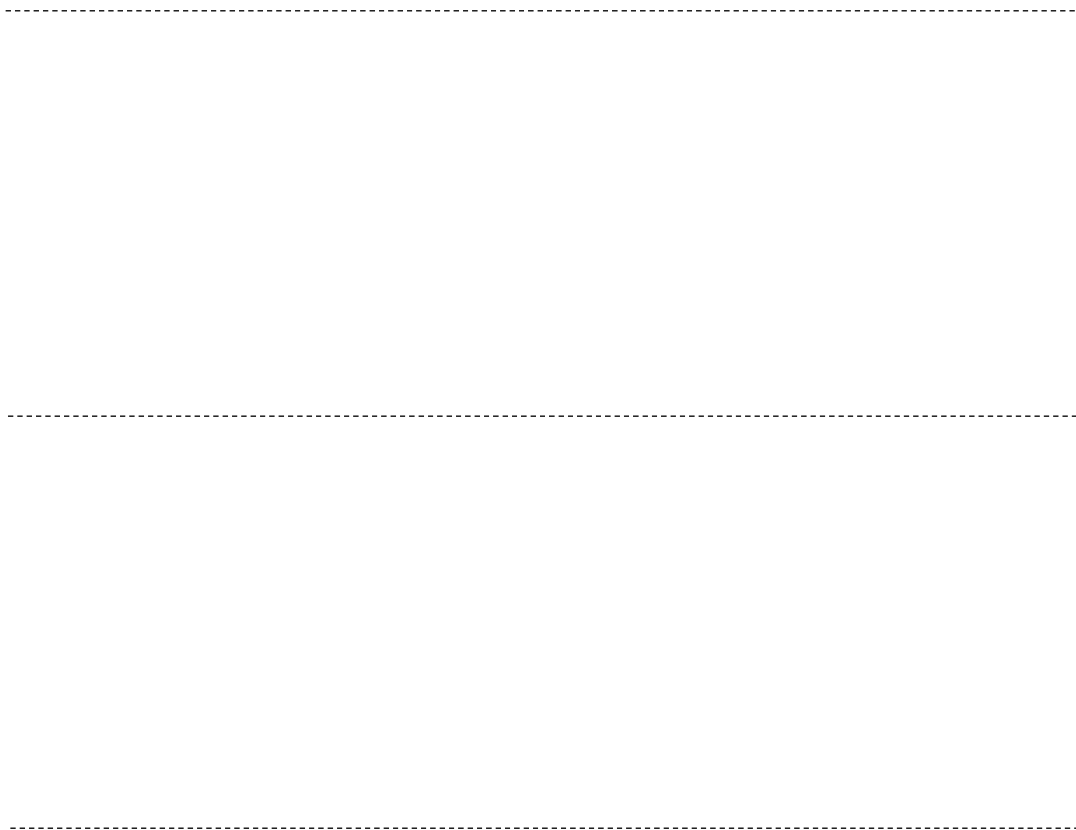


FIGURE 7: **Relationship between inflation and unemployment rate (Philips curve) in the United Sates from 1948 to 2003**
Adapted from Mankiw (2000), p. 406-8; Sources: Federal Reserve Bank of St. Louis & Federal Reserve Bank of Minneapolis (Internet)

Military Balance

FIGURE 12: **Military Balance of NATO countries and other regional groups of states**



Source: IISS (2002a & 2003)

Nation	Military			Defense Budget 1999			2000			2001			2002		
	Active	%	Reserve	Defense Budget in billion US$	*Insurance Fee*	Defense Expenditure per Capita	Defense Budget in billion US$	*Insurance Fee*	Defense Expenditure per Capita	Defense Budget in billion US$	*Insurance Fee*	Defense Expenditure per Capita	Defense Budget in billion US$	*Insurance Fee*	Defense Expenditure per Capita
Belgium	39.260	0,386%	100.500	2,50	**245,60**	1,055%	2,40	**235,78**	0,988%	2,20	**216,13**	0,969%	2,70	**265,25**	1,189%
Canada	52.300	0,165%	35.400	7,00	**220,47**	1,087%	8,00	**251,97**	1,111%	7,40	**233,07**	1,057%	7,60	**239,37**	1,086%
Czech Rep.	49.450	0,484%	-	1,16	**113,92**	2,238%	1,14	**111,37**	2,188%	1,19	**116,17**	2,158%	1,62	**158,74**	2,949%
Denmark	22.700	0,428%	64.900	2,60	**489,83**	1,566%	2,10	**395,63**	1,313%	2,10	**395,63**	1,304%	2,40	**452,15**	1,491%
France	260.400	0,439%	100.000	29,50	**497,71**	2,107%	26,60	**448,79**	2,046%	25,80	**435,29**	1,985%	29,50	**497,71**	2,269%
Germany	296.000	0,359%	390.300	25,40	**308,10**	1,337%	23,60	**286,26**	1,311%	21,50	**260,79**	1,194%	24,90	**302,03**	1,383%
Greece	177.600	1,662%	291.000	3,40	**318,26**	3,178%	3,20	**299,54**	2,832%	3,40	**318,26**	2,982%	3,50	**327,62**	3,070%
Hungary	33.400	0,334%	90.300	0,75	**74,49**	1,585%	0,67	**67,09**	1,459%	0,82	**82,28**	1,583%	1,08	**108,38**	2,085%
Italy	216.800	0,379%	62.500	16,20	**283,30**	1,473%	15,70	**274,55**	1,427%	15,90	**278,05**	1,445%	19,40	**339,26**	1,764%
Luxembourg	900	0,206%	-				0,10	**224,77**	0,516%	0,15	**334,86**	0,768%	0,18	**412,84**	0,947%
Netherlands	49.580	0,313%	32.200	6,50	**409,99**	1,733%	6,00	**378,45**	1,609%	5,70	**359,53**	1,484%	6,60	**416,30**	1,719%
Norway	26.600	0,593%	219.000	3,30	**735,46**	2,200%	2,90	**646,31**	1,824%	3,00	**668,60**	1,829%	3,80	**846,89**	2,317%
Poland	163.000	0,420%	234.000	3,20	**82,43**	2,038%	3,00	**77,28**	1,899%	3,40	**87,59**	1,932%	3,50	**90,16**	1,989%
Portugal	43.600	0,441%	210.930	1,30	**131,63**	1,250%	1,30	**131,63**	1,226%	1,60	**162,01**	1,441%	1,30	**131,63**	1,171%
Spain	177.950	0,448%	328.500	7,40	**186,27**	1,301%	6,90	**173,69**	1,219%	7,10	**178,72**	1,207%	8,40	**211,44**	1,429%
Turkey	514.850	0,761%	378.700	8,90	**131,56**	4,785%	7,60	**112,34**	3,800%	5,70	**84,25**	3,851%	5,80	**85,73**	3,919%
UK	210.450	0,357%	256.750	35,90	**609,11**	2,564%	34,80	**590,45**	2,486%	33,60	**570,09**	2,400%	38,40	**651,53**	2,743%
United States	1.414.000	0,502%	1.259.300	276,20	**981,51**	3,002%	294,50	**1.046,54**	2,975%	308,50	**1.096,29**	3,025%	347,90	**1.236,30**	3,411%
Bulgaria	68.450	0,836%	303.000	0,29	**35,79**	2,442%	0,33	**40,67**	2,775%	0,36	**43,97**	2,667%	0,43	**52,64**	3,193%
Estonia	5.510	0,401%	24.000	0,07	**53,82**	1,644%	0,08	**57,09**	1,570%	0,09	**68,29**	1,739%	0,13	**95,27**	2,426%
Latvia	5.500	0,238%	14.050	0,06	**25,13**	0,967%	0,07	**30,33**	0,976%	0,08	**32,93**	1,013%	0,12	**50,26**	1,547%
Lithuania	13.510	0,370%	309.200	0,18	**48,97**	1,673%	0,15	**40,77**	1,330%	0,17	**45,69**	1,403%	0,23	**62,93**	1,933%
Romania	99.200	0,446%	130.000	0,61	**27,30**	1,839%	0,94	**42,28**	2,561%	0,99	**44,49**	2,491%	1,146	**51,55**	2,887%
Slovakia	26.200	0,487%	20.000	0,31	**57,76**	1,777%	0,36	**66,12**	1,854%	0,35	**64,08**	1,734%	0,45	**83,58**	2,261%
Slovenia	9.000	0,454%	20.000	0,70	**353,36**	3,784%	0,27	**135,29**	1,473%	0,28	**138,82**	1,455%	0,313	**158,00**	1,656%
NATO (19)	**3.748.840**	**0,457%**	4.054.280		**327,04**	**1,929%**		**307,20**	**1,711%**		**313,09**	**1,730%**		**361,16**	**1,960%**
NATO Invitees	**227.370**	**0,462%**	820.250		**86,02**	**2,018%**		**58,94**	**1,791%**		**62,61**	**1,786%**		**79,18**	**2,272%**
NATO (26)	**3.976.210**	**0,476%**	**4.874.530**		**259,56**	**1,954%**		**240,36**	**1,733%**		**245,65**	**1,745%**		**285,24**	**2,044%**

Source: IISS (2002a & 2003).

TABLE 6: **Military Balance · NATO members and Invitees (Prague Summit)**

Nation	Military			Defense Budget											
				1999			2000			2001			2002		
	Active	%	Reserve	Defense Budget in billion US$	***Insurance Fee***	**Defense Expenditure per Capita**	Defense Budget in billion US$	***Insurance Fee***	**Defense Expenditure per Capita**	Defense Budget in billion US$	***Insurance Fee***	**Defense Expenditure per Capita**	Defense Budget in billion US$	***Insurance Fee***	**Defense Expenditure per Capita**
Russia	988.100	0,673%	2.400.000	31,00	**211,29**	2,818%	52,00	**354,42**	4,255%	65,00	**443,02**	4,271%			
India	1.298.000	0,126%	535.000	12,40	**12,04**	2,818%	15,90	**15,44**	3,376%	15,50	**15,06**	3,163%	15,60	**15,15**	3,184%
Pakistan	620.000	0,383%	513.000	2,90	**17,92**	4,708%	3,00	**18,54**	4,777%	2,60	**16,07**	4,659%			
Iran	520.000	0,762%	350.000	5,70	**83,48**	6,129%	2,30	**33,68**	3,151%	2,80	**41,01**	3,415%	4,10	**60,05**	5,000%
Iraq	389.000	1,744%	650.000	1,40	**62,78**	7,000%	1,40	**62,78**	9,091%	1,40	**62,78**	9,333%			
Israel	161.500	2,549%	425.000	6,70	**1.057,45**	6,768%	9,50	**1.499,37**	8,716%	10,20	**1.609,85**	9,273%	9,40	**1.483,59**	8,545%
Saudi Arabia	124.500	0,561%	-	18,40	**828,64**	13,050%	19,90	**896,19**	10,757%	20,60	**927,72**	11,705%	21,30	**959,24**	12,102%
Australia	50.920	0,268%	20.300	7,20	**378,65**	1,805%	6,90	**362,87**	1,816%	6,80	**357,61**	1,899%	7,60	**399,68**	2,123%
China	2.270.000	0,176%	550.000	12,60	**9,74**	1,721%	14,50	**11,21**	1,318%	17,00	**13,15**	1,417%	20,00	**15,47**	1,667%
Japan	239.900	0,189%	47.000	43,20	**340,12**	1,005%	45,60	**359,02**	0,970%	40,30	**317,29**	0,983%	42,60	**335,40**	1,039%
North Korea	1.082.000	4,416%	4.700.000	1,30	**53,06**	8,844%	1,30	**53,06**	7,927%	1,30	**53,06**	7,222%	1,40	**57,14**	7,778%
South Korea	686.000	1,450%	4.500.000	11,60	**245,27**	2,850%	12,80	**270,64**	2,801%	11,80	**249,50**	2,796%	14,10	**298,13**	3,341%
United States	1.414.000	0,502%	1.259.300	276,20	**981,51**	3,002%	294,50	**1.046,54**	2,975%	308,50	**1.096,29**	3,025%	347,90	**1.236,30**	3,411%
Germany	296.000	0,359%	390.300	25,40	**308,10**	1,337%	23,60	**286,26**	1,311%	21,50	**260,79**	1,194%	24,90	**302,03**	1,383%
NATO (19)	**3.748.840**	**0,457%**	4.054.280		**327,04**	**1,929%**		**307,20**	**1,711%**		**313,09**	**1,730%**		**361,16**	**1,960%**
NATO (26)	**3.976.210**	**0,476%**	**4.874.530**		**259,56**	**1,954%**		**240,36**	**1,733%**		**245,65**	**1,745%**		**285,24**	**2,044%**

Source: IISS (2002a & 2003).

TABLE 7: **Military Balance · NATO (19) and (26) and other regional groups of states**

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