

European Security Institutions and the Military-Industrial Complex

Introduction

This research paper focuses on how the evolution of European security institutions affects the influence and impact of the military-industrial complex in Europe. The evolution of a second tier of intergovernmental institutions has deepened the military-industrial complex in a variety of ways in relation to defense budgets, the defense industry, joint projects and NATO. The development of an integrated Europe has complicated the traditional understanding of the military-industrial complex (MIC). The MIC in Europe has shifted from an organizing system primarily within individual countries to an organizing system that exists on two tiers. It still exists predominately within the original organizing system. However, a second tier now exists at the European level through intergovernmental institutions. This second tier of institutions has its own sets of priorities and politics which exist both on their own plane and in conjunction with the first tier. The focus of this paper is on this relatively new second tier and how it interacts with the first tier.

For the purposes of this paper, the military-industrial complex is defined as the self-interested relationship between a nation's military, its private industry, and involved political interests. The traditional definition of the military-industrial complex must be broadened in the case of the Europe because of the evolution of intergovernmental security institutions in conjunction with individual states. This poses a challenge in that it is difficult to create an explanatory organizing system that adequately encompasses this

unique situation. The relative newness and expansion of the most recent shift in the European MIC paradigm, the Common Foreign and Security Policy (CFSP), means that this organizing system must be adaptable to the continued evolution of European security institutions.

This research paper is focused narrowly in a number of ways on the primary question. The military-industrial complex is limited to the politics of defense procurement and coordination. Defense contractors will be limited to companies that produce military goods (though not exclusively necessarily) for the armed forces. The role of defense contractors will be limited to only the top fifteen largest military contractors because the overall market share among them is enormous. The end of the Cold War has precipitated a rising and dynamic influence of the MIC on European security institutions so this research will focus on the last fifteen years with background as necessary.

At the outset of this research, there are a number of working assumptions. First, there actually is an active military-industrial complex in Europe. This assumption has been challenged by a number of writers as an outdated notion developed during the Cold War that is no longer applicable.¹ Second, the behavior of states at the intergovernmental and national level is principally self-interested in line with the realist school of thought. Also, representatives from countries come into office with a prescribed set of beliefs and expertise based on their experiences at both tiers. Even when states take actions that further integration which results on the loss of sovereignty, these actions are taken because of an expectation of (sometimes eventual) self-interest. Third, the widespread

¹ Gholz, Eugene. "The Curtis-Wright Corporation and Cold War-Era Defense Procurement: A Challenge to Military-Industrial Complex Theory." *Journal of Cold War Studies* Vol. 2 Issue 1 (Winter 2000) <http://search.ebscohost.com/login.aspx?direct=true&db=mth&AN=5337445&site=ehost-live>

influence of the military-industrial complex in the United States, which is home to most of the major defense contractors, has an important impact on the military-industrial complex in Europe. While it does not dominate European security institutions, the United States plays a major role in European defense policy especially with regards to NATO.

Literature Review

There is a surprising lack of research on the military-industrial complex in Europe. The efforts to link spending and changes in security institutions are common in such places as the United States, Russia and China. As the CFSP and related institutions deepen, this topic should garner more interest. Research, like that in this paper, will ideally lead to more analysis on the relationship and influence of the European MIC with intergovernmental institutions. This could potentially lead to new organizing systems, or insights to previous systems, to explain the military-industrial complex within states.

The literature on the military-industrial complex has been widely debated. First, the definition of the term itself is widely contested. As stated before, this research paper defines the military-industrial complex as the self-interested relationship among a nation's military, its private industry, and involved political and commercial interests. The three different arguments that make up the bulk of MIC theory are coming at the same theory from three different perspectives: 1) the military hierarchy, 2) the political bureaucracy, and 3) major industry corporations. In reality, the three strands are interwoven and interdependent which makes identifying the lead determinants in particular situations difficult. Scholars such as Adrian Kuah of the Institute of Defense and Strategic Studies have sought to use new organizational theories to reflect this dynamism but these theories

have minimal empirical evidence.² The limits around each strand create open gaps for debate.

The first school of thought holds that the military hierarchy drives the military-industrial complex. James Fallows argues that the military has evolved in this respect.³ For example, the US military used threat perception during the Cold War to drive the political bureaucracy into extravagant weapons systems deemed necessary to protect the United States and its allies from the aggression of the Soviet Union. The missile gap accusation during the Kennedy presidential campaign and Regan's defense shield are two examples of how a military used political pressure. Likewise, the fear of the Soviet Union was enough to eventually convince France politicians that the remilitarization and inclusion into NATO of West Germany was necessary from a military standpoint.

Sometimes, the US Joint Chiefs have been able to overwhelm presidents with weak military backgrounds such as Bill Clinton because of the perception that he was a draft evader.⁴ Examples such as these exist in other European states as well. In the wake of disastrous failures in the Vietnam War by both France and the United States as well as later fiascos such as Algeria for France, industrialized militaries have shifted their focus towards high-tech technology that is far more expensive but less risky politically. These types of projects are nearly impossible to stop once started and are willingly taken on by defense industry giants. The industry's revolving door policy to ex-military officials has only strengthened the relationship between industry and the military.

² Kuah, Adrian. "Reconceptualizing the Military-Industrial Complex: A General Systems Theory Approach." *Institute of Defense and Strategic Studies Singapore Working Paper 96* (Dec 2005) <http://www.ntu.edu.sg/RSIS/publications/WorkingPapers/WP96.pdf>

³ Fallows, James. "The Military-Industrial Complex" *Foreign Policy* Issue 133 (Nov/Oct 2002)

⁴ Hartung, William D. "Eisenhower's Warning." *World Policy Journal* Vol. 18 Issue 1 (Spring 2001) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=4406911&site=ehost-live>

This strand presents some issues however. There have been repeated instances in the United States (the V-22 Osprey a prominent example) and elsewhere where governments have authorized funding for expensive weapons systems, which are politically easier to sell than increases in funds for personnel and maintenance, over the objections of some high-ranking military officials. Top military chiefs from different branches often disagree on how the military should be constructed and focused. In addition, militaries do not simply have unlimited funds as they are often accused. Eugene Gholz analysis of the downfall of the Curtiss-Wright Corporation during the Cold War demonstrates how industry giants as well as smaller defense firms must be effective businesses in addition to successful lobbyists.⁵ There are limits to defense budgets even in the strongholds of the military-industrial complex centers, Russia, the United States and a rising China. This especially holds true for Europe since the EU does not possess its own military and its members are largely un-integrated in most areas of defense procurement.

The second school of thought holds that the political bureaucracy is the main force behind the military-industrial complex. This theory operates on the basis that the military and defense industry are being used to further national interests abroad as well as satisfying domestic constituents at home as articulated by Jerry Harris.⁶ The accumulation of hard power allows nations to operate more freely to act in their own interests internationally. Ken Cunningham postulates that these power-elites use the military hard

⁵ Gholz, Eugene. "The Curtis-Wright Corporation and Cold War-Era Defense Procurement: A Challenge to Military-Industrial Complex Theory." *Journal of Cold War Studies* Vol. 2 Issue 1 (Winter 2000) <http://search.ebscohost.com/login.aspx?direct=true&db=mth&AN=5337445&site=ehost-live>

⁶ Harris, Jerry. "The Conflict for Power in Transnational Class Theory" *Science and Technology* Vol. 167, no. 3 (Fall 2003)

power or the threat of as the solution to many problems internationally.⁷ Industry profits from this aggressive policy while receiving protection from the state in the form of expensive contracts. Walter Adams goes another step further and argues that the United States government actually created the military-industrial complex through its discriminatory policy actions in areas such as tax codes, patent policy, R & D support, etc.⁸ This paper highlights how European institutions have also managed the military-industrial complex in this way at both the intergovernmental and national tiers. Current EU defense policy spurs on competing (national) interests which serves to invigorate the European military-industrial complex albeit on a relatively smaller scale.

This strand is continually attacked on the basis that this type of thinking is grounded in Cold War-era policy-making. Critics charge that this theory does not take into account the changes in the international community as increasingly the focus revolves around transnational issues such as crime, terrorism and human rights violations. Also, scholars such as Barry Rundquist have routinely done research demonstrating that political elites involved in military funding are not particularly more successful in obtaining benefits for their constituents than are other politicians.⁹ This has become even more complicated in Europe because, while the major companies are international, they are nationally based so politicians seek economic benefits for their own citizens through military procurement. In addition, the ability of the political bureaucracy to dominate the military-industrial complex ignores the immense political vulnerability that comes from

⁷ Cunningham, Ken. "Permanent War? The Domestic Hegemony of the New American Militarism." *New Political Science* Vol. 26 Issue 4 (Dec 2004) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=15626040&site=ehost-live>

⁸ Walter, Adams. "'The Military-Industrial complex and the New Industrial State'" *The American Economic Review* Vol. 58, No. 2 (May, 1968) <http://links.jstor.org/sici?sici=0002-8282%28196805%2958%3A2%3C652%3ATMCATN%3E2.0.CO%3B2-M>

⁹ Rundquist, Barry. "On testing a military-industrial complex theory." *American Politics Quarterly* Vol. 6 (Jan 1978)

the military and politically active defense contractors. However, this strand seems more important in discussing the European MIC since states are often important shareholders in European-based defense companies.

The final strand is that the defense industry is the driving force behind the military-industrial complex. As the direct beneficiaries of tax-payers' money, they have been hit hardest by criticisms. JoAnn Miller and Robert Perrucci argue that the defense industry creates perceptions of specific threats for the military and political bureaucracy (often through the media) which must be addressed.¹⁰ The defense industry manages to create and address threats at the same time. Furthermore, the vulnerabilities for politicians of seeming not to support one's own uniformed military are numerous and far-reaching. In the United States, major defense giants use a variety of means to influence the political bureaucracy such as lobbying, donations and spreading out production lines throughout the country. This tactic is only employable in a market democracy which makes it particularly relevant for Europe. The defense industry is able to take this influence to another level when dealing with powers such as the United States, Russia, China and the European Union by playing on their wide-spread global interests.

Gaps in this theory revolve primarily around questions of how much weight do defense corporations actually place on both the political bureaucracy and the military. With the notable exception of the United States, most industrialized countries spend too little of their GDP to be held hostage in this kind of situation. Furthermore, industries may attempt to fit their customers' needs but the customers still need to be interested and agree to pay for the product. As Eugene Gholz mentioned earlier, defense giants still face

¹⁰ Miller, JoAnn and Perrucci, Robert. "World-system's theory, persistent structures and social change." *Contemporary Sociology* Vol. 34 Issue 1 (Jan 2005) <http://proquest.umi.com/proxyau.wrlc.org/pqdweb?did=791690431&Fmt=7&clientId=31806&RQT=309&VName=PQD>

intense competition especially with the end of the Cold War which can limit their influence considerably. With the United States as a lone superpower and the European Union not yet ready to commit itself to militarization, defense contractors face the challenges of expensive R & D for evolving militaries and fiscally cautious governments. Finally, Frank Wayman, and others have developed research that suggest the direct political effects of defense contractors on voting is fairly minimal. These deficiencies in the literature lead to questions regarding the usefulness of traditional military-industrial complex theory especially when applied to a unique institution like the European Union instead of single-states focuses like the USA, Russia or China.¹¹

Outline

This paper is broken into a series of inter-woven sections which describe the different aspects of the European military-industrial complex. Since the research seems to suggest that the defense industry is the principal actor affected by the evolution of European security institutions, a section describing developments in the defense industry leads. Next, there is a section on the new intergovernmental institutions constructed by the European Union. Afterwards, the primary spenders in the MIC, individual states, will be discussed in terms of their defense budgets. The focus shifts in the next section from the first tier to second tier developments through an overview of different types of joint projects that foreshadow possible future paths of cooperation. While the section on joint projects points to a new future, the last section confronts the role of NATO within the dynamic European military-industrial complex. Finally, the paper finishes with some

¹¹ Wayman, Frank. "Arms Control and Strategic Arms Voting in the US Senate: Patterns of Change, 1967-1983." *The Journal of Conflict Resolution* Vol. 29, No. 2 (June 1985) <http://links.jstor.org/sici?sici=0022-0027%28198506%2929%3A2%3C225%3AACASAV%3E2.0.CO%3B2-%23>

brief thoughts on the policy implications and possible further research. Each section uses the two-tiered organizational system as a loose structure around which to examine how the evolution of security institutions has impacted the European MIC.

Defense Industry

Since the end of the Cold War, relations between European defense companies and their US counterparts fundamentally shifted. During the Cold War, companies were more likely to collaborate across the ocean against a universal security threat (i.e. Soviet Union). The downfall of the Soviet Union did not change the threat perception of Europe towards the United States but rather European companies saw an opportunity for business without compromising national security.¹² In addition, the control of these companies by state governments has also lessened considerably. The lack of a major threat originally bred the belief among Europeans that they could now handle their own security. However, the outbreak of violence in the Balkans demonstrated the weakness of Europe and the need for a restructured defense industry to support a militarized Europe.

The European defense industry has undergone a massive transformation from a multitude of small and medium sized state-oriented firms to a few, large companies. The change has been necessitated by shifts in the international arenas of economics and security and is explained more specifically below. These shifts occurred for a number of reasons including developments within the United States defense industry, changes in technology procurement, economic restructuring in Europe (primarily the EC/EU) and

¹² Jones, Seth G. "The rise of a European Defense." *Political Science Quarterly* Vol. 121 Issue 2 (Summer 2006). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=21801967&site=ehost-live>

progress towards the Common Foreign and Security Policy.¹³ While the European defense market is consistently criticized, it is important to know the background in order to understand it has in fact progressed considerably.

While US defense contractors were being pushed into mergers in the beginning of the 1990s by Congress and the Pentagon, European firms were content to remain static with their arrangements with national governments. For their part, national governments were also content to remain static because they feared losing control and sovereignty over the defense industry. They remained protectionist in both technology and weapons exports. Medium-sized firms became larger by buying smaller defense companies or defense-oriented sectors from other companies. In the search for a peace dividend after the Cold War, defense companies cut 600,000 to 700,000 jobs.¹⁴ Meanwhile, the dearth of defense spending allowed countries to focus on economic problems like the immense costs of German reunification. The defense industry's first shot at a European defense company came up short though it did help lead to a series of major mergers which strengthened the market.

In January 1999, British Aerospace bought the defense arm of GEC to create the powerful defense company known as BAE Systems.¹⁵ However, weeks before, British Aerospace had been in talks over forming an aerospace company with German and French companies. The pullout by the British has delayed the first European defense

¹³ Guay, T. and Callum, R. "The transformation and future prospects for Europe's defense industry." *International Affairs*. Vol. 78 Issue 4 (Oct2002) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=7502668&site=ehost-live>

¹⁴ Struys, Wally. "The future of the defense firm in small and medium countries." *Defense and Peace Economics*. Vol. 15 Issue 6 (Dec2004) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=15223253&site=ehost-live>

¹⁵ Fligstein, Neil. "Sense Making and the Emergence of a New Form of Market Governance." *American Behavioral Scientist*. Vol. 49 Issue 7 (Mar2006) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=20037340&site=ehost-live>

company. British Aerospace bought a part of GEC instead for two reasons. First, it gave the company almost national dominance in the UK. Second, this gave the new company, BAE, substantial holdings in the United States.¹⁶ The USA generally trusts the UK more readily than they do France or Germany, especially after the 9/11 terrorist attacks, which gives Britain an advantage in access to technology. BAE has exploited this advantage to acquire a lead position in the US market as well as preferential access to US R&D. This illustrates how many commercial and national actors are still more comfortable in relying on the United States defense industry than on a budding European one.

This first major merger soon led to a number of other ones. Major French aerospace companies (Aerospatiale and Matra) combined with the German Dasa to form EADS. CASA, Spain's largest defense firm, also merged with EADS. In addition, most of the remaining major French defense companies merged to form Thales. BAE (3), EADS (7) and Thales (11) are now in the top 15 defense firms globally.¹⁷ In addition, Airbus was restructured so that EADS (80%) and BAE (20%) are the controlling partners in order to make it more competitive with US-based Boeing. Other sectors from missiles to helicopters have also consolidated substantially.

These changes were initially driven by pressure from mergers in the US defense industry. All of these mergers are driven by the rising costs of technology which makes economies of scale more important. European states (and their defense companies) needed to become more competitive or simply face extinction from US defense firms in search of new customers.¹⁸ However, the United States and more recently European states

¹⁶ Guay, T. and Callum, R. "The transformation and future prospects for Europe's defense industry." *International Affairs*. Vol. 78 Issue 4 (Oct2002) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=7502668&site=ehost-live>

¹⁷ "2006 Top 100 Table." *DefenseNews.com* <http://www.defensenews.com/index.php?S=07top100>

¹⁸ Jones, Seth G. "The rise of a European Defense." *Political Science Quarterly* Vol. 121 Issue 2 (Summer 2006). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=21801967&site=ehost-live>

have been more cautious about mergers because they recognize that there still must be a certain level of competition. The other reason why economies of scale are important, especially for the European defense industry, is that few countries besides the United States use their high-tech hardware on a regular basis. If the demand is limited, then the supply will inevitably be lower.

Finally, the export market for excess defense systems has shrunk from \$20.2 billion in 1992 to \$16.2 in 2001.¹⁹ Since then, the 9/11 terrorist attacks, as well as the bombings in London and Madrid, have raised tensions, but not the checkbooks, in European countries substantially. The pledge by many European countries to spend 2% of their GDP on defense has not happened. Meanwhile the United States builds the vast majority of their own weapons and has little interest in importing European weapons systems. Only 4.1%, or \$8.6 billion, of the \$209 billion the Pentagon spent on procurement in fiscal year 2003 went to foreign entities.²⁰ The same is largely true for Russia. The ban on arms sales to China further eliminates a large defense spender. With the European emphasis on human rights in Africa, the opportunities for European defense companies are quite limited. The majority of major arms deals have come with countries in the unstable Middle East such as Saudi Arabia, Israel and the United Arab Emirates.²¹

Changes in the environment surrounding the defense industry have been positive though slow and difficult. Cooperation between countries and their companies have risen considerably and are likely to continue. Also, the conglomeration of defense companies

¹⁹ Guay, T. and Callum, R. "The transformation and future prospects for Europe's defense industry." *International Affairs*. Vol. 78 Issue 4 (Oct2002)

²⁰ Guay, Terrence R. "Defense Industry Developments in the U.S. and Europe: Transatlantic or Bipolar." *Journal of Transatlantic Studies*. Vol. 3 Issue 1 (Spring 2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17603410&site=ehost-live>

²¹ SIPRI "SIPRI Yearbook 2007: Armaments, Disarmament and International Security." *Oxford University Press*. © 2007 <http://yearbook2007.sipri.org/>

has made a European defense industry more viable. By 2005, Europe had four of the top ten largest defense firms in the world: BAE Systems, Thales, EADS and Finmeccanica. This marked a notable change from 1993, when Europe had only two of the top ten firms.²² However, it is still important for European countries to specialize in technologies that they are advanced at because of the paucity of funding especially in comparison with the United States.

The EU has tried to support stronger efforts at building a defense industry but is limited by the Treaties of Rome and Amsterdam which prohibit the EU from interfering in mergers or regulations over national security interests.²³ Article 296 of the European Union Treaty kept the EU from being involved with the economic aspects of defense policy. There are two provisions to this article:²⁴

1) The provisions of this Treaty shall not preclude the application of the following rules:

(a) No Member State shall be obliged to supply information the disclosure of which it considers contrary to the essential interests of its security.

(b) Any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purposes.

2. The Council may, acting unanimously on a proposal from the Commission, make changes to the list, which it drew up on 15 April 1958, of the products to which the provisions of paragraph 1(b) apply.

²² Jones, Seth G. "The rise of a European Defense." *Political Science Quarterly* Vol. 121 Issue 2 (Summer 2006). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=21801967&site=ehost-live>

²³ Fligstein, Neil. "Sense Making and the Emergence of a New Form of Market Governance." *American Behavioral Scientist*. Vol. 49 Issue 7 (Mar2006) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=20037340&site=ehost-live>

²⁴ Struys, Wally. "The future of the defense firm in small and medium countries." *Defense and Peace Economics*. Vol. 15 Issue 6 (Dec2004) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=15223253&site=ehost-live>

From the beginning, most countries used this article to protect their industries from the United States and large European firms. Despite a growing defense industry in the 1990s, this article caused the defense industry to fragment, often along state lines, which lowered the efficiency of production and did little to prevent duplication of major systems. The high level of regulation by governments over the defense sector makes it very difficult for the defense industry to operate like conventional markets.²⁵

Article 296 has been progressively loosened because “dual-use goods” are subject to EU regulations and they are very loosely defined. This has allowed the European Union to extend some control over the market through regulation of materials obtained through sub-contractors responsible for basic technology. Also, most defense companies are involved with the civil commercial market as well which allows them to be regulated in other ways. Commercial markets are heavily regulated within the EU so it is inefficient to design defense technology intended for dual-use that is not in compliance which creates incidental oversight. These gaps have allowed the European Union to have increasing control over the development of the defense industry.

European states have tried to solve the problems of creating a viable defense industry through market forces, intergovernmental cooperation and most recently through a transnational institution, the European Defense Agency (EDA). In July of 2004, the Council of Ministers established the EDA “to support the Member States and the Council in their effort to improve European defense capabilities in the field of crisis management and to sustain the as it stands now and develops in the future.”²⁶ It has four functions: 1) developing defense capabilities, 2) promoting defense R&D, 3) promoting armaments

²⁵ Jones, Seth G. “The rise of a European Defense.” *Political Science Quarterly* Vol. 121 Issue 2 (Summer 2006). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=21801967&site=ehost-live>

²⁶ “Background Information.” *European Defense Agency*. <http://www.eda.europa.eu/genericitem.aspx?area=Background&id=122>

cooperation and 4) creating a European defense market and strengthening the industrial base. Ideally, this agency would be able to coordinate defense priorities to encourage interoperability, reduce duplication and help compensate for an overall lack of funding for R&D. Since only a few countries have significant defense sectors, greater cooperation at the top could lead to interoperability among the smaller states. Still, it has been very difficult to get individual states to agree on a transnational level over defense priorities.

An important turning point for the EDA was the approval of a voluntary Code of Conduct on defense procurement in November, 2005 which went into operation on July 1st, 2006. This was a major departure from the previous practice under Article 296 (as described above) which had previously exempted defense procurement from cross-border competition. Currently, the EDA oversees more than 40 R&T collaborations. Recently, the agency began a ground-breaking collaboration between 20 states (which pledged €55 million Euros) with the objective of funding new technology for European military forces.²⁷ At this time, it is clear to all involved parties that the EDA has definite limits yet it is developing institutional roots for the future. At the end of 2006, the ministers endorsed a long-term strategy dealing with capacity needs called Long Term Vision. While there is a veritable alphabet soup of failed or minimally useful security institutions in Europe, the EDA is evolving slowly in a manner that is cognizant of its own situation.

The impact of this agency could be potentially far-reaching for a number of reasons. First, all of the EU countries are members except Denmark. While there has been hesitancy in embracing this agency, the rising discrepancy between the United States and Europe might encourage greater participation. At the same time, there are also

²⁷ “Background Information.” *European Defense Agency*. <http://www.eda.europa.eu/genericitem.aspx?area=Background&id=122>

worries of a two-track system developing where the wealthiest states are able to improve their overall capabilities more quickly and across the board. Second, there has been an understanding that different countries have greater capacities. This has led to a system that is remarkably similar to the US's current foreign policy approach because EDSP missions are generally coalitions of the willing which allows for more flexibility. However, this also raises fears of the Big Three dominating the EDSP's decision-making process. It also can be more difficult to raise the necessary personnel for these missions if each state relies on others to carry the burdens.

However, these major defense companies have also asked the EDA to protect them as the foundation of Europe's industrial base. They argue that, while not advocating a "Fortress Europe," they do not want to become dependent on foreign supplies or have their technology taken over by foreign firms with restrictive policies.²⁸ The second argument refers implicitly to the defense industry of the United States which is highly regulated and classified. These defense companies argue that they are only seeking equal footing within the industry. More likely, these companies are seeking institutionalized preferential treatment akin to the market in the United States.

Companies have slowly integrated at the transnational level though sub-contracting is widely globalized. A reliable and competitive defense industry is crucial for European powers to assert their responsibilities and objectives. The British 1999 *White Paper* for example, stated that the governments of France, Germany, Italy, Spain, and Sweden were coordinating policies to develop a consistent approach to restructuring

²⁸ Guay, Terrence R. "Defense Industry Developments in the U.S. and Europe: Transatlantic or Bipolar." *Journal of Transatlantic Studies*. Vol. 3 Issue 1 (Spring 2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17603410&site=ehost-live>

in order to harmonize European military requirements.²⁹ Furthermore, it argued that European consolidation would lead to greater military effectiveness. These types of documents are common though they tend to end pessimistically because of a perceived lack of progress.

It will continue to be very difficult for companies and governments to navigate through the two-tiered organization system that currently exists as long as national governments actively work against intergovernmental institutions. However, the evolution of the EDSP and the EDA are the beginnings of a new drive for coordination though European history is littered with acronyms for failed security institutions. The future of these intergovernmental institutions will likely play a large part in the shaping of the European defense industry as well as the transatlantic relationship as a whole. While progress has often been slow and haphazard, there exist numerous opportunities for European security cooperation in many ways such as joint projects and NATO cooperation.

EU Intergovernmental Security Institutions

The evolution of a two-tiered organizational system for European security stretches back into the early beginnings of the European Union. In 1954, the European Defense Community failed to pass through the ratification process.³⁰ This would have pooled the forces of France, Germany, Italy, Belgium, the Netherlands and Luxemburg. It fell because France feared a re-militarized Germany immediately after World War II given previous history of German aggression. Not until the establishment of the European

²⁹ Jones, Seth G. "The rise of a European Defense." *Political Science Quarterly* Vol. 121 Issue 2 (Summer 2006). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=21801967&site=ehost-live>

³⁰ Cameron, Fraser. *An Introduction to European Foreign Policy*. London and New York: Routledge Publishing. © 2007 p. 25

Security and Defense Policy (EDSP) has there been a successful attempt at coordinating military efforts at the intergovernmental level outside of NATO. Although the EDSP has had some success, it provokes enormous controversy from states unwilling to lose more sovereignty in this area. Enlargement has posed a new threat because coordinating 27 countries is naturally more difficult than coordinating 15. The jury remains out whether EDSP is a long-term solution or a stepping stone for further integration.

The Common Foreign and Security Policy (CFSP), established by the Maastricht Treaty in 1992, received a major wake-up call during the Balkans crisis about the need for an institutionalized set of crisis-management tools for intervention or prevention. The reactions to the CFSP by member states are generally cautious or apprehensive. There continues to be a major gap between expectations that citizens and politicians have of European security institutions and actual capabilities.³¹ Also, the Central and Eastern European countries (CEECs) have been strongly NATO (i.e. US) oriented while suspicious of any security institution that would weaken that relationship. Until objectives and priorities are more aligned between Western and Eastern Europe or if the United States shifts its focus further away from European security, this tenuous situation is unlikely to change. The relationship of the CEECs within the two-tiered level is complicated as they balance their membership in traditional intergovernmental security institutions with new institutions.

Though the CFSP has had limited success, some improvements towards capacity have been made. The Nice Treaty established the EU military committee (EUMC) which exercises direction of all military activities under the European Union command. In order to

³¹ Cameron, Fraser. *An Introduction to European Foreign Policy*. London and New York: Routledge Publishing © 2007 p. 29

support the logistics of the EUMC, the EU military staff (EUMS) was formed in January of 2001.³² The development of a European Security Strategy in 2003 by Javier Solana was an important occasion because it was the first time that the EU states had agreed on a strategic philosophy at the 2nd tier level.³³ While important in terms of the CFSP, it was less inspiring for the EDSP because it focused primarily on pointing out major gaps in European capabilities.

The Helsinki goals in 1999 outlined the creation of a Rapid Reaction Force (RRF) to include 60,000 military forces that were deployable within 60 days for a duration of at least a year.³⁴ These goals have not been met and in fact are severely lacking in some crucial areas such as strategic airlift. Participation by individual states in creating this force would greatly enhance the force projection capabilities of the European Union while also creating an important customer base for the defense industry. So far the EU has only succeeded in creating battalion-sized Battle Groups for short-term missions throughout the world. The lack of a unified defense budget makes these undertakings very difficult especially in light of the defense numbers below.

While limited in absolute numbers, many new member states have been actively involved in NATO or EU-led peacekeeping efforts regionally. They have unintentionally adopted a larger, European mindset in that these new member have often developed specialized roles within the larger system such as Romanian mountain infantry or Czech chemical-weapon decontamination units.³⁵ With their limited defense budgets, these

³² Cameron, Fraser. *An Introduction to European Foreign Policy*. London and New York: Routledge Publishing © 2007 p. 52

³³ Cameron, Fraser. *An Introduction to European Foreign Policy*. London and New York: Routledge Publishing © 2007 p. 7

³⁴ Cameron, Fraser. *An Introduction to European Foreign Policy*. London and New York: Routledge Publishing © 2007 p. 75

³⁵ Cameron, Fraser. *An Introduction to European Foreign Policy*. London and New York: Routledge Publishing © 2007 p. 69

countries face difficulties in becoming interoperable with either NATO or EDSP operations. The efforts by these new member states which are less economically robust than their Western counterparts have been impressive considering the magnitude of issues (economic, political and social) facing them. In addition, strained relations between security institutions makes cooperation by individual states more difficult, the Berlin Plus Agreement notwithstanding. Without a single source of guidance for defense development, the potential for waste is increased and these states have little margin for error in their budgets.

These new member countries are principally on the border of the European Union. Therefore, they have more legitimate fears of territorial safety while also possessing outdated technology and weapons. The states bordering Russia in particular have legitimate reason to fear for their territorial security. This dual issue of traditional threats and outdated equipment poses a conflict between individual states and the intergovernmental security institutions in Europe. The intergovernmental institutions have been formed primarily for technologically advanced power projection to counter transnational crises instead of large-scale wars. They also face pressure from their traditional protector, the United States, to “buy American” while the EU defense industry is trying to establish itself. Despite these problems, the Europe Union invited all of these new countries to participate in the EDSP’s first two operations which were policing in Bosnia and Herzegovina and peace-stabilization in Macedonia.

Defense Spending

Defense spending is arguably the most intensely debated aspect of the European military-industrial complex as it relates to European security institutions. As shown in the table below, the United States spends almost three and a half times more than the UK, France and Germany combined. In fact, the United States spends substantially more on research and development (\$73.2 billion) than the entire budget of any of the largest European states. This imbalance has caused a multitude of problems following the end of the Cold War. It directly affects the evolution of capable European security institutions and the development of a solid defense industry. Heads of state, defense firms and European and US bureaucrats have called for, and received, pledges of higher defense spending but subsequent action has been tentative at best. The European Union routinely declares itself an international power. However, EU member would have to spend over 3% of their collective GDP to compare to the United States in defense spending while its current number is not even half of that.

The top 10 military spenders in 2006³⁶

Country	Total military spending (US\$ b.)	Military spending per capita (US\$)	World share (%)
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³⁶ SIPRI "SIPRI Yearbook 2007: Armaments, Disarmament and International Security." *Oxford University Press*. © 2007 <http://yearbook2007.sipri.org/>

USA	528.7	1 756	46
UK	59.2	990	5
France	53.1	875	4
China	49.5	37	4
Japan	43.7	341	3
Germany	37.0	447	3
Russia	34.7	244	3
Italy	29.9	514	3
Saudi Arabia	29.0	1 152	3
India	23.9	21	2
Sub-total	888.7	—	77
World	1 158.0	—	100

To be fair to France (2.6%) and Great Britain (2.4%), they both spend a respectable percentage of their GDP on defense. Germany, Poland, Spain and Italy all allot less than 2% of total GDP towards their defense budgets.³⁷ However, France spends a significant portion of their defense budget on maintaining a relatively, large traditionally-oriented military for protection of the state. In addition, France budgets a substantial amount to permanent installations in former colonies in Africa which cuts into its ability to project force elsewhere or for means other than territorial defense. Britain also focuses much of their defense budget towards supporting former colonies with a limited focus on technology and weapons for either the Rapid Reaction Force or the Battle Groups. It is also more difficult to raise the defense budget in Europe than the United States because European States have a more expensive welfare system and generally have less robust economies than the United States.

³⁷ CIA. "Country Profiles 2007." *CIA: The World Factbook* <https://www.cia.gov/library/publications/the-world-factbook/index.html>

The main difficulty is that, percentages aside, the United States spends more than twice as much money in absolute terms as all of Europe. In addition, the top European states compare more favorably in comparison with other leading powers in the world. Russia's spending has dropped substantially and its forces are primarily focused on territorial defense and for possible incursions into neighboring countries. China has a large, and growing, defense budget but also the largest army in the world to keep employed. Also, force projection capabilities in China are almost entirely focused on a possible war with Taiwan. In addition, the Chinese military is starting behind Western powers technologically speaking. While Western Europe is far less concerned with China (i.e. Taiwan) militarily than the United States, it is also more important for European forces to be able to project hard power into the Balkans and Africa than for China or Russia. Force projection is expensive and the table below shows how European states and the primary EU-15 have failed to act.

Defense Spending - United States and Europe³⁸

	1989	1994	% Change from 1989	1999	% Change from 1989	2003	% Change from 1989
USA	\$422,133	\$334,539	-20.8%	\$290,480	-31.2%	\$417,363	-1.1%
EU-15	180,319	159,176	-11.7%	153,561	-14.8%	154,909	-14.1%
France	38,807	37,438	-3.5%	34,209	-11.8%	35,030	-9.7%
Germany	38,128	30,214	-20.8%	28,744	-24.6%	27,169	-28.7%

³⁸ Guay, Terrence R. "Defense Industry Developments in the U.S. and Europe: Transatlantic or Bipolar." *Journal of Transatlantic Studies*. Vol. 3 Issue 1 (Spring 2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17603410&site=ehost-live>

UK	46,746	40,268	-13.9%	35,171	-24.8%	37,137	-20.6%
EU Big 3	123,681	107,920	-12.7%	98,124	-20.7%	99,336	-19.7%

¹Figures are in US \$million, at constant 2000 prices and exchange rates are for calendar year.

Germany accounts for a disproportionate amount of defense spending cuts in Europe. It has taken the brunt of criticisms of Europe for small defense budgets and has continually undermined EU security institutions through its support of NATO. However, examples in the sections on the defense industry and joint projects demonstrate how Germany has continually impeded the development of the defense industry which is critical to the future of NATO. In order for Europe to effectively develop a European capacity, Germany must leave the shadows of the World Wars behind as well as concentrating less on the economic divide that remains between East and West Germany.³⁹

More than any other country, it has sought a peace dividend from the end of the Cold War. Yet, the decision to support Croatian independence helped sparked the beginning of the Balkans conflicts which has shattered realistic expectations of a peace dividend. The continuation of a policy of conscription has sapped away valuable resources because these forces are of minimal value and impede resources that would be better used for the continued transformation of the German military. The savings obtained from limiting conscription need to be redistributed elsewhere in the defense budget. Furthermore, its claims of global responsibility for preventing and halting

³⁹ Bulmer, Simon and Lequesne, Christian. *The Member States of the European Union*. Oxford University Press. Oxford, New York © 2005 pg. 81

humanitarian crises have created a situation where it is unable to act on their policy which hurts both the EU and Germany's credibility and soft power.

France and the UK have both sought a peace dividend from the end of the Cold War as well. While these European powers have been at the forefront of the evolution of European security institutions, slow economies have made it politically unfeasible to raise their respective defense budgets in an effort to partake in the Petersburg tasks.⁴⁰ The London bombings, a smaller presence in Northern Ireland and a continually shrinking number of British troops in Iraq may allow the PM Gordon some political leeway. It cannot act alone though. France has elected President Sarkozy who has taken a harder stance towards Iran while seeking more cordial relations towards the United States. However, his electoral mandate is focused on economic reform which is expensive in terms of financial and political capital. This leaves the European Big Three in a difficult situation in relation to the continued development of a defense industry as well as the continued evolution of European security institutions. Many of the potential solutions call for more efficient use of funds, greater interoperability and cooperation on joint projects.

Joint Projects

A prevailing theme in the military-industrial complex for Europe is that fiscally fractious national governments are unable to agree on funding for security at all levels. European countries have tried to get around these funding issues in a variety of ways including joint projects between states. It quickly became clear in the 1990s that cooperation was necessary because a state of autarky, where weapons and technology are

⁴⁰ Cameron, Fraser. *An Introduction to European Foreign Policy*. London and New York: Routledge Publishing © 2007 p.74

produced domestically, was economically infeasible because of the low levels of defense expenditures.⁴¹ Also, many European states are too small to support such programs even with higher percentages of their GDP devoted to the security sector.

The theory behind joint projects is that costs and expertise are shared for the production of a common good. The problem with common goods is that there has to be an agreement by all or no one partakes because each party feels as if they have to carry an unfair portion of the burden. This common goods problem has continually flared up between the different European states. Agreements over funding and work-sharing are complicated on a 1st-tier national level because of different systems of weapons procurement. On the 2nd-tier level, this makes procurement a complicated web of interlocking interests at both levels. The number of actors associated with intergovernmental security institutions makes the defense industry in Europe unique.

An associated problem with joint projects is all involved parties must agree on which joint projects to partake. This is more complicated than it appears. Projects are started with the specific purpose and foreign policy orientation in mind. Fighter aircraft are developed for aggressive fighting with a hostile force whether as support for ground forces or to deter opposing ground forces from moving in mass. Rapid air transports are for moving small forces quickly for purposes such as peacekeeping missions. These are only two examples but they demonstrate how limited funds must be focused on joint projects with relevant foreign policy goals.⁴² A failure to agree on the need for a specific

⁴¹ Jones, Seth G. "The rise of a European Defense." *Political Science Quarterly* Vol. 121 Issue 2 (Summer 2006). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=21801967&site=ehost-live>

⁴² James, Andrew D. "European Military Capabilities, the Defense Industry and the Future Shape of Armaments Cooperation." *Defense and Security Analysis*. Vol. 21 Issue 1 (Mar2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17405515&site=ehost-live>

capacity bodes poorly for achieving the necessary funding. These debates are further exacerbated by pressure to have similar capacities to US forces.

One prominent example of controversial priorities for security policy is the development of a European Global Positioning System (GPS). The American GPS (as well as the more limited Russian Glonass) has been adapted for commercial purposes such as for commercial and private navigation systems but the Pentagon still ultimately controls the signals. In response, a collection of defense, aerospace and motor companies gathered in 2003 to try to develop a new satellite system for Europe that was purposely dual civilian-military use called Galileo. Theoretically, it would be made up of 30 satellites circling the globe at over 15,000 miles. Should it be successful, this plan would lessen European reliance on US communications technology. However, this ambitious plan was developed with expectations based around government subsidies which predictably have been slow to arrive.⁴³ In addition, the difficulties of cooperation in NATO and the UN with two GPS systems have been largely ignored in the rush to develop independence.

There are two criticisms of this project which extend to a number of other attempted or suggested group projects. First, this project may be one of misplaced priorities. Instead of spending billions on an overlapping system, these funds could be better spent on funding projects which fall under the objectives of the EDSP like the Battle Groups or the necessary hardware for an operational Rapid Reaction Force. The Pentagon is unlikely to shut down GPS signals to European peacekeeping forces. Second, the rash urge to throw off the military dominance of the United States is an endeavor of a

⁴³ Freedman, Michael. "Shootout in the Sky." *Forbes*. Vol. 173 Issue 2 (2/2/2004)
<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=11998703&site=ehost-live>

magnitude that Europe is not ready to pay for. Instead, European states and the EU should enjoy the security benefits of the common goods provided for by the USA at both tiers while focusing on the most important capacity building now. Europe, especially France, may not like US dominance in security affairs but it is much cheaper for national governments.

The Airbus A400M air transport is perhaps the most important example of the conflicting desires for European cooperation and immediate need. The nature of this particular capacity has changed dramatically for two reasons. First, as discussed previously, different objectives were present between European countries. British and French forces need to move troops over long distances between their various interests globally while other European countries, like Germany, were more interested in a regional (i.e. Balkan) capacity. Furthermore, Germany has continually changed its order which heavily affects burden sharing and makes 2nd-tier cooperation a near impossibility. Also, the current fleets are set to go out of service along different time-lines. Second, as one of the first proposed European projects it became politicized as both a necessary capability as well as symbolic of the Europe's capability to develop an integrated defense industry. This dimension skewed the debate over operational needs between different actors within the military-industrial complex.⁴⁴

Both France and the United Kingdom viewed this program hesitantly as they saw the option of buying off-the-shelf equipment from the United States as less risky.⁴⁵ Over time, they become more interested in this program as they were able to shape the

⁴⁴ Joana, Jean and Smith, Andy. "Changing French military procurement policy: The state, industry and 'Europe' in the case of the A400M." *West European Politics*. Vol. 29 Issue 1 (Jan. 2006). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=19235759&site=ehost-live>

⁴⁵ Hayward, K. "The globalization of defense industries." *Survival (Oxford University Press / UK)*. Summer2001, Vol. 43 Issue 2 (summer 2001) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=4508281&site=ehost-live>

structure of defense procurement in a more compromise-oriented system. The economic and technical difficulties of fighting for particular national companies are quite clear and the top European powers have sought a degree of restraint in joint projects. This so-called “commercial approach” to procurement has developed as a response to the difficulties of joint projects and rising skepticism by different actors over burden-sharing.⁴⁶

This style of defense procurement involves a two-step process. First, political and economic debates over the broad objectives of the project are settled. This process has been partially institutionalized through the EDA but has a long way to go. Second, the technical questions regarding design and specific procurement are passed down to the different actors within the military-industrial complex such as military-engineers, civil servants and industry management.⁴⁷ The commercial approach has tried to settle issues on the intergovernmental level first and then move down to national interests within the two-tiered system. While this process might be favorable to building stronger European ties (debatable itself), it has largely served to make joint projects more complicated. The conflict between the interests of each part of the MIC now clash at both tiers of the organizing system.

A different aspect, which has received too little attention, is the number and type of linkages being established between US and European defense firms. In January of 2004, a historic event took place within the international defense industry. The UK Ministry of Defense awarded contracts totaling over \$23 billion to EADS, in partnership

⁴⁶ Joana, Jean and Smith, Andy. “Changing French military procurement policy: The state, industry and ‘Europe’ in the case of the A400M.” *West European Politics*. Vol. 29 Issue 1 (Jan. 2006).

<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=19235759&site=ehost-live>

⁴⁷ Joana, Jean and Smith, Andy. “Changing French military procurement policy: The state, industry and ‘Europe’ in the case of the A400M.” *West European Politics*. Vol. 29 Issue 1 (Jan. 2006).

<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=19235759&site=ehost-live>

with Thales, to build refueling aircraft over the next 27 years.⁴⁸ These contracts were awarded over another coalition led by US-based Boeing and UK-based BAE. This was a major decision for a number of reasons.

First, Boeing is the international leader in the area of tanker aircraft to an almost monopolistic degree. Therefore, this was an important win by an up-and-coming sector of EADS. Second, this was a major blow to the UK's own BAE which had teamed up with Boeing under the expectations of winning the contract. The UK awarded these contracts to another European firm over one largely based in its own country. Equally interesting is that BAE had partnered with a major US firm in the effort to win the competition. Instead of being shut out of the tanker market, EADS (and subsequently Airbus) managed to secure a share of the market possibly by promising the creation of over 2,500 more jobs.⁴⁹ This case is important because it highlights the different principal actors within the organizing system at both tiers. Britain supported creating more jobs domestically over its own defense company while also turning down an opportunity to work with the US-based Boeing.

The Boeing-BAE partnership is hardly the only major partnership that has developed. In 2001, EADS and Northrop Grumman signed a Memorandum of Understanding. In this agreement between firms, they set out to explore new fields of defense electronics such as ground surveillance, aerial targets and decoys, airborne electronic attack and fire control radar. Also, Thales and Raytheon have established a

⁴⁸ Guay, Terrence R. "Defense Industry Developments in the U.S. and Europe: Transatlantic or Bipolar." *Journal of Transatlantic Studies*. Vol. 3 Issue 1 (Spring 2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17603410&site=ehost-live>

⁴⁹ Guay, Terrence R. "Defense Industry Developments in the U.S. and Europe: Transatlantic or Bipolar." *Journal of Transatlantic Studies*. Vol. 3 Issue 1 (Spring 2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17603410&site=ehost-live>

joint venture where they have combined their capabilities in the areas of air defense control centers, radars and battlefield surveillance in North America.⁵⁰

Another changing aspect of joint projects is that some projects, most notably the Joint Strike Fighter (JSF), are in conjunction with the United States.⁵¹ This relationship is noteworthy because it highlights the conflicts between the military-industrial complex at the national level versus the intergovernmental level. The JSF has the potential to be the largest military project undertaken yet by the United States with massive contracts totaling hundreds of billions of dollars potentially. Frequently, US defense contractors compete with consolidated European companies for some of these lucrative contracts.

The interesting part of this project is that the Pentagon has brought in European defense firms such as (British) BAE SYSTEMS and (Franco-German) EADS as partners every step of the way (up to 10% of each step). The reasoning for this openness to collaboration by the United States has been hotly debated and is multi-faceted. Regardless, it is important because this has created a situation where European companies are supporting the development of US aircraft and technologies that will be in direct competition for European national and intergovernmental budgets against the multinational Eurofighter, the French Rafale and the Swedish Gripen.⁵²

The end results of this program could potentially be far-reaching. It appears that European defense contractors are hedging their bets over whether a sustainable defense industry can be supported based on either intergovernmental security institutions or

⁵⁰ James, Andrew D. "European Military Capabilities, the Defense Industry and the Future Shape of Armaments Cooperation." *Defense and Security Analysis*. Vol. 21 Issue 1 (Mar2005)
<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17405515&site=ehost-live>

⁵¹ Karaolis, Aphrodite. "Defensor Pacis." *Foreign Policy*. Issue 199 (Summer 2000).

<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=3200130&site=ehost-live>

⁵² Kapstein, Ethan. "Capturing Fortress Europe: International Collaboration and the Joint Strike Fighter." *Survival (Oxford University Press)*. Vol. 46 Issue 3 (Autumn 2004).

<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=14454014&site=ehost-live>

national security budgets. While they support a stronger European market, this type of project carries the potential for greater profits and continued work with less risk. It could slow the development of a common European defense market yet it also keeps defense companies afloat in the short-term. European companies are unable to resist the prospect of developing comparable technology to the United States while also providing economic benefits to its citizens.

If this project can be completed within a reasonable time-frame, the Pentagon can expect a number of countries to be interested in off-the-shelf models as well as the technology. The F-16 was a particular success in this model in countries such as Belgium, the Netherlands and Denmark which eagerly supplemented their own small defense industries with defense contracts.⁵³ These countries as well as others with previous aviation infrastructure in place are likely to be interested in continuing the economic benefits of such projects. However, the normal economic and security complications of joint programs persist which hinders progress made on joint projects with the Pentagon by European defense contractors.

More specifically to this particular project, the Joint Strike Fighter is being designed with European buyers in mind which could unexpectedly lead to greater interoperability between European nations as well as NATO forces. Defense projects, such as the JSF, could potentially lead to stronger relations at the transatlantic levels. The USA's greater willingness to share high-level technology in return for lower costs could be an unexpected windfall for a European defense industry struggling to establish firm

⁵³ Kapstein, Ethan. "Capturing Fortress Europe: International Collaboration and the Joint Strike Fighter." *Survival (Oxford University Press)*. Vol. 46 Issue 3 (Autumn 2004).
<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=14454014&site=ehost-live>

roots.⁵⁴ The rising costs in Iraq and Afghanistan, as well as the economic turmoil of the dollar, have the potential to accelerate the globalization of the defense industry. Whether this unsettles ambitions for a European defense industry or expedites the process is unclear.

While some examples of different types of cooperation are compared above, it is important to note that none of the technologies are part of the transformation in military affairs that the United States is undertaking. There is minimal European coordination in programs such as UAVs, aerospace programs or information technology.⁵⁵ Joint programs will become less useful if the European defense industry does not close the gap in capabilities. On the other hand, the United States needs to engage the European defense industry if it wants to ease its security burdens for reasons other than affordability (JSF) or geopolitics (missile defense shield).

NATO

The role of NATO is controversial within the military-industrial complex. On the one hand, European governments generally support NATO as the principal vehicle for European security. Germany and the UK especially see the transatlantic relationship as a fundamental part of each country's security strategy. However, the role of NATO as a unifier has been called into question. The USA has acted increasingly unilaterally as the sole superpower in the international community while the concept of "Fortress Europe" has gained prominence as necessary to avoid dependence on US promises of security.

⁵⁴ Becker, Jeffrey. "Future of Atlantic Defense Procurement." *Defense Analysis*. Vol. 16 Issue 1 (Apr2000) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=3793004&site=ehost-live>

⁵⁵ James, Andrew D. "European Military Capabilities, the Defense Industry and the Future Shape of Armaments Cooperation." *Defense and Security Analysis*. Vol. 21 Issue 1 (Mar2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17405515&site=ehost-live>

The future of intergovernmental security institutions still rests on a healthy relationship today.

In both Europe and the USA, defense budgets are far from efficiently structured. Many writers have argued that the security links between European states and the USA can be strengthened by cooperation at the defense industry level.⁵⁶ The European defense industry has responded to weak overtures of cooperation with predictable unease. Unilateral actions by the USA and continued pressure for the arms embargo on China makes national governments, defense companies and other MIC actors nervous about the reliability of cooperation with the USA especially in the wake of the clampdown after 9/11. While the United States supports the interoperability of NATO forces as a form of burden-sharing, the Department of Defense worries about the possibility of European defense firms selling US technology to China. The reality is that Europe is far from ready to act completely independently from NATO and it would be short-sighted, and expensive, to do so.

In the past, U.S. industry profited from selling sophisticated equipment to NATO countries without sharing much work or technology such as F-16 fighters. However, recent joint projects such as the Joint Strike Fighter, discussed previously, demonstrate the real interest that the USA has in sharing the burden of its politically unsustainable defense budget. Instead of solely focusing on European integration and intergovernmental cooperation as the solutions to the problems of the defense industry, European politicians at both tiers should recognize that the transatlantic relationship is still crucial. Both European and US defense contractors, with many assets on each others

⁵⁶ Deutch, John, Kanter Arnold and Scowcroft, Brent. "Saving NATO's Foundation." *Foreign Affairs*. Vol. 78 Issue 6 (Nov/Dec 1999). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=2462788&site=ehost-live>

respective continents, have already realized this and are in fact facilitating defense cooperation far more effectively than national governments. If the USA continues working towards greater cooperation with Europe (NATO in Afghanistan and UN in globally), greater interoperability and institutional communication will be required.⁵⁷

NATO could potentially act as a shortcut for European defense efforts. It allows national and European security institutions to focus on priority needs. Post 9/11, the Pentagon is shifting its spending priorities in ways that probably will not help European defense firms. With an emphasis on information technology, intelligence, surveillance, communications, and related technologies requiring high levels of security, European firms are at a competitive disadvantage for Pentagon contracts, even at the subcontractor level.⁵⁸ If President Sarkozy brings France closer into NATO, it could act as a conduit and forum for the defense cooperation between European powers and the USA. With the strongest ties to the United States, Britain has shown that the USA can be convinced to share technology and weapons if it has enough trust and incentive.

In order for NATO allies to be military competent, the United States must be more willing to trust its partners. Primarily, this must happen through the sharing of technology because it is unrealistic to expect European defense companies to innovate at the same pace considering the funding differentials in research. Also, the USA would need to reform its technology transfer and export controls in order to facilitate this process if it is truly committed to improving European capabilities.⁵⁹ This cutting edge

⁵⁷ Deutch, John, Kanter Arnold and Scowcroft, Brent. "Saving NATO's Foundation." *Foreign Affairs*. Vol. 78 Issue 6 (Nov/Dec 1999). <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=2462788&site=ehost-live>

⁵⁸ James, Andrew D. "European Military Capabilities, the Defense Industry and the Future Shape of Armaments Cooperation." *Defense and Security Analysis*. Vol. 21 Issue 1 (Mar2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17405515&site=ehost-live>

⁵⁹ James, Andrew D. "European Military Capabilities, the Defense Industry and the Future Shape of Armaments Cooperation." *Defense and Security Analysis*. Vol. 21 Issue 1 (Mar2005)

access has the potential to keep the European defense sector viable in the short run considering the dearth of funds spent on research and development in comparison with US R&D. This is a politically contentious task for officials on both sides of the Atlantic.

Meanwhile, some Pentagon and military officials have expressed interest in including European defense firms in the procurement process as well as US defense companies. In June 2004, then Air Force Secretary James Roche warned that “consolidation among U.S. contractors had left the Pentagon over-dependent on a small number of key suppliers in certain sectors.”⁶⁰ He argued the main way to correct this is to encourage overseas manufacturers to compete for defense department spending. In response, EADS suggested that the company would consider opening production lines in the US if it were allowed to compete for major US defense contracts. However, this has not happened in Washington, so production facilities will remain within their respective borders. The short-term political benefits have generally pushed EU and national government politicians from exploring these avenues more fully.

The position of NATO has been ambiguous since the end of the Cold War. The EU has developed intergovernmental security institutions while also claiming the NATO occupies a complementary position in Europe though this current situation seems untenable. Occasionally, NATO is responsible for awarding defense contracts. In April 2004, it awarded a multi-billion Euro fleet of surveillance aircraft to a coalition led by EADS and Northrop Grumman but it largely relies on states to build their own capacities.⁶¹ Otherwise, NATO seldomly affects the development of a European MIC

<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17405515&site=ehost-live>

⁶⁰ Guay, Terrence R. “Defense Industry Developments in the U.S. and Europe: Transatlantic or Bipolar.” *Journal of Transatlantic Studies*. Vol. 3 Issue 1 (Spring 2005) <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=17603410&site=ehost-live>

⁶¹ Guay, Terrence R. “Defense Industry Developments in the U.S. and Europe: Transatlantic or Bipolar.” *Journal of Transatlantic Studies*. Vol. 3 Issue 1 (Spring 2005) <http://search.ebscohost.com/login.aspx?>

except when it sets weapons performance goals and other interoperability standards. Confusion over whether EU institutions overlap with NATO, and therefore waste limited funds, continue between US, EU and national officials. The European defense industry has explored other ways of developing closer ties within itself, and across the Atlantic, including a variety of types of joint projects.

Policy Implications and Lessons

It is important to understand how a second tier of intergovernmental institutions works within the context of the military-industrial complex for a number of reasons. As the debate continues on the extent and nature of the military-industrial complex, it is still important to ensure that defense contractors are carefully monitored to ensure that a proper relationship is maintained. This means preventing undemocratic and unethical actions by defense companies and connected politicians and military officials.

Fortunately, the split in priorities between different countries and the establishment of niche defense sectors in smaller countries makes it more difficult to defense contractors to influence politicians at the intergovernmental level. This is reflected in the gap between EU politicians and their constituents rather than the close relationship between national politicians and their respective constituents.

Unfortunately, these split priorities make it difficult for an effective defense industry to gain traction. Since national defense budgets and CFSP funds are limited, the most effective use of money within European security institutions is critical to developing an autonomous force capable of reacting to crises. The level of effectiveness can affect the policy action that individual European states, as well as the European Union, take.

Some politicians have already discussed the need for a different regulatory structure for defense contractors in order to foster a more self-sustaining industry. The conflict between these worries is currently playing out at both the national and intergovernmental level.

My research seems to suggest that the military-industrial complex is deepening. Furthermore, leading European states are actually moving in this direction in a number of ways. First, they are beginning to actualize some of the intent of the Common Foreign and Security Policy Pillar established by the Maastricht Treaty. Instability in the Balkans demonstrated the weakness of Europe as a military force. The consistent pressure from the Balkans and the sense of global responsibility is driving defense budgets as states are more willing to act in humanitarian and peace-keeping conflicts. Today, Iran has become a unifying force for soft power.

However, the divisions within Europe mean that the unanimity needed for effective military action is still lacking despite French posturing about military capabilities. Without agreement between the major powers, effective military action by any individual European state is largely limited to supporting NATO and/or US actions. Until this shift in policy is fully implemented however, the European Union will be primarily suited to preventative peace-keeping missions without a capacity for peacemaking.

As European governments grapple with this issue, it is important for countries to understand how effective and far-reaching the influence of defense contractors can stretch. New members like Poland, who are still dealing with the communist legacies of widespread corruption, need to be wary of being influenced by economic interests who

profit from the perception of threat. The United Kingdom has struggled with how its defense industry should interact with its American counterparts given the special relationship between the United States and the UK. Germany is the engine of the European Union and the natural focus of a militarized EU, but it is still dealing with French fears and the memories of the World Wars. From the ban of weapons sales to China to small arms deals with Libya, the European Union is facing a multitude of challenges where they must consider the impact of defense companies on democratic governance, humanitarian principles and (short-term) economic benefits.

In terms of changing policy, the European Union tends to regard itself as the active protector of human rights especially when the United Nations falls short. Its policy on selling arms and military equipment to suspect countries is heavily conditioned by their understanding of good governance principles and humanitarian actions. This may run from banning arms to the Burma regime to limits on arms sold to countries in turmoil. Ireland in particular has taken the lead on this issue, yet their voice has sometimes been drowned out by the call for a stronger Europe which necessitates a defense industry that can support itself.

It is also important to note that the EU is the largest contributor to the UN budget. UN efforts are an important part of world security but their missions have a relatively small impact on the European military-industrial complex's relationship within the two-tiered system. The EU is also the largest provider of international assistance.⁶² This is not reflected in defense budgets but is obviously an integral part of efforts for global peace. This type of checkbook diplomacy directly affects the security of these countries and

⁶² Cameron, Fraser. *An Introduction to European Foreign Policy*. London and New York: Routledge Publishing © 2007 p. 1

their interests though they do not further the St.-Malo agreement or the development of a defense industry.

At the same time, some member states have successfully carved out niche parts of the defense industry and these pieces need to be put together into some semblance of an effective force under the CFSP or NATO. Europe needs to be able to act effectively on the world stage which requires them to, in the words of Teddy Roosevelt, “talk softly but carry a big stick.” This does not require massive armies but the ability to act quickly and decisively to prevent and halt humanitarian crises. Therefore, high-end technical elements, potentially with civilian applications, need to be the focus of a European militarization in order to respond to the principal challenges facing the world today. While this policy seems to be the ideal path for Europe, it also leads heavily into the military-industrial complex with all of its inherent dangers and difficulties.

Further Research

There is a plethora of avenues available for meaningful research. First, each of the three stands (the military hierarchy, the political bureaucracy and major industry corporations) described in the literature review can be explored in the traditional manner of researching the military-industrial complex but at the second tier. Research in each strand could potentially lead to a better understanding of each set of actors and how they fit into an organizing system. Other research could explore how changes (or lack thereof) in foreign policy stances and attitudes can be attributed to the influence of the military-industrial complex. Though this research would be largely qualitative, it could still provide key insights into how the military-industrial complex works on a behavior level

to affect policy-makers. At this point, research into linkages between the European intergovernmental security institutions and defense companies would probably be premature unless integration in the CFSP deepens into a supranational institution. These further points of research would help fill valuable gaps and further the scholarly understanding of the organizing systems of the military-industrial complex.

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