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WESTERN EUROPE AND THE NEW ECONOMIC POLICY

REPORT

OF

SENATOR MIKE MANSFIELD

TO THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

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LETTER OF TRANSMITTAL

Hon. J. W. Fulbright,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: During the recent recess, I traveled to several European nations prior to attending the 59th Interparliamentary Conference at Paris. My principal concern was to inform myself of European reactions to the Administration's new economic policy.

Limitations of time permitted me to make personal visits only to Helsinki, Stockholm, Oslo, Copenhagen, Rome, Paris and, briefly in returning, to Rabat. At my direction, however, staff personnel also went to London, Northern Italy and Germany. In addition, U.S. Embassy personnel in the Netherlands, Switzerland, and Belgium responded in a very helpful fashion to my request for information with respect to those nations.

On September 14, 1971, shortly after my return to Washington, I delivered a preliminary report on my findings to the Senate which is contained in the appendix. The attached is my report to the Committee. I have also directed that a staff analysis be filed with the Senate Foreign Relations Committee on the current status of NATO.

Senator Ernest F. Hollings of South Carolina traveled with me to the 59th Interparliamentary Conference. En route, he pursued his primary concern which centered on programs for the needy. It is my understanding that he is reporting to his committees on comparative European practices in this connection. I wish to make note of the fact that, in addition, Senator Hollings participated with me in all briefings on foreign relations at U.S. Embassies and in discussions of the President's New Economic Program with Heads-of-State, Prime Ministers and other political leaders. His contribution was both diligent and perceptive and did much to elicit the understanding on which my reports have been based.

I wish to acknowledge the very able assistance of Mr. Donald Henderson of the Committee Staff and Mr. Kenneth Calloway whom the Department of State assigned as escort officer. Other officials of the Executive Branch and the U.S. Ambassadors abroad were very cooperative and helpful. Technical arrangements were handled most efficiently by J. Stanley Kimmitt, the Secretary for the Majority, in coordination with the Department of the Air Force. The Secretary of the Senate, Francis R. Valeo, served as consultant for the undertaking.

Sincerely,

Mike Mansfield.

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I. THE WESTERN EUROPEAN SCENE

For several years, it has been a truism to note that Western Europe is thriving and has achieved a new economic dynamism. Nevertheless, the vitality of the European economies can only be understood through being experienced. In virtually all countries visited it is evident that Europe has moved at a rapid pace. In the Scandinavian countries, the hallmarks were clean cities, safe streets, new buildings and controlled pollution. Not only in these northern countries, but throughout Europe there is a pervasive sense of industrial and commercial energy.

This is not to say that the European countries are without problems. Norway is in the midst of an acute labor shortage. Recently, Denmark has experienced a high rate of inflation. The economic growth indicators have tapered in the Scandinavian countries and elsewhere in Europe. Italy is wrestling with intractable labor problems and a recession.

Nevertheless, these difficulties seem relatively modest in comparison with what is plaguing the United States at the present time. To be sure, European growth, in some cases, has fallen off but the decline is from percentages of increase which were, for years, in the range of 6 to 10 percent per year in contrast with little more than 2 to 3 percent in this nation during the same period. In the case of Italy, moreover, that country is now keenly aware of recession largely because of the explosion of economic activity which was experienced throughout most of the last decade.

There seems to be little doubt that the Common Market has been responsible for much of the economic advance on the continent. Despite all the starts and stops on the road to greater unity in the European Community, the fact is that the "Six" have prospered in association. Moreover, the Market is now in the process of expanding to bring in new members; namely, the United Kingdom, Denmark, Norway and Ireland.

The United States has favored this movement toward unity among the Western European countries. At the same time, this nation has long been aware that, in its pursuit, the European Community was approaching something of a crossroads. Stated in blunt terms, one path continues in the direction of the expansion of liberal trading relationships. Also open, however, is the path which leads to formation of a restrictive, protectionist bloc.

The Europeans appear just as concerned about this problem as the United States, where there has also been some growth in protectionist sentiment in recent years. In approaching the crossroads, the European nations are in a strong financial position because of their concentration on internal economic development and foreign trade during the post-war years. By contrast, productive energies in this nation have been diffused in a great diversion of resources into foreign affairs and defense.

A reflection of the differing situation is to be seen in statistics relating to the shift in reserve holdings of foreign exchange from one side of the Atlantic to the other. In 1962, the United States had reserves of $14.2 billion; the industrialized countries of Western Europe held about $27.5 billion in reserves; Canada had $2.5 billion; and Japan held approximately the equivalent of $2 billion. In the fourth quarter of 1970—even before the onset of the recent period of fevered financial transactions, the United States reserves had dropped to about $14.5 billion, while those of industrialized Western Europe had risen to about $41.7 billion, those of Canada of $4.7 billion and those of Japan to about $4.8 billion. As of July of this year, the overall reserve positions of the industrialized Western European countries reached almost $49 billion, while in just a six-month period the reserve holdings of Japan almost doubled.

To state these statistics is not to imply that the shift has been an unmitigated benefit for Europe. The creation of a Euro-dollar market amounting to some $45 billion has brought rapid speculative movements and capital transfers which have disrupted intricate financial mechanisms. The European nations have been flooded with many more U.S. dollars than they believed to be healthy, yet, little was done to control capital movements. The sources of the difficulty, however, are not to be ascribed to the European countries alone. American business with great encouragement from the federal agencies has also entered Europe over the years with heavy dollar transfers and has been adept at capitalizing upon the potential of the Common Market.

It should be added that, even though most of the European countries have very large holdings of gold, these reserves have not expanded at any great rate during the last decade. The monetary problem essentially is not in gold but in the flow of U.S. dollars overseas in enormous quantities, a condition which, in turn, largely reflects distortions in our policies for many years.

These policies have continued to place a heavy emphasis on expenditures abroad for military and diplomatic purposes even during a period when the U.S. trade surplus has been dwindling and, finally, has turned into a deficit. By contrast, Western European countries have been expanding trade among themselves and with other regions at a very vigorous rate. This heightened activity reflects both a new spirit and a new ability to compete successfully on the basis of new machinery and plant capacities and, as previously noted, the concentration on economic pursuits. Opportunities have been seized to expand commercial relationships everywhere, including Eastern Europe and other Communist-controlled areas.

The East accounts for about 4.5 percent of the trade of the European Community, whereas less than one percent of U.S. trade is with Communist countries. West Germany does an annual business of more than a half-billion dollars with East Germany and East Berlin alone. This is not a criticism but a comment. That trade possibilities in Eastern Europe have been left largely to other nations is due in part to antiquated government restraints on this nation's commerce with Eastern Europe which only belatedly are being removed.

Whatever the circumstances involved in their progress, most of the Western European countries are thriving and pressing for further gains. That is the case notwithstanding various economic and social difficulties which may foreshadow problems such as have occurred in the United States.

Several factors are immediately apparent which shed light on what has transpired in Europe. The severing of the pretensions of empire, for example, has done nothing but good in economic terms for Western Europe. Furthermore, that region has devoted, proportionately, a much smaller amount of its resources to defense than has the United States. In large part, this has been made possible both by the nuclear umbrella furnished by the United States and the readiness with which the U.S. has assumed much of the cost of the liquidation of the 19th century European colonial system.

In the circumstances, it should not seem strange to Europeans that many Americans are becoming resentful of criticism directed toward the United States for the shortcomings of its financial and other policies. One might note in particular in this connection that, although there has been a European outcry against the U.S. involvement in Southeast Asia, several European governments have privately been assuring the United States that we must continue to fulfill global responsibilities in Asia. It is only very recently that Western Europe has begun to understand and to become deeply concerned about the damage which the experience of Viet Nam has done to this country's overall strength and unity.

II. REACTIONS TO THE NEW ECONOMIC POLICY

It was against a contrasting background of comparative Western European serenity and U.S. economic difficulties that President Nixon's announcement on August 15 of his new economic policy was posed. European governments understood that the President had no alternative but to take drastic action to stop the deteriorating financial position of this nation. Indeed, since the Europeans themselves had long been urging the United States to remedy its payments deficit and to stem the flood of dollars, it is to be assumed that they were prepared for some urgent and dramatic action.

Even so, the early reaction in the European press generally was critical, although governments were almost uniformly circumspect in official statements. After the initial shock most Western European countries expressed a considerable degree of comprehension of the United States position. Especially in the Scandinavian countries, I found that government officials were prepared to listen sympathetically to an exposition of the New Economic Policy. There were assurances, too, of cooperation with the United States in finding solutions. Actually, a country like Norway already has given evidence of responding fully to U.S. needs by holding onto surplus dollars rather than converting to gold for the past several years.

It should be noted, however, that in northern European countries, the percentage of direct annual trade with the United States, on the whole, averages no more than 5 to 6 percent, so the adverse impact of the New Economic Program is likely to be minimal. But even in Italy, which has about ten percent of its trade with the United States, and, along with West Germany, is most affected by the New Economic Policy, there is a readiness to accept the inevitable and suspend comprehensive judgments. European understanding, however, is accompanied by expressions of concern, particularly over the impact of the Policy on selected commodities, and by anxiety about the future direction of U.S. commercial policy.

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Reactions naturally were found to differ in different countries and with respect to different parts of the Administration's package. A great deal of concentration was fixed on the single issue of the 10 percent import surcharge. That was to be expected since the surcharge affects almost 87 percent of the exports of the Common Market countries to the United States. While it was recognized that Canada, France and the United Kingdom had imposed a similar surcharge in the past, emphatic hopes were expressed that the U.S. measure would be temporary. What was most feared, apparently, was the possibility that the duty increase, rather than constituting a short-term phenomenon, might prove to be a precursor to a fundamental change in U.S. trade policies. In response to these anxieties, I counterposed the view that the United States was not likely to turn its back on an approach to international trade which had prevailed since the end of World War II, and which had contributed greatly to the nation's prosperity.[1]

At the time of my visit, there did not seem to be widespread perturbation over the new Policy's suspension of gold in the settlement of international transactions, although feelings did run high on this point in France. In any event, five financial crises over the period of three years have persuaded most European governments that the international monetary system established at Bretton Woods, so dependent on the dollar and gold, did require basic changes rather than continued bandaging and patching. There was a tendency to look to the United States to take the lead in proposing new methods of international monetary dealings.

There seemed to be general understanding in Western Europe that the basic strength of the Atlantic Alliance was intimately involved with the economic health of the United States and the attitudes of the American public. In these circumstances, the disposition was to overlook some of the troubling features of the new economic policy. Again and again assurances were forthcoming that so long as the surcharge was only "temporary" in character, Western Europe would not seek any condemnation of the action as a violation of the General Agreement on Tariffs and Trade (GATT) and would not attempt retaliatory measures.

To be sure, the Western European reaction was not totally sympathetic and cooperative. Neither would it be accurate to represent the viewpoints expressed to me, however, as other than courteous, helpful and understanding.[2] The Europeans seemed to understand that U.S. military expenditures, particularly for the Viet Nam war, as well as

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[1] This position has since been clearly sustained in the three-volume study by the President's Commission in International Trade and Investment Policy, published in July. The so-called "Williams Report" predicted at least some of the steps taken by President Nixon, but simultaneously gave great weight to a program which would maintain our post-war policy toward world trade and bring about a complete abolition of tariffs within a 25-year period.

[2] Since my return from Europe, the situation seems to indicate some European second-thoughts. In particular, the "buy-American" aspects of the proposed investment tax credit, initially placed at a 10-percent figure, is interpreted as an additional barrier to trade almost comparable in effect to the surcharge. Since the 10-percent surcharge will affect only a portion of each Western European country's total exports and seldom to the full 10-percent figure, there is some disposition to believe that the investment tax credit is almost equally damaging to trade prospects. The administration's proposals for a Domestic International Sales Corporation (DISC) by itself perhaps would not be regarded as a threatening measure. But seen in company with the other elements of the policy this proposal for an export subsidy adds to European fears that the United States is turning protectionist.

foreign aid outlays have placed this nation in a very awkward position and they appeared prepared to make some adjustments to the circumstances.

On the other hand, Europeans also hold the view that at least part of the overall forecasted need for a $13 billion shift in the U.S. balance of payments position stems from excessive involvements abroad especially in Asia and from unrestrained private U.S. capital outflows particularly to Europe. There are also European recriminations with regard to existing trade restrictions and barriers which are responded to in kind by U.S. officials. One factor of particular concern to the United States has been the growth of preferential trade arrangements between the European Community and many of the less developed countries, especially those in Africa. These arrangements violate basic GATT principles of non-discrimination. They also often include reverse preferences detrimental to the interests of the devloping countries. In turn, the Europeans complain, in particular, of investment penetration and the often virtual monopoly positions of U.S. firms in their domestic markets. Direct U.S. investment in the European Community, which was about $2 billion in 1958, had risen to $13 billion by 1970. About 300 multinational corporations, two-thirds of them U.S.-owned, dominate the field of international direct investment.

It is especially difficult for Europeans to understand the import duty add-on of the New Economic Policy when they consider that this nation had a $3.2 billion surplus in trade with the European NATO countries in 1970, that overall U.S.-European Community trade grew by 21 percent between 1969 and 1970, and that U.S. agricultural exports to the European Community increased by 23 percent in 1970. Some Europeans regard the duty increase as a distorted device which in order to tackle a large U.S. trade deficit with one or two nations imposes equal additional trade restrictions on other nations which themselves have trade deficits with the United States. In particular, the duty add-on is regarded by Europeans as aimed at Japan. The counterpoint which is made by U.S. officials that European trade barriers block Japanese imports and re-direct them to the United States is dismissed because Western European nations in 1970, themselves, experienced approximately a $900 million deficit in trade with Japan.

Before the events of mid-August, GATT had taken a decision to come to grips with the problem of non-tariff barriers. A special committee had been created within the Organization for Economic Cooperation and Development to cope with trading difficulties. In the present climate, however, there would appear to be diminished prospects of dealing cooperatively with this problem through these channels.

While there is, as noted, little inclination in Western Europe to begin to take protective or retaliatory measures, much hinges on the duration of the "temporary" duty-surcharge. The Europeans are not likely to be sympathetic to the U.S. position for very long if it is interpreted as demanding a permanent guaranteed surplus of U.S. trade so that this country, all at the same time, can maintain a high foreign investment rate, continue an extensive military operation in

Southeast Asia, control inflationary price and wage trends at home, and refurbish its industrial plant and competitive position.[3]

There would appear to be no great problem for the United States in permitting the dollar to continue to float, provided the floatation does not lead, in the end, to a general disruption of world trade. In the last analysis, however, the U.S. government and the Europeans alike feel that it is essential to bring about a return to a system of ordered parities between currencies. With the exception of France, there is general agreement, however, that the limits within which currency fluctuations should take place could well be broadened substantially from what is now permissable in the International Monetary Fund. In this situation there is every reason for all members of the North Atlantic Alliance to move toward a new monetary conference where the necessary changes in the Bretton Woods system might be worked out.

Two points argue for such action: (1) Too much damage is already threatening associates in Europe and Asia and especially this nation's closest neighbors, Canada and Mexico, as well as the less developed countries of the world which have been described as the "innocent bystanders"; and (2) the United States has too great a political and economic stake in Europe and the world at large in terms of trade, investment, and strategic interest, to permit the current situation to degenerate into a long slide back to the practices of the 1930's. Incalculable consequences could well follow from such a reversal of policy. To say the least, they would not benefit the United States any more than friendly nations. Indeed, they might well prove devastating to both.

However unavoidable the steps which were taken last August, they do not deal, in my judgment, with the basic cause of the weakness in our international economic position. The fundamental difficulty, it seems to me, is that we have yet to complete long overdue adjustments in our foreign relations. What is involved is the removal of unnecessary weights which are saddled to the nation's economy in the form of excesses and obsolescenses in foreign and military policies. Out of motives of mutual interest, this nation has pressed other countries from time to time to bring into balance the realities of their resources with their aspirations. The present financial crisis reflects an imbalance in the two with regard to this nation but there is no single powerful foreign voice to importune us. We, ourselves, must see the problem clearly and do what must be done.

First and foremost obviously is the need to put an end to the costly political-military activities in Southeast Asia. These activities have not only underlain a human tragedy of vast dimensions, they have also bled the nation white; they are part and parcel of all of the nation's recent financial difficulties.

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[3] Since my return, it has become apparent that interpretations of the Administration's position in that fashion have caused the European members of the so-called Group of Ten to adopt a unified stand. A divergence of views between France and Germany had hitherto stood in the way of a common position. Whether this new development is promising or threatening with regard to U.S. interests remains to be seen.

In addition to ending direct involvement in Indochina, there needs also to be sharp reductions in U.S. overseas aid and other expenditures and a turning away from the almost indiscriminate and unilateral interventionism which in the name of internationalism has been indulged in, for years, in almost every part of the world. More emphasis must be placed on mutuality of effort in the various multinational institutions which we played a major part in creating for the purpose of furthering the world's stability and economic and social development.

To continue to pay, for example, a large over-share of the cost of NATO—as we have done for years—does not affirm our commitment to internationalism as sometimes it is contended. On the contrary, U.S. participation in NATO is likely to be more durable if the burdens are brought into better adjustment with the present availability of this nation's resources and the needs of the current situation in Europe.

In the last analysis, one of the great assets of the North Atlantic Alliance is the general strength and stability of the United States. It is no benefit to this nation or to the Europeans to permit severe economic problems, created in large measure by excessive expenditures abroad, to continue to erode the foundation of that strength.

III. THE UNITED STATES AND NATO

Current U.S. policies with regard to NATO ought to be seen in the light of the low level of European contribution to the organization and in the current atmosphere in Europe which is redolent with East-West detente. In this last regard, personal assurances were received from U.S. negotiators in Europe that progress is being made in the SALT talks and that, notwithstanding intra-German differences, a genuine breakthrough has been achieved with regard to the Berlin problem.

These recent evidences of relaxation of European tensions and other indications bear significance for the size of the U.S. deployment in Europe. The latter, presumably, is based on NATO's so-called strategy of "flexible-response" which, in practical terms, means an immediate readiness to engage in any war, short of nuclear, in response to attacks from the East. It is difficult to find people in Western Europe who believe such attacks are within the realm of likelihood. Government officials and military officers, who are trained to prepare for the worst eventuality, of course, concentrate on the possibility and certainly no one can say war is impossible. Insofar as the European governments themselves are concerned, however, they are not "putting their money" on this proposition.

That such is the case is indicated by the percentage of gross national product (GNP) which is being diverted by NATO members for defense. Set forth below is a table showing the defense expenditures of the NATO countries (excluding Iceland, which has no armed forces) expressed in percentages of GNP:

DEFENSE EXPENDITURES—TOTAL AND PERCENT OF GROSS NATIONAL PRODUCT AT CURRENT MARKET PRICES

[Calendar years, in millions of dollars]

[Exchange rates used: Belgium 50 francs, Denmark 7.5 kroner, France 5.554 new francs, Germany (F.R.) 3.66 DM, Greece 30 drachmas, Italy 625 lire, Luxembourg 50 francs, Netherlands 3.62 guilders, Norway 7.14 kroner, Portugal 28.75 escudos, Turkey 15 liras, United Kingdom $2.40 per £ 1, Austria 26 schillings, Spain 70 pesetas, 1.081 dollars]

Country	1962		1963		1964		1965		1966		1967		1968		1969		1970[1]	
	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP
Belgium	422.0	3.3	445.0	3.2	497.0	3.2	501.0	3.0	526.0	2.9	569.0	2.9	602.0	2.9	630.0	2.8	[2] 695.0	2.8
Denmark	207.0	3.0	220.0	3.0	235.0	2.8	263.0	2.8	277.0	2.7	300.0	2.7	345.0	2.8	352.0	2.5	[2] 368.0	2.3
France	3,994.0	6.0	4,114.0	5.5	4,372.0	5.3	4,556.0	5.2	4,813.0	5.0	5,206.0	5.0	5,438.0	4.8	5,708.0	4.4	5,900.0	4.0
Germany (F.R.)	4,708.0	4.9	5,443.0	5.3	5,342.0	4.7	5,441.0	4.4	5,533.0	4.2	5,849.0	4.3	5,276.0	3.6	5,895.0	3.6	[2] 6,103.0	3.3
Greece	170.0	4.0	179.0	3.8	188.0	3.6	210.0	3.6	239.0	3.7	313.0	4.3	367.0	4.7	425.0	5.1	450.0	5.0
Italy	1,377.0	3.3	1,649.0	3.4	1,789.0	3.4	1,939.0	3.3	2,146.0	3.4	2,174.0	3.1	2,245.0	3.0	2,259.0	2.7	2,310.0	2.5
Luxembourg	7.1	1.4	7.0	1.3	9.2	1.5	9.5	1.4	9.9	1.4	8.3	1.4	7.5	1.0	7.8	0.9	[2] 8.3	0.9
Netherlands	604.0	4.5	637.0	4.4	735.0	4.3	750.0	3.9	771.0	3.7	884.0	3.9	906.0	3.6	1,017.0	3.6	[2] 1,096.0	3.5
Norway	192.0	3.6	205.0	3.6	220.0	3.5	266.0	3.8	273.0	3.6	294.0	3.5	336.0	3.7	350.0	3.6	375.0	3.4
Portugal	200.0	6.9	199.0	6.4	224.0	6.6	232.0	6.2	257.0	6.3	333.0	7.2	372.0	7.2	371.0	6.5	400.0	6.3
Turkey	199.0	5.7	211.0	5.0	229.0	5.1	255.0	5.2	266.0	4.7	306.0	4.8	344.0	4.7	360.0	4.6	355.0	4.3
United Kingdom	4,353.0	6.3	4,488.0	6.1	4,799.0	6.0	5,018.0	5.8	5,168.0	5.6	5,463.0	5.7	5,545.0	5.4	5,497.0	5.0	5,950.0	5.1
Total Europe on NATO	16,433.0	5.0	17,797.0	5.0	18,639,0	4.7	19,441.0	4.6	20,279.0	4.4	21,699.0	4.5	21,784.0	4.1	22,872.0	3.9	24,010.0	3.7
Austria	80.0	1.1	100.0	1.3	131.0	1.5	114.0	1.2	135.0	1.3	142.0	1.3	158.0	1.3	158.0	1.3	165.0	1.2
Spain	379.0	3.2	417.0	3.0	460.0	3.0	494.0	2.7	677.0	3.2	832.0	3.6	998.0	3.9	1,033.0	3.6	1,165.0	3.6
United States	52,381.0	9.3	52,295.0	8.9	51,213.0	8.1	51,826.0	7.6	63,571.0	8.5	75,484.0	9.5	80,732.0	9.3	81,444.0	8.7	76,507.0	7.8
Canada	1,674.0	4.4	1,584.0	3.8	1,677.0	3.6	1,535.0	3.0	1,633.0	2.9	1,818.0	3.0	1,783.0	2.7	1,757.0	2.4	[2] 1,906.0	2.4

[1] Estimate.
[2] Actual.

Note: See following table for earlier years. (1) Data shown are on basis of NATO definition of defense expenditures. (2) Data for Germany prior to 1955, Greece for 1955, and Austria and Spain for all years, are estimated. Germany's expenditures through 1955 were largely occupation/support costs.

(3) Conversions of national currency data into dollars have been made on the basis of official foreign exchange rates. A uniform exchange rate has been applied for all years in order to preserve the trend of the national currency data and eliminate distorting fluctuations in the dollar figures caused by devaluations. Because of purchasing power disparities comparisons between countries cannot be precise.

DEFENSE EXPENDITURES—TOTAL AND PERCENT OF GROSS NATIONAL PRODUCT AT CURRENT MARKET PRICES

[Calendar years—In millions of dollars]

[Exchange rates used: Belgium 50 francs, Denmark 7.5 kroner, France 5.554 new francs, Germany (F.R.) 3.66 DM, Greece 30 drachmas, Italy 625 lire, Luxembourg 50 francs, Netherlands 3.62 guilders, Norway 7.14 kroner, Portugal 28.75 escudos, Turkey 15 liras, United Kingdom $2.40 per £ 1, Austria 26 schillings, Spain 70 pesetas, Canada 1.081 dollars]

Country	1949		1950		1951		1952		1955		1958		1959		1960		1961	
	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP	Defense expenditure	Percent of GNP
Belgium	153.0	2.3	165.0	2.4	268.0	3.4	399.0	4.9	341.0	3.7	366.0	3.5	374.0	3.5	383.0	3.3	391.0	3.2
Denmark	48.0	1.9	48.0	1.7	63.0	2.0	90.0	2.7	123.0	3.2	132.0	2.9	132.0	2.6	148.0	2.7	157.0	2.6
France	862.0	5.5	1,006.0	5.5	1,587.0	7.1	2,256.0	8.6	1,984.0	6.5	2,983.0	6.8	3,228.0	6.6	3,450.0	6.4	3,672.0	6.2
Germany (F.R.)	1,230.0	5.0	1,202.0	4.3	1,701.0	4.9	2,336.0	5.9	2,017.0	3.9	1,872.0	2.8	3,029.0	4.2	3,310.0	4.1	3,600.0	4.0
Greece	54.0	5.9	66.0	6.1	87.0	6.6	88.0	6.4	123.0	5.1	149.0	4.7	158.0	4.8	170.0	4.8	168.0	4.2
Italy	482.0	3.7	565.0	3.9	732.0	4.4	833.0	4.6	881.0	3.8	1,035.0	3.5	1,067.0	3.4	1,136.0	3.4	1,199.0	3.2
Luxembourg	2.2	.9	3.4	1.4	5.3	1.6	8.7	2.4	12.3	3.3	8.6	2.0	8.0	1.8	5.3	1.1	5.8	1.1
Netherlands	188.0	4.0	249.0	4.8	293.0	4.9	346.0	5.5	469.0	5.6	457.0	4.6	416.0	3.9	477.0	4.0	556.0	4.4
Norway	52.0	2.7	50.0	2.4	80.0	3.1	116.0	4.0	133.0	4.0	143.0	3.6	155.0	3.6	148.0	3.3	165.0	3.3
Portugal	49.0	3.7	53.0	3.6	54.0	3.4	59.0	3.6	77.0	4.1	86.0	4.0	98.0	4.3	105.0	4.2	171.0	6.4
Turkey	37.0	6.0	40.0	5.8	43.0	5.3	49.0	5.1	72.0	5.1	98.0	4.1	143.0	4.8	160.0	4.9	181.0	5.5
United Kingdom	1,870.0	6.2	2,038.0	6.4	2,755.0	7.8	3,746.0	9.9	3,762.0	8.1	3,819.0	6.9	3,814.0	6.5	3,972.0	6.4	4,102.0	6.2
Total European NATO	5,027.0	4.9	5,485.0	4.8	7,668.0	5.8	10,327.0	7.0	9,994.0	5.5	11,149.0	4.8	12,622.0	5.0	13,464.0	4.9	14,368.0	4.8
Austria									21.0	.5	73.0	1.4	77.0	1.4	73.0	1.2	73.0	1.1
Spain	NA	NA	NA	NA	NA	NA	165.0	4.1	201.0	3.7	249.0	3.0	255.0	3.0	269.0	3.0	295.0	2.9
United States	13,503.0	5.2	14,307.0	5.0	33,059.0	10.0	47,598.0	13.7	40,371.0	10.2	45,096.0	10.1	45,833.0	9.5	45,380.0	9.0	47,808.0	9.2
Canada	344.0	2.3	457.0	2.8	1,128.0	5.8	1,734.0	7.8	1,682.0	6.5	1,610.0	5.1	1,519.0	4.5	1,530.0	4.4	1,587.0	4.4

NA—Not available.

Note: See preceding table for later years. (1) Data shown are on basis of NATO definition of defense expenditures. (2) Data for Germany prior to 1955, Greece for 1955, and Austria and Spain for all years, are estimated. Germany's expenditures through 1955 were largely occupation/support costs. (3) Conversions of national currency data into dollars have been made on the basis of official foreign exchange rates. A uniform exchange rate has been applied for all years in order to preserve the trend of the national currency data and eliminate distorting fluctuations in the dollar figures caused by devaluations. Because of purchasing power disparities comparisons between countries cannot be precise.

It will be noted that the European defense effort in terms of percent of GNP has been dwindling ever since the Berlin crisis of 1961–62. Figures for 1971 when compiled will show further ebbing in many cases. There are all sorts of caveats which can be made in regard to these figures. Nevertheless, they are indicative. The same point is true about the following data relating to conscription in the Alliance countries:

CONSCRIPT TERMS IN NATO COUNTRIES 1951–71

[In months; Key: A—Army; N—Navy; AF—Air Force]

Country	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71
Belgium						18	18	15	15/12	12	12	12	12	12	12	12	12	12	12	12	[1] 12
Canada																					
Denmark						16	16	16	16	16	16	16	16	16	16	14	14	14	14	12	12
														N/AF 14	AF 14	AF 12	AF 12	AF 12	AF 12		
France						18	(24)18	(24)18	(27)24	(24)18	(24)18	(24)18	18	18	16	16	16	16	16	16/12	12
Germany							12	12	12	12	12	18	18	18	18	18	18	18	18	18	18/15
Greece						(21)18	(21)18	(21)18	(21)18	24	24	24	24	24	24	24	24	24	24	24	24
Italy						18	18	18	18	18	18	18	18	15	15	15	15	15	15	15	15
													N 28	N 24	N 24	N 24	N 24	N 24	N 24	N 24	N 24
Luxembourg						12	12	12	12	12	12	12	9	9	9	6					
Netherlands					18	18	18	18	18	18	18	20	20/18	A 18	A 18	A 18	A 18	A 16	A 16	A 16	A 16
														N/AF 21	N/AF 21	N/AF 21	N/AF 21	N 21	N 21	N 21	N/AF 18
																		AF 18	AF 18	AF 18	
Norway					16	16	16	16	16	16	16	16	16	12	12	12	15	15	15	15	15
Portugal					4	4	4	18	18	18	18	18	18	18	18	18	A 12	A 12	A 12	A 12	A 12
																	18	24	24	24	[2] 24
Turkey					24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	[3] 18	20
																				[4] 20	
United Kingdom	24	24	24	24	24	24	24	24	24	24/—											
United States	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24

[1] 15 months for service in Belgium only.
[2] Exceptions according to need of service.
[3] Officers.
[4] Enlisted men.

NOTES

Complete data not available for 1951–55.

/ Denotes change in law during calendar year.

France—1956–62. Legal draft was 18 months; conscripts were retained for number of months in parenthesis.

Greece—1956–59. See note re France.

It may be understandable, but it is still regrettable, that the viability of NATO seems yet to depend so much on United States leadership, physical presence and exhortation. The habit is 25 years old and may be hard to break but it is essential for both Western Europe and the United States to move away from this one-sided emphasis. The European governments are so accustomed to the omnipresence of the United States that they continue to insist on their inability to deflect more of their budgets for defense. Yet, there is a failure to comprehend that the same consideration may be true in this country. The point seems to be getting across, at last, but in a disruptive way. That might have been avoided if adjustments in contributions to the military effort in Europe among the NATO members had been pressed in good time.

Even now, with the difficulties at home and the accumulated evidence of relaxed European attitudes towards the East, the United States continues to maintain a swollen and cumbersome military establishment in Western Europe. Indeed, while U.S. military forces in Europe amounted to 291,000 at the end of 1970, by June 30, 1971 they had increased to a figure of 307,000. With them, as of June 30 of this year, were no less than 230,000 American dependents, 150,000 located in Germany alone. In addition, the United States employed almost 90,000 local nationals in connection with maintaining the military presence. These troops, dependents and employees are spread through 60 cities, towns and villages just in Germany, with engineering and supply units located at about 80 sites in that country.

The U.S. command structure in Europe also remains top-heavy. According to EUCOM (U. S. European Command Headquarters) there are still 128 general and flag officers in the theatre, or approximately one for every 2,350 men. The balance of payments and cost-reduction exercises of the past few years have trimmed some fat. Other reductions have resulted from the U. S. military withdrawals on request from France, the shift of technical and other personnel to Viet Nam, the dual-basing concept which permits two-thirds of a division to remain in the United States, and the halving of the MAAG (Military Assistance Advisory Group) missions in Western Europe. It should also be noted that a Department of the Army survey for 1970 reports a 15 percent reduction in headquarters personnel. So long as the overall command structure remains basically untouched, however, such reductions as have taken place amount to a matter of hacking at the fringes. It is reasonable to expect that the U.S. military complex in Europe will continue to involve upwards of half a million Americans until some hard decisions are made on the initiative of the Administration or precipitated by the Congress.

It is difficult to determine the part of the deficit in the balance-of-payments which is derived from the U.S. military deployment. The figure generally used is about $1.8 billion a year. Against this is a so-called "off-set agreement" with West Germany in the amount of roughly $1.6 billion covering the two fiscal years 1970–71. Of the offset, $200 million a year is in the form of West German loans to the United States and some $400 million has gone for annual purchases of military equipment in this country which in all probability would have to be purchased for the German military establishment with or without a U.S. military presence in Europe. In any event, German loans to this nation and arms purchases are hardly ideal ways of closing a balance-of-payments gap.[4] Nor do they have anything whatsoever to do with reducing the cost of the total U.S. commitment to NATO which accounts for about $14 billion of the budget of the Department of Defense. On the contrary, the interest which has to be paid on the offset loan would have the effect of increasing the cost!

Important as the payments deficit or the cost of the NATO deployment may be, they are not the most significant considerations which urge the reduction of U.S. forces in Europe. First and foremost what is involved is a matter of principle. It is a matter of the validity of a policy which, contrary to historical experience, requires the indefinite stationing of heavy concentrations of troops in Western Europe. The presence of large numbers of armed forces overseas for extended periods of time inevitably creates the kind of human problems as well as financial problems which we are experiencing now in West Germany. These constitute a source of weakness rather than strength in relations among allies. Troops serving in distant lands in peacetime lose a sense of clear purpose. The local citizenry lose a sense of solicitude and respect. The mutual resentments grow.[5]

Moreover, it is wrong to expend excessively from public funds almost out of force of habit after a change in the circumstances which precipitated the spending process in the first place. That there has been a change in Europe is indicated by the unwillingness of the European nations to turn aside from their concentration on economic progress in order to accept more of the military burdens of NATO.

It is contended by some European governments that the United States last December bound itself not to take any unilateral action with regard to force reductions and that this restraint must continue to operate for the foreseeable future. In point of fact, the Executive Branch cannot make such an indefinitely binding commitment without concurrent action by the Congress since the commitment is dependent, in the last analysis, on Congressional appropriations. In any event, it should be noted that other NATO members have not bound themselves indefinitely and the actual level of each nation's present commitment to NATO is what each nation is prepared to commit.

Of course the United States or any NATO nation should confer with NATO allies before acting on force-reductions or any other important measure—and this applies to spheres of action other than the military. That ought to go without saying but it is not the same as saying that the United States is bound, any more than other members, by the out-

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[4] Moreover, there appears no way to discover exactly how much our troops and their dependents add to the balance-of-payments deficit by spending in Germany for non-American goods and services. There are items such as the price paid for automobile insurance—not to mention the outlays following car accidents—which may cost Americans in the neighborhood of $20 million annually. Another example of such costs is the high charge for utilities to U.S. personnel; these may run to about $25 to $30 million each year.

[5] While the West German Government may be anxious to keep the U.S. military establishment intact, a good many Germans apparently would not be sorry to see substantial American withdrawals. There are indications of rising bitterness on the part of U.S. servicemen and their dependents because of their treatment in German communities where they are situated. Germany is where the problem is concentrated, because more than half the nearly 400 major bases maintained abroad by the U.S. Defense Department are located there.

come of such talks. The distinction may be the slender one of whether or not other countries tacitly acquiesce in, or openly disapprove of, the specific action but it is a real distinction.

In my judgment, the question of substantial reductions of U.S. forces in Europe at this time revolves around a matter of political atmospherics, rather than military necessity. Very few military men will say without numerous reservations that the presence of four and one-third American divisions in Germany, along with the total strength of the alliance can prevent the Soviet Union from reaching the Atlantic if it were to undertake a full-scale conventional attack. The real deterrent is nuclear, along with the expectation of the participation of the United States in the event of any general military conflict in Europe short of nuclear war. That European governments are anxious for insurance on the finality of the U.S. commitment in the form of the presence of American troops is understandable. What is not understandable is the adamancy about the size of the deployment which, it appears, is insisted on not only by the European governments but, perhaps, even more emphatically by the Executive Branch of this government.

It is not suggested now and has never been suggested by me at any time in the past that U.S. forces be completely withdrawn from Europe. Rather what I believe to be long past due is a planned reduction of forces which will cut the size of the present deployment at least in half. That would still leave in Europe substantial U.S. forces as an earnest of this nation's commitment. What is advocated, in short, is an orderly cut in U.S. forces in Europe to a level somewhat higher than that suggested by Dwight D. Eisenhower, as satisfactory for NATO purposes as long ago as a decade!

It seems to me that the excessive deployment which has persisted since that time has not only contributed to our economic difficulties but has warped the character of the North Atlantic Alliance. The continued over-emphasis on the military aspects of NATO in the face of a declining need has brought into some question the credibility of the United States commitment to the peaceful development of Western Europe. We have not devoted anything like comparable attention to the political, economic and moral aspects of our inter-relationships with the European countries. We should long since have emphasized and consolidated those aspects of the Alliance, while at the same time acting to reduce our military contribution to a more reasonable level.

The hour may now be very late to bring about this adjustment which in any circumstances would be a delicate and difficult task. If it is to be achieved at this time of economic stress, there will have to be the closest attention from the President and, perhaps, even his personal intervention. Indeed, it might be helpful if President Nixon were to include a visit to Western Europe in his travel plans for the months ahead. Congress can and should contribute to the process in every way possible, while at the same time giving the President full support whenever he takes initiatives to strengthen the conditions of peace in Europe.

This moment in intra-European and Euro-U.S. relations offers opportunities to cement that peace. It would be tragic if the opportunities were to be lost either because of faulty reactions to international financial difficulties or because the machinery of our European-NATO policy insists on flailing at the ghosts of the past instead of dealing with present realities.

If there are opportunities in the moment, there are also possibilities for destructive economic sniping and political intrigue. The dangers are there and they will increase rapidly unless the present tendencies towards multiplying trade restrictions and recrimination are held in check and unless the NATO adjustments are forthcoming without further delay. There need not be a slide into what, in the end, may well be the crumbling of Western unity. It is late but there is still time to move into a new and fruitful age of mutuality with Western Europe and within a peaceful Europe.

APPENDIX

[Interim Report of Senator Mike Mansfield on his return from Western Europe which appeared in the CONGRESSIONAL RECORD of September 14, 1971]

THE NEW ECONOMIC PROGRAM AND WESTERN EUROPE

I. INTRODUCTORY

Mr. President, this statement to the Senate is in the nature of a summary of my impressions of reactions in Western Europe to the administration's new economic program. In due course, I shall file with the Committee on Foreign Relations a formal report on this subject. The observations which I make now and others which will be contained in my subsequent report flow from a recent visit to various European states and, briefly, to Morocco. Some of these states are members of the European Economic Community and others are on the verge of membership. All of them are affected directly or indirectly by the new economic policy.

I held direct exchanges with U.S. Embassy personnel and government leaders in seven countries. These conversations were supplemented, under my direction, by staff reports from still other areas. The journey culminated in Paris at the 59th Interparliamentary Union which I attended for 2 days. The focus of the study was the new economic program although in Morocco and elsewhere other subjects were raised. In Paris, I made it a point to eschew discussions of Vietnam with the various delegations to the Paris Peace Conference.

My principal concern was to weigh European reactions to the new economic program for communication to the Senate. Wherever I went, however, I also took occasion to emphasize to European leaders the urgency of the economic problems at home which had led to the promulgation of the program. I pressed for their understanding of our situation even as the people of the United States have shown understanding to theirs on many occasions in the past. Invariably these exchanges were frank and friendly and, at the same time, reassuring of the continuance of a high degree of mutual consideration between Western Europe and the United States.

II. EUROPEAN REACTIONS TO THE NEW ECONOMIC PROGRAM

The European nations have been aware of the economic difficulties which have been gathering for the past several years in the United States. They have watched the unchecked inflation, the persistent high level of unemployment, and the shifting trade flow with deep interest and concern. Indeed, a number of major European countries have long been pressing the United States to take strong measures to correct its payments deficits.

The alarms which had been rung in the Senate and elsewhere had reached Europe. Closer at hand, European governments also had evidence of the ineffectiveness of the initial remedies for this Nation's difficulties. European central banks were witness to gyrations in gold prices, periodic speculative rushes of dollars from one currency to another and other manipulations in the European financial markets.

Notwithstanding these harbingers, the first reaction to the new economic program was one of stunned surprise. European nations groped for a proper response to the administration's new course and for new footholds for their monetary policies. Under EEC leadership, an effort was made to find a common European approach. It was not successful, largely in consequence of the great divergencies between the positions of France and Germany. For the present, therefore, the European nations are acting individually and with a variety of responses. All of the reactions, however, to one degree or another, involve some degree of free market determination of the present value of the dollar. Nor are the forthcoming monetary conferences expected to make much difference in the situation.

There was a certain inevitability in the initial European shock. The administration's course was a drastic change in direction which for three decades, had assigned to a stable dollar-gold relationship the central role in the commerce of the North Atlantic nations and much of the rest of the world. Moreover, the impact was intensified by the suddenness of the announcement as well as by the nature of certain of the specific remedies which the administration chose to pursue.

The first wave of reaction has now passed. In a calmer aftermath the Europeans tend to acknowledge that the need to shore up this Nation's financial position was long past due. If there ever was any tendency to gloat over our economic difficulties, as some earlier press reports indicated, it has long since passed. The fact is, that the European stake in the outcome of the President's program is very great. The stability of the U.S. economy still lies at the base of North Atlantic commercial relationships. In turn, the well-being of all of Western Europe is still intimately woven into those relationships.

That the European governments are understanding does not mean that they concur in every aspect of the administration's new program. On the contrary, they are articulate in setting forth differences. Certain European nations, for example, would have preferred that the currency readjustments take the form of a revaluation in the price of gold rather than the suspension of the relationship between the metal and the dollar. The preference for what might be termed gold levitation over dollar floatation is not too difficult to understand. As the Europeans see it, a rise in the fixed price of gold would not only have forestalled the necessity for revaluations of their currencies but it would also have increased greatly European exchange reserves which are now held extensively in gold.

There is also concern that the proposed investment-tax credit is to apply exclusively to purchases of U.S. origin. From the point of view of European self-interest, a tax incentive for U.S. industries to "buy American" can only serve to reduce the competitive effectiveness of many European manufacturers—notably of machinery—in the U.S. market. The proposed repeal of the excise tax on automobiles is similarly regarded as a blow on a blow to European exports in most of those nations which are heavily committed to the sale of vehicles in the U.S. market.

III. THE TEMPORARY 10-PERCENT ADDITIONAL IMPORT DUTY

The most universal reaction to the new economic program, however, is reserved for the general 10-percent add-on, or surcharge, with regard to U.S. import duties. All of the European governments oppose the provision although certain countries are hit more directly and painfully than others. Recession and unemployment are now anticipated among certain European exporters of highly competitive commodities such as shoes, jewelry, and watches. On the whole, however, the European economies do have alternative sources of trading strength—notably the inner market of the European Economic Community and they appear sufficiently stable to be able to absorb the increase in duty without widespread disruption.

There is little disposition to challenge this increase under the General Agreement on Tariffs and Trade. Nor is there any inclination to engage in or to threaten reprisals. The fact is that there are unchallenged European precedents for the action which has now been taken by the United States.

Objections to the increase in duty are expressed largely on philosophical grounds. It is described as a step back from freer international trade which, to call a spade a spade, is what it is even on a temporary basis. As noted, however, it is not the first happening of that kind in the Western trading community. Other nations have made similar retrogressions. That the step now looms as a giant one in European eyes is because it has been taken by the largest nation and over the past several decades one of the most consistent advocates of freer trade.

Hence, great stress is laid on the "temporary" tag which has been attached to the provision. The word is, at once, both reassuring and disturbing in Europe. On the one hand, the Europeans find themselves able to adjust to a "temporary" increase and they can also appreciate that a "temporary" lapse in the economic philosophy which has fueled U.S. trade policy for decades need not be permanently disruptive of the economic relationships in which they have invested so heavily. On the other hand what troubles them is the possibility that "temporary" may become permanent. The fact is that the Europeans are far more heavily dependent on international trade than is the United States.

In the circumstances, the question weighs heavily; what if the add-on is only the opening breech? The European nations do not dismiss the possibility that the breach may be widened by subsequent unilateral U.S. measures should the new economic program prove inadequate in showing us the way out of the economic doldrums. The President has taken the lead in offering the reassurances of his administration on that score. During the course of my visit I emphasized that both the administration and the Congress were not predisposed to retreat to the days of Smoot-Hawley and the Great Depression. There is no gainsaying the fact, however, that a doubt persists in Europe as to our course in the future. The fear is real.

If developments were to bear out this fear of further restrictive measures, the consequences would be portentous for both Europe and the United States. For two decades, the people of both regions have profited greatly from a vigorous economic interflow. The growing movement of goods and capital and, increasingly, skills and people across national borders has done much to raise living levels and enrich the mutual human experiences of Europeans and Americans.

A reversal of that pattern on a temporary basis may have been unavoidable but it is nonetheless regrettable. Should there be further retrogression, the most serious damage could be done to the well-being of both the European nations and the United States. In the end, both might well be cut loose from the moorings of a commonly sustained stability which has contributed so much to the evolution of peace in Europe and the North Atlantic.

In the circumstances, too much stress cannot be laid on the significance of the word "temporary" as it applied to the increase in duty. The increase in the import duty is, at best, an awkward and dubious remedy for the Nation's economic difficulties. It does not combat inflationary pressures; it accommodates to them and, hence, contributes to higher prices at home. It serves as a relief for inefficiency rather than as an incentive to more efficient production. To be sure, the add-on may provide a breather for the dollar abroad but, in any durable sense, it will do nothing to pump new breath into the international financial position of the United States.

IV. NATO AND THE NEW ECONOMIC PROGRAM

A more pointed correction of the weakness in that position would involve ending excessive governmental expenditures and especially those which are made in other nations. Many of these expenditures seem to persist out of resistance to change rather than out of any significant relationship to the Nation's current needs or interests.

It is only too obvious, for example, what damage has been done to the Nation's economic position by an outflow in the range of $130 billions of dollars for the tragic and wasting war in Indochina. Yet the war goes on; so, too, do the expenditures, not to speak of the tragic waste of life and resources.

On a smaller scale, the expense of military bases abroad and of foreign aid illustrates the same point. With regard to the latter, year in and year out, billions have poured abroad. In many cases, constructive results have been scarcely perceptable and, sometimes, as in the India-Pakistan situation, the consequences have been downright deplorable. Yet the indiscriminate outflow for aid continues and even spreads further afield.

The cut of 10 percent in aid which has been proposed this year by the administration is to be welcomed even though it seems to me that it is far too meager. Moreover, no distinction is drawn in the proposed cut between what might be constructive and what is ineffective or worse in aid.

For the purposes of this report, the most pertinent example of the kind of excessive government expenditure which tends to erode the financial position of the United States is the outlay for NATO at the present level. Clearly, the billions which are spent every year, directly and indirectly, for this enterprise bear a significant relationship to the weakness of the dollar abroad. In my judgment, these expenditures come from the hand of an outdated policy. It is a heavy hand which, fixed on the Treasury, diminishes the capability of the United States for dealing with contemporary economic realities.

That is not to say that expenditures for NATO should be eschewed for reasons of economy if they are required to meet urgent security needs in accordance wth the North Atlantic Treaty. However, there is nothing in that treaty which constitutes a commitment to make expenditures at the present level. The phrase "at the present level" is emphasized because what we do in the way of contribution to NATO is the consequence of our own national decision. Consultation with NATO allies may be desirable but the question of a reduction in U.S. forces from their present level, however, is not one of international consent but of unilateral determination.

This question was reviewed by the Senate a few months ago and a cut in the U.S. contingency in Europe on the basis of legislative initiative was rejected at the time. However, the fact that the administration has now found it necessary to resort to urgent economic salvage operations underscores the necessity for further consideration of this question. It is to be hoped that a cut might now be brought about by Executive action. If it is not, the question of a legislative initiative may be raised once again in the Senate this session.

V. OBSERVATIONS ON NATO

For the present, however, I would only set forth certain observations on the status of NATO which derive from my recent study abroad. It seems to me that—

First. The Western European nations remain firmly wedded to joint defense of the West under the North Atlantic Treaty. May I add, it is my hope that such will also be the case with regard to the policies of the United States because the mutual stake in the North Atlantic Treaty is very high.

Second. When it comes to material support of NATO, the European nations are prepared to urge the United States not to make reductions in its contribution. There is no indication, however, that any NATO nation is ready to make a substantial increase in its support of NATO. On the contrary, it is not far-fetched to anticipate further reductions in the present European effort under the organization. Even now what the Western Europeans are doing in the name of NATO probably differs very little from what they would be doing, in any event, for their national defense establishments in the absence of NATO.

Third. The reluctance of the European nations to take over any major part of the heavy U.S. burden in NATO is part and parcel of the present mood of Europe. The mood is one of detente and peace not of confrontation and war. It may be that this mood derives from a dangerously deceptive sense of security. It may be that the NATO command is still well-advised to think and plan in terms of imminent military conflict between East and West. That is not, however, the contemporary idiom of either peoples or governments on the European continent. Quite the contrary, the talk in Europe is of peace and so is the action. Words of reconciliation flow across the line of separation accompanied by accelerating trade, technological exchange, and travel. Indeed, Communist workers from the East form a part of this flow as they move on contract into labor-short Western Europe even as European private enterprise operates in Eastern Europe.

The detente has been gaining momentum in Europe for several years. Even the Czechoslovakian intervention in 1968 slowed it only momentarily. Now it is extending rapidly from the cultural and economic realms into the political. The SALT talks, for example, were reported to me in Helsinki as making very good progress. I spent a whole day going over the progress being made. Moreover, while I was in Europe, an agreement was reached by the Soviet Union, the United States, France, and the United Kingdom which is designed to defuse the Berlin situation—incidentally, President Nixon played a very significant and important part in this—Germans of East and West are now engaged in itemizing this accord. Thereafter should come the formalizing of the Soviet-West German and Polish-West German pacts which have already been negotiated and which will settle, for all practical purposes, the border questions carried over from World War II.

To be sure, the unexpected could intervene to rewrite this diplomatic scenario. For the present, however, developments in Europe underscore the antiquation of NATO in its present form. That is not to depreciate its past contribution nor the continuing value of the Western Alliance in order to meet unforeseen contingencies. The problem is not with the desirability of the North Atlantic Treaty;

it is desirable and, perhaps, vital to all concerned. The problem, rather, is the form and content of a NATO two decades old. Despite its so-called policy of "flexible response," NATO has remained rigid in its design for conventional warfare even as the confrontation which might give rise to that warfare has been receding for many years. Moreover, NATO has continued to be overstaffed, overmanned, and overfinanced by the United States long after the Western Europeans have gained the capacity to play the preponderant part in whatever conventional defense they may deem necessary for their security.

In the circumstances, NATO engages in exercises designed for an era of cold war while the climate in Europe warms to the prospect of an all-European peace settlement. In the circumstances, an enormous effort in manpower and funds disappears from the coffers of the United States, at the expense of the national economy and the international strength of the dollar. All the while, Europe uses its resources more pointedly for the economic well-being and progress of its people. This situation highlights the need, in my judgment, to face up to the anachronism of the current consignment of U.S. military forces in Europe. The presence of over half a million American servicemen and dependents in Europe is irrelevant to the political situation on the continent. The great cost of maintaining the consignment is damaging to this Nation's interests both in Europe and at home.

VI. INDICATED CHANGES IN NATO POLICIES

With or without mutual force reductions, it seems to me highly necessary that there be a substantial and graduated reduction in U.S. forces in Europe. Indeed, what value in any negotiations is the debilitating waste of our financial resources? To follow the line of reasoning that suggests we should keep U.S. forces in Europe in order to increase our bargaining power with the Soviet Union is to argue that if the present forces were doubled in size our bargaining power would be doubled.

It should be noted that there have been some administrative reductions in U.S. force levels in NATO below the maximum of several years ago. However welcome, these limited economies are not to be confused with the financial benefit to the Nation which could be derived from an updating of the policies which govern present troop-numbers in Europe. A realistic reading of the current situation, in my judgment, indicates possible changes which should contribute effectively to the recovery of the Nation's financial health without in any way impairing its security. Specifically, the following measures may be practicable:

First. A reduction in the U.S. military contingent in Western Europe on a graduated basis within the near future. The critical factor in maintaining the North Atlantic Treaty in present circumstances is not the size of the U.S. military contingent but the reliability of the total U.S. commitment. In my judgment, two divisions or less of U.S. forces would be as effective in the latter connection as four or more.

Second. A substantial cut in U.S. command participation in NATO. It would seem most appropriate, in particular, that a European be designated as the next Commander in Chief of the organization and for the United States to take the initiative in encouraging such a selection.

Third. A substitution of multinaval NATO forces in the Mediterranean for the conspicuous and overwhelming presence of the 6th Fleet.

Fourth. A development of effective techniques for keeping alive the vital concept of the North Atlantic Treaty while at the same time NATO, as it presently exists, is cut to streamlined essentials, ready for prompt remobilization in the event of emergencies. If present political trends in Europe continue, this conversion of NATO to standby status might well be possible within 5 years.

VII. ADJUSTMENTS IN U.S. POLICY AND ADMINISTRATION

As already noted, the trends in Europe are toward detente, in this Nation's economic interest, and in the interest of maintaining a constructive diplomatic role in the evolution of peace in Europe, we should adjust our policies, in all respects, to those trends and do whatever we can to encourage them. To that end, it seems to me that—

First. All parts of the Federal machinery, involving the administration of U.S. policies regarding Europe should be reexamined by the President and the appropriate congressional committees in order to update procedures which may be still out of harmony with present trends.

Second. Our policies with regard to Germany should be redesignated to stabilize the existing situation. To that end, these policies should accept the permanence of the two Germanys for the foreseeable future and encourage peaceful and developing contacts between them. They should provide affirmative support for ratification of the West German-Polish Non-Aggression Pact and for the West German-Soviet Union Non-Aggression Pact.

Third. Finally, our policies should endorse, without reluctance, an all-European Peace Conference, perhaps, of Heads of States at a time of European choosing for the purpose of seeking, among other things, a non-aggression treaty between the NATO and Warsaw Pact nations. And this meeting should be attended by both Canada and the United States.

VIII. CONCLUDING COMMENTS

To give the direction which has been outlined to U.S. policy, as I see it, would be to point it by the compass of the Nixon doctrine. It would be a direction in accord with the mood in Europe, in accord with the Nation's domestic and international economic interests, and in accord with the needs of a stable peace.

Europe may well be at a most decisive moment in intra-European relations and in relations with the United States. It is a moment which contains promise along with pitfalls. It would be tragic if we were to turn away from this moment which may offer us an opportunity to cement the peace of Europe either because of a delayed and faulty reaction to the financial difficulties of years of diplomatic and military overextension or because a topheavy and aging machinery for the conduct of our European policy continues to flail at the ghosts of the past.

If we fail to grasp this moment, the possibilities loom large for the rapid growth of economic sniping and intrigue. From that point, it is a short distance to a militant economic nationalism and blocism and the crumbling of Western political unity in a general fit of recrimination and reprisals.

There need not be this slide in the Western Community into what, in the end, may well be self-destructive. It should be possible to move out of that era which since World War II has had the United States at the core of responsibility and burden without these consequences. We should be able to move into a new and fruitful age of mutuality with Western Europe, within a peaceful Europe, if we will set aside the fears of the past and act in timely fashion on the facts of the present.

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