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STUDY MISSION TO EUROPE, NOVEMBER–DECEMBER 1976

A REPORT

BY

SENATOR JACOB K. JAVITS

TO THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ON HIS

TRIP TO FRANCE, BRITAIN, FEDERAL REPUBLIC OF GERMANY, BELGIUM, ITALY AND YUGOSLAVIA

NOVEMBER 18–DECEMBER 11, 1976

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LETTER OF TRANSMITTAL

UNITED STATES SENATE,
Washington, D.C., January 4, 1977.

Hon. JOHN SPARKMAN,
Chairman, Foreign Relations Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During the postelection recess, under the committee's auspices, I visited six countries in Europe, departing from the United States on November 18 and returning on December 11, 1976. The countries visited were: France, Britain, Federal Republic of Germany, Belgium, Italy, and Yugoslavia. I was accompanied by my executive assistant, Albert A. Lakeland, Jr.

A major focus of my inquiries was directed to the acute economic crises gripping Britain and Italy, as well as to a broader review of the economic health and political vitality of our close partners joined together in the European Community. In addition, I visited Yugoslavia for the purpose of reviewing and experiencing the situation in that country, as it is my judgment that Yugoslavia could become the focus of a serious European crisis following the completion of the incumbency of President Tito.

The text of my report of my findings is enclosed.

With warm regards,

Sincerely,

JACOB K. JAVITS.

STUDY MISSION TO EUROPE, NOVEMBER–DECEMBER 1976

I. British and Italian Monetary Crises

(A) *Britain:* The essence of the United Kingdom Government's position is that the cooperation of the British trade unions is necessary to the success of any Government policies to turn around Britain's acute monetary, financial and trade crisis and that only the present Labor government is capable of obtaining the unions' cooperation. The Government leaders believe that their room for maneuver is narrowly circumscribed, particularly in view of the "social contract" wage constraints which the unions have accepted for the past 2 years, which in themselves embody a reduced standard of living in real terms. In the official view, stringent new cutbacks in public spending and welfare benefits on a scale indicated by purely banking criteria may well exceed even the Labor government's ability to carry the unions along.

Officials fear being put in a position of having to destroy the labor movement in Britain, or of rejecting the terms of the IMF loan and plunging Britain onto a go-it-alone course involving a virtual abandonment of its NATO contribution and unilateral protectionist measures which would virtually remove Britain from the European Community (EC). Moreover, they see any IMF loan terms exceeding what they could sell to the unions as self-defeating in any event, as either a union rebellion or a Government rejection would initiate a massive new run on the pound in international currency markets bringing Britain to the brink of bankruptcy.

From my extensive conversations with their principal economic advisers, it seems that the British Government's plans for meeting the current crisis are modeled conceptually on the program devised in 1968, by then Chancellor of the Exchequer Roy Jenkins, to pull Britain back from the threat of international bankruptcy which then faced Britain on a similar, though not quite so massive and acute, scale. An important element in their thinking is the securing of a "safety net" under the sterling balances in the form of some sort of international guarantee of convertibility, backed by the United States and the German Federal Republic.

Foreign governments and individuals hold sterling accounts totaling over $9 billion. There is a dispute about how much of this is actually or potentially "volatile" and thus also disagreement over the real dimensions of the "overhang" which could exhaust and then exceed Britain's capacity to meet massive demands for the conversion of sterling into harder currencies in the event of a new run on the pound. Nonetheless, there is logic to providing a "safety net" under the sterling balances as a corollary to an IMF loan as a reinsurance that the loan will serve its intended purpose and not be dissipated by a new run on sterling.

Significant amounts of sterling are held in 7-day demand deposit accounts owned by Arab oil producers. And, one of the big questions must be why only the United States and the Federal Republic of Germany are said to be assuming the burden of the safety net, and why are not these Arab sterling deposit holders properly participating too.

In addition, under the common agricultural policy (CAP) of the European Community, due largely to the artificial exchange rate of the "green pound," Britain is receiving a fund subsidy of almost $2.5 million per day, a subsidy which will be phased out in due course.

Since my return, agreement has been reached with the IMF by the British Government for a two-year standby credit totaling $3.9 billion. Periodic drawings against the IMF credit are said to be conditioned upon continued satisfactory performance respecting the austerity measures agreed upon and announced to the parliament by Chancellor of the Exchequer Healey on December 15, 1976.

In addition, on January 10, 1977, it was announced in Basel that Britain had reached agreement with the Bank of International Settlement (BIS) for an additional $3 billion medium term credit to be available to underwrite sterling balances in the event of a renewed run on the pound. In effect, the agreement with the BIS provides the "safety net" sought by the British Government as the second leg of its strategy to protect the pound and obviate the danger to Britain's international balance of payments. The $3 billion figure is said to represent the magnitude of "official" (as distinguished from "privately held") sterling balances considered to be potentially volatile.

In effect the agreement with the BIS underwriting sterling convertibility marks the end of sterling's role as an international reserve currency. Chancellor of the Exchequer Healey is quoted in the New York Times on January 13, 1977 as characterizing the agreement with the BIS as "a historic milestone" which "marks the end of the sterling area as a hangover of our old imperial role".

Critics of the United Kingdom Government's policies and plans for meeting the crisis are unanimous in the view that the Government is unwilling and unable to take fundamental and long-term measures which alone can put Britain on a road to lasting solvency and prosperity. The harshest critics see the "safety net" scheme as nothing more than an effort to achieve a United States-Federal Republic of Germany subsidization of the pound at an artificially high level so as to permit the Labor Government to continue its massive deficit spending and public sector expansion policies which cater to its hard core electoral constituencies.

There are two contrasting views about the nature of Britain's malaise. The Government view is that there is very little that is fundamentally wrong with Britain's policies and its economy. This view holds that Britain is suffering only somewhat more acutely the ailments common to all the western industrial economies caught in the oil price rise recession, and that correction of current policies at the margins together with the advent of North Sea oil at the end of the decade are all that is needed to put Britain back into shape. Indeed, on this latter point self-sufficiency for the United Kingdom in oil (saving about 4 billion per annum paid in 1975 for mainly Arab oil),

and possibly even a modest export position, is predicted for the early 1980's.

Recent statistical studies are claimed to show that Britain's basic economic indicators, including those of rate of investment, levels of taxation and public expenditure, and plant modernization, are all within the range of other OECD and EC nations. The big exception is in the statistics for worker productivity. It is here that Britain lags markedly behind. For instance, a recent Government-sponsored study showed that in the auto industry, the British worker equipped with the same tools produces only half as much per shift as his continental counterparts. Studies show similar results in the chemical industry and generally across the board in industry. Moreover, there is great complaint about British industry's record for meeting production and delivery deadlines.

Britain's great lag in worker productivity seems, however, as attributable to often inefficient and even indolent management mentality as to union featherbedding and a pervasively Luddite mentality among workers. The net result of glaringly low British industrial productivity, combined with chronic Government deficit spending, is a precarious national monetary and financial posture which leaves Britain extremely vulnerable to shifts in world trade and monetary patterns as it drifts toward the bottom rank in per capita wealth among EC nations.

In contrast to the "official" view that nothing more than adjustments at the margins is required, the need for a drastic reversal of direction is widely perceived in business, press, and Conservative Party circles. Holders of this view plead that Britain not be let off the hook by the IMF, the United States, and the Federal Republic of Germany, contending that only outside pressure can induce the British Government and nation to take the strong medicine required to make Britain a dynamic society once again.

Under the best of circumstances, Britain's economic balance sheet is certain to worsen in 1977 before it begins to move into greater equilibrium in 1978 and beyond. British Government institutions clearly have the technical competence to carry out the intricate monetary and fiscal measures required to keep Britain from actual default and international insolvency provided it receives adequate external assistance and there are no major new disruptions in world trade. The real question for the United States is how we use our considerable leverage during this transition period with respect to Britain's economic policies, including the questionable future of sterling as an international reserve currency.

Recommendation.—It is my view that the United States should throw its weight toward tighter conditions in the course of our participation in international measures to ward off British monetary collapse. Obviously there is no point in precipitating a financial collapse through the imposition of conditions which are clearly politically impossible for the British Government to accept. However, I am convinced that the greater measure of friendship to Britain and the pursuit of long term U.S. interests is to be found in a more strict attitude.

The root of Britain's problems lies deep within its social structure and attitudes. Decisive changes can be effected mainly by the British

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people themselves. But the United States can and should, in my judgment, use its influence to strengthen those elements in all strata of British society, but particularly its managerial class (both of labor and employers) who seek a return to the work ethic in Britain. I cannot emphasize this last point too much.

(B) *Italy.*—Italy is caught in the grip of a twin balance-of-payments and domestic inflation crisis. The reasons for the aggravated nature of Italy's twin crises are basically political and social rather than economic. There is enough inherent resiliency in the Italian economy to permit a rapid turn around if there is an exercise of sufficient political discipline and determination. Conversely, a return to political permissiveness and instability could result in Italy's economic collapse and international default.

One of the immediate causes of Italy's inflation and balance-of-payments problems is the "wage indexation" scheme which automatically adjusts most union wages to cost-of-living index increases. In addition, exceptionally large annual wage increases since 1969 have raised Italy's labor costs to levels which threaten its international competitiveness, a problem of real seriousness for an economy so heavily dependent on export trade. Moreover, labor indiscipline and low productivity have reached acute levels. And, public sector deficit spending and inefficiency have added considerably to Italy's problem by aggravating inflation and by shackling Italy's much more efficient and dynamic private sector.

It is clear that the Andreotti government will require the boost of external sanctions imposed by the IMF and the United States if it is to have any hope of succeeding in pushing through the belt-tightening measures across the board which are required to avert economic collapse.

The Christian Democratic Party (DC) which has had power in Italy since 1947 currently governs as a minority government. The party has been plagued by scandal and factionalism and has been perceived over the past decade as progressively dissipating its own moral and political fiber. In a truer sense than ever the next 2 years will be a historic testing time for the Christian Democrats, as it will be for its principal rival and antagonist the Communist Party.

The Christian Democrats have promulgated extensive programs for internal party reform and revitalization. The party elected many new younger faces to the Parliament in the last election and a conscious effort is being made to bring a new generation of Christian Democrats to power. Many Italian and foreign observers are deeply skeptical of the will and the ability of the Christian Democrats to reform and revitalize their party. I can amply appreciate the grounds for such skepticism but I believe it would be a mistake for the United States to discount totally the capacity of the Christian Democrats to rejuvenate.

But, to retain even their current shaky mandate to rule, the Christian Democrats will have to achieve a degree of self-discipline, determination and creativity that has eluded them for many years.

Nonetheless, the road to power for the Italian Communist Party is far from clear and easy. In the June 1976 parliamentary elections, the Communists failed to achieve their goal of supplanting the Christian Democrats as the largest party and they have failed to achieve a place in a coalition government which they sought.

Presently, the Communists are playing the anomalous role of an official parliamentary opposition which has agreed to abstain rather than oppose the minority Christian Democrat Government. In addition, the Communist Party in Parliament, and the leadership of the Communist trade unions have joined publicly in supporting the austerity measures which the Andreotti government has proposed to meet Italy's economic crisis.

Advocacy of economic austerity and worker discipline by the Communists in the present situation reverses 30 years of party rhetoric and class war agitation. The motivation of the Communists in adopting this posture of responsibility and patriotism is not one of newfound idealism. Rather, it is the product of a new strategy to achieve power. For years, the Italian Communist Party was unable to achieve much more than about 20 percent of the popular vote, representing largely its "proletarian" constituency. Its pro-Soviet, Marxist and class warfare rhetoric scared off the middle class.

To break out of the confines of this limited proletarian electoral base, the party has adopted a posture designed to attract middle class support. Independence from the Soviet Union in foreign affairs and cooperation with the Christian Democratic Government's austerity measures in internal affairs has given the Italian Communist Party a new face which it styles as "Euro-Communism". But, is this just a strategem to attain power? On the available evidence, I believe we are without as yet any real assurance that any more than the usual Communist syndrome lies beneath the "Euro-Communist" posture of the Italian Communist Party.

The present situation poses deep dilemmas, for the Communist support for the Andreotti austerity program causes dissension and confusion among the party's union cadres and rank and file, conditioned by decades of confrontational rhetoric. The gamble being taken is that the two faces of Euro-Communism—independence from the Soviet Union and support of the Government's austerity program—a masterpiece of ambiguity—will convince potential middle class supporters that the party is responsible and national. It remains to be seen how far the Communist Party can stretch toward the middle classes without eroding seriously its traditional labor base.

Moreover, to a significant degree, the success or failure of the new Communist electoral strategy depends upon the performance of the Christian Democrats. If the Christian Democrats succeed in pulling Italy together and surmounting the economic crisis, even with the help of the Communists, it is quite likely that a lion's share of the credit with the Italian voters will be reaped by the Christian Democrats rather than the Communists. On the other hand, if the Communists give up their posture of cooperation, revert to confrontational tactics causing instability and failure of the emergency measures, thereby forcing new elections, it is possible that all their efforts of recent years to court the middle classes through reasonableness will be undone.

To at least some degree, therefore, the initiative lies with the Christian Democrats. If they revert to back stabbing factionalism and corruption, and make a mess of the emergency, it seems highly possible that the Communists will surpass them as Italy's largest party and win a major place in the government of Italy. However, should the Christian Democrats succeed in managing the crisis

adroitly, including Communist support, the next elections could mark a resurgence of Christian Democratic predominance. Equally, the June 1976 elections could prove to have been the high water mark of the Italian Communist Party, as many of the most astute and capable members of the Christian Democratic movement predict.

In Italy the belief is widespread even among staunch anti-Communists that the Italian Communist Party really is different and Italian, rather than subordinate to the Soviet-led international Communist bloc. Outsiders tend to be much more skeptical. The degree of real change or metamorphosis effected by long involvement in electoral politics, strenuous efforts to prove itself to the middle classes, and self-conscious advertisement as Euro-Communists can only be tested if the Communists actually come to power in Italy—and I believe this is a risk to be avoided and not taken.

In Italy the Socialist Party has never succeeded in establishing itself as a vital factor. Some observers think that this anomaly has led the Italian Communist Party into playing at least part of the role traditionally played in other Western European democracies by the Social Democratic Parties. Only in Germany does there seem to be any serious thought given to the possibility of a pan-European Socialist effort to strengthen the Italian Socialist Party as a serious rival to the Communists on the left, as was done successfully in Portugal. Within Italy the idea seems to be dismissed as unworkable and undesirable.

The situation in Italy presents the United States with several alternative policy options. The first option is for the United States to work—with its allies in Western Europe and Japan—in close support of the Andreotti government on the assumption that it has a good chance of surmounting the current economic crisis and that the Christian Democratic Party has at least some reasonable chance of rejuvenating itself.

On the contrary assumption that Communist accession to power in Italy is inevitable, at least three options present themselves.

The first is to abstain from aiding Italy in meeting the present crisis on the rationale that any assistance will merely improve the plum when plucked by the Communists.

A second option is for the United States to spell out in advance, the conditions on which the United States would continue collaboration with an Italian Government having a significant Communist presence, separating this between military (NATO) and nonmilitary.

A third option is to maintain without further elaboration a posture that the United States is opposed to Communist participation in government in Italy. This option is predicated on the assumption also that such a posture could induce the Communists to seek ways of enhancing their acceptability in U.S. eyes.

Recommendation.—For the present, I favor this third option. I believe that the United States—in concert with as much of Western Europe as possible—must support and work closely with the Andreotti government so long as it continues its good faith efforts to do the job needed. In addition, I believe that we should maintain our posture of unelaborated opposition to Communist participation in Italy's Government. I think that such a posture is best calculated to keeping the threshold high in Italy of resistance to a Communist accession

to power and is best suited also to require the Communists to come to terms with democratic forces if they do come to power. Also, careful thought should be given to lateral support from other centrist parties in democratic countries—even if only moral—on the analogy with the effect of comparable help in the recent early days to Portugal's Socialist Party of Premier Soares.

II. France

The French economy is characterized by the maladies common to its recession partners—inflation, stagnation, unemployment, and balance-of-payments problems. Also, it has serious class problems, the gap between rich and poor being reported as the widest among the industrial democracies of Western Europe by a recent OECD study. However, from an economic viewpoint, France's position is not as acute or precarious as that of Britain or Italy. Its foreign exchange reserve position and its international credit worthiness if borrowing becomes necessary are measurably stronger than Britain's or Italy's, and corrective business cycle swings are expected to further ameliorate the economic situation in France in 1977. Also it has a strong agricultural position in respect of self-sufficiency in food.

Prime Minister Barre, a vigorous and impressive professional economist, has conceived what is known as the Barre plan for dealing with France's economic difficulties. In essence, it is an austerity plan which will restrict public spending, hold down wages and prices, and place an absolute money ceiling on petroleum imports. The plan is expected to cut the overall growth rate in France in 1977 to 2 or 3 percent. It is weighted to stimulate activity in the more efficient private sector while reining in the less efficient public sector. Negotiations are under way to try to obtain trade union agreement to the basic thrust of the Barre plan, especially its objective of restraining wage and price increases.

In the political field, however, the prospects are worrisome indeed and uncertainties respecting the political future discourage private sector investment and expansion, thereby aggravating the economic situation. The specter which haunts France is that of a Socialist-Communist victory in the 1978 parliamentary elections. Current public opinion polls, and recent by-election results, signal enhancing chances of just such a result.

Deep fissures in the anti-Communist camp also seem to be enhancing the prospects of a 1978 Socialist-Communist coalition victory. President Giscard d'Estaing's efforts to build a new coalition of the center—drawing left-of-center strength away from the Socialists and right-of-center strength away from the Gaullists—seems to be faltering. Former Prime Minister Jacques Chirac appears to be flanking President Giscard on the right from within the Gaullist movement. Chirac has recently launched a new political grouping on the right which some observers feel has Bonapartist overtones. The avowed purpose of Chirac's new movement is to rally the forces of the right for an aggressive confrontation with the Socialist-Communist coalition of the left, in the 1978 elections.

Chirac's "call to colors" on the right is causing problems for some important elements of President Giscard d'Estaing's program, particularly his efforts to enact a meaningful capital gains tax and his

efforts to move France closer to the United States and NATO. It is expected that Chirac's movement will be well funded by French business entities which have been marked in advance for nationalization by the Socialist-Communist alliance.

The strong personal and philosophical rivalry between President Giscard d'Estaing and former Prime Minister Chirac worries many anti-Communists in France. Many believe, nonetheless, that their strong common interest in preventing a Socialist-Communist victory in 1978 will keep their differences within bounds and induce at least a minimum amount of cooperation.

France continues to be the most polarized of Western democracies politically, socially, and economically. President Giscard d'Estaing's efforts to crack this polarization through a centrist coalition, however brilliantly conceived, is encountering deeply entrenched social and economic patterns and habits of thought. Strong Gaullist opposition to his capital gains tax proposal is a case in point.

The condition of the Socialist-Communist coalition of the left is a subject of great interest in France and throughout Europe. It is generally believed that France provides one example of where the Socialists have gained at the expense of the Communists through their coalition. Even strong anti-Communists reluctantly concede that the French Socialists could succeed in dominating their Communist partners in a coalition government if they won the 1978 parliamentary elections.

Nonetheless, the French Socialists are much more doctrinaire than their British, German, Dutch, or Swedish counterparts and their advent to power would cause major economic disruption in France with repercussions for the entire European Community and Western monetary and trading system generally.

In my conversations with President Giscard d'Estaing, Prime Minister Barre and Foreign Minister Guiringaud, I raised the issue of sales of nuclear equipment and technology to Third World nations, emphasizing the very strong feelings of the Congress on this issue. It is clear from the responses that I received that the French Government seems ready to make some concessions on this issue. The importance of the French Cabinet decision of October 11, adopting more stringent principles for nuclear exports, was stressed. Subsequently, even more far-reaching restrictions have been announced and since I have returned, the Cabinet has taken steps to end any new agreements for selling nuclear reprocessing plants.

The French leaders were unanimous in expressing dissatisfaction with U.S. energy policy. They believe that U.S. indecision and drift has hurt not only the United States but has weakened the OECD nations collectively in their dealings with OPEC. Clearly, France, as well as the other EC nations, looks to the United States for leadership on the energy issue which is seen as the principal challenge today to the viability of the industrial democracies, individually and collectively.

French receptivity to U.S. leadership in other areas, while not articulated overtly as in the case of energy, was conveyed unmistakably. This marks a most important change of tone and attitude under the leadership of President Giscard d'Estaing. It is a marked contrast from the tone and attitude which prevailed during the days of De Gaulle and Pompidou. It should be noted however, that President

Giscard d'Estaing's efforts to edge France into a more cooperative role in NATO and his support of direct elections to the European Parliament have encountered Gaullist resistance, under the evangelistic leadership of M. Chirac. This opposition may increase to a point which makes it impossible for the French President to continue to move in this direction.

Recommendation.—The United States working with our Western European allies and Japan should evidence by positive actions our willingness to cooperate with France and our encouragement for France's greater participation in international activities in which Gaullist doctrine has been heretofore inhibiting.

III. Federal Republic of Germany

Chancellor Schmidt's intellectual dominance of the Federal Republic is undiminished by the narrowness of his coalition government's victory in the October 1976 election. His principal preoccupation is with the broad economic crises which he sees as threatening the entire structure of the western trading system. He perceives Germany's interests and its role through pan European eyes—to such an extent that he sees the British and Italian crises as almost as much German problems as problems of Britain and Italy.

Chancellor Schmidt and his colleagues are acutely conscious of the limitations upon the exercise of the Federal Republic's growing economic power within the European Community. Because they see such a direct German interest in the vitality of the Community partners and in the viability of the Community as a coalescing entity, there is an almost surprising willingness to spend German resources for the immediate benefit of other nations and the Community as a whole. Nonetheless, there is a readily expressed apprehension of a negative reaction to too much German prosperity and economic power, even when it takes the form of loans to Italy or subsidization of Britain's food bill through the Common Agricultural Fund of the EC.

The growing imbalance within the Community between the Federal Republic and the other members—especially with France and Britain being unable to match Germany's economic weight—has created fear of the evolution of an anti-German coalition to offset the weight of the Federal Republic as the too powerful member. The German leadership seems deeply committed to seeking democratic Germany's future in a progressively coalescing European Community in close cooperation with the United States rather than in an increasingly bilateral alliance with the United States. It is for this reason that the weakness of Germany's European partners and the vulnerability of the EC movement to the buffets of the current recession are so acutely painful and worrisome to Chancellor Schmidt and his colleagues. In a sense they have substituted an interest rationale for the older post-war guilt complex as the basis for the Federal Republic's ardent pan-Europeanism.

Notwithstanding the dedication of the German leadership to pan-Europeanism, there is a profound perception of Western Europe and the Federal Republic's community of interest with the United States and a constant instinct to be in agreement with the United States on all important economic and security issues. Even its barest form, the

indispensibility of the United States—its troops and its nuclear umbrella—to the Federal Republic's security remains very high in the German consciousness. The German nightmare is that the United States will turn isolationist and the European Community will disintegrate leaving the Federal Republic exposed to the weight and the enmity of the Soviet Union.

On European issues one can perceive the palpable tension between the Federal Republic's impatience to get on quickly with the business of European integration and its realization that patience is its best hope for achieving the future it sees for itself in a dynamic and unified Europe. A similar tension is perceptible between Germany's willingness to commit its own resources to advance the common cause as it sees it, and its realization that helping too much can create reactions that will retard rather than advance its objectives. Chancellor Schmidt finds his greatest difficulty in patience with what may often seem the faint-hearted economic policies of partner governments in the European Community.

The domestic political scene in the Federal Republic has been transformed, in ways not yet clear, by the decision of Franz Josepf Strauss to establish his Bavarian-based Christian Socialist Union (CSU) as a separate parliamentary party from the broader Christian Democratic Union (CDU). The motivation, the wisdom and the long-term ramifications of this surprise move by Herr Strauss are subjects of intense speculation and discussion within the Federal Republic. Quite contrary predictions are offered as to the effects of the CDU/CSU divorce. Some observers believe that the breakup will free the CDU to expand into the center left territory now occupied by the Free Democratic Party (FDP) causing that party's demise and an end to its long role as the coalition kingmaker of governments in the Federal Republic. The corollary to this view is that the CSU will wither and disappear also with Strauss' eventual retirement from active politics, leaving the Federal Republic as a truly two-party nation.

A contrary view, however, sees the CDU/CSU split as the precursor to an increasing fractionalization of German politics, with the next move being a split-off of the left wing of the SPD. This school of thought sees a two-party system as being unnatural to European parliamentary democracy and something essentially peculiar to the Anglo-Saxon democracies of Britain and the United States. The prospect of shifting, multiparty coalition governments in the Federal Republic is disturbing to those who value the certainty and discipline of government as highly as do most Germans.

IV. European Community

The importance of the European Community was a major refrain in all of my bilateral discussions in London, Paris, Bonn, and Rome. In addition, I met with incoming European Commission President Roy Jenkins in London, as well as outgoing Commission President Ortoli and Belgian Prime Minister Tindemans in Brussels, for the express purpose of discussing the European Community as a Community, in terms of its importance to the United States and to our partners and allies in Europe.

The EC is like the proverbial half a glass of water—some see it as half full, some as half empty. It is clear that the recession of 1974–76

placed a heavy strain on already existing joint economic policies and institutions of the EC and has delayed the adoption of new ones. Nonetheless, I found a greater than ever appreciation of the political importance of the EC in each of the countries I visited, and a determination to find new ways to strengthen the Community as a unit despite the roadblocks which are obstructing the path to greater economic institutional unification at the present time. I was struck by the disposition among European government leaders to seek ways to act through the Community whenever possible. The habit if not the substance of frequent joint consultations on almost the full spectrum of political and economic issues seems to have taken hold firmly, at least partly as a result of rather elaborate political consultation mechanisms that have been established on an ad hoc basis outside the formal text of the Treaty of Rome.

And, within the United Nations General Assembly a very high degree of unified action is in the process of being achieved by the nine members of the EC. This is largely the work of a new unit in the EC developed by Sir Christopher Soames.

Anomalies remain, however. For instance, the nine take a common stand in the Geneva multilateral trade negotiations because trade formally comes within the Commission's jurisdiction, but not in the IMF because monetary issues do not come within the Commission's formal jurisdiction.

Individually and collectively the member nations of the EC consider it vital that the U.S. lead in seeking to achieve a harmonization of policies on economic and political issues.

The recovery and expansion of the U.S. economy is seen as a precondition for the recovery and expansion of Western Europe's "stagflating" economies. There seem no longer to be any lingering suspicions that the United States is ambivalent toward the Community, seeking on the one hand to bolster it while acting on other occasions to divide and weaken it, as was sometimes charged in the recent past.

A major issue facing the European Community is the question of expansion. A formal decision has been made to negotiate Greece's entry into the EC while Portugal and Spain have moved to the threshold of seeking formal admission. In addition, Turkey is anxious to match any status and concessions made to Greece. Though Turkey seems to be not quite ready for the EC, at least for the moment, there is an expectation that negotiations for a closer Turkish alignment will ensue. However, given the diversity of Turkey's political and cultural heritage, questions remain as to the feasibility of its formal incorporation in a "united Europe".

It is significant to note that the Council of Ministers, in voting to admit Greece, overrode on political grounds the negative recommendation concerning Greece's application for admission prepared by the Commission on economic grounds. It was clear from my discussions in Brussels and elsewhere that a similar situation may be developing with respect to Spain's desire to enter the European Community.

The ambivalent view of the EC members respecting the admission of Greece is illustrative of many of the paradoxes with which our European allies find themselves confronted, in their slow and painful groping for a truly European nationhood. A reliable foundation for political union can only be achieved through meaningful economic integration—a tedious and slow-paced process. But the slowness and

complexity of economic unification retards the process of political unification and highlights the political impotence of the European Community in a world which cries out for a Western European political "personality".

The energy problem remains uppermost in the minds of the EC members. The initiative of Secretary of State Kissinger in the IEA—the association of major oil consumers—is widely appreciated. I see a new recognition in Western Europe—especially in France—of its own relation to the Middle East oil supply situation and Arab-Israel conflict, a recognition that the ability to play its part has been prejudiced by its fear of its own vulnerability to another Middle East oil embargo and its interest in earning its way back to a more effective consultative role with the United States. The Federal Republic of Germany has generally had this view and current developments involving Saudi Arabia and other Arab States are bringing the issue forward again.

The attitude of the other industrial democracies—other than in some cases the Federal Republic of Germany—toward the LDC's and our own in the United States have tended to diverge. The best evidence of this is the Lome Agreement made by the EC with 46 States in February, 1975 which dealt with many of the same subjects on which we could not agree with the LDC's at the Nairobi Conference of April, 1976. From the U.S. point of view a major effort to harmonize these policies regarding the LDC's is perhaps as important—if not more so even than on energy.

Recommendation

(1) If European Community relations with the United States are reasonably harmonious and on the upswing, European Community relations with Japan—the third leg of the industrial triad—remain tentative and troubled. This is an area in which the United States must be particularly alert and adroit in playing a good offices role.

(2) It is most essential to achieve a harmonization of United States, European Community, Western European and Japanese policies in respect of relations with the LDC's and on energy questions. The United States alone is positioned to give the lead required. Nothing less than the continuing political and economic viability of the industrial democracies is at stake and only concerted action by the United States, the European Community and Western Europe and Japan offers a hope for a creative response to the challenges posed to us jointly by the LDC's and by the OPEC oil monopoly.

V. Yugoslavia

I visited Yugoslavia to acquire some familiarity with the problems and personalities which are likely to surface following Tito's departure. At 84, President Tito indisputably is in the twilight of his long and illustrious career. There are grounds for concern that post-Tito Yugoslavia could become a world crisis center.

The chances of any overt military attack by the Soviet Union seem unlikely. However, a destabilizing resurgence of ethnic animosities and nationality separatism could provide rich opportunities for Soviet political intervention and for subversion and could lead even to something more serious if it got violent.

Yugoslavia's population encompasses the greatest ethnic and religious diversity in Europe. A leading academic expert has recently observed: "A 'Bangladesh' in Europe seems implausible but if it can occur anywhere, Yugoslavia is one such place, for national hatreds of an intensity unsurpassed in modern Europe have been submerged not uprooted."

For a small country, Yugoslavia occupies an extraordinarily strategic position in Europe geographically and ideologically. The elimination of Titoism and the reassertion of political dominance over Yugoslavia—even without overt military action—would provide a rich harvest indeed for the Soviet Union. It could give the Soviet Navy unrestricted access to the Adriatic Coast, thereby revolutionizing the military balance in the Mediterranean and the Near East. It could enable the Soviet Union to leap-frog Romania and flank Albania. Indeed an enhanced political presence in Yugoslavia for the U.S.S.R. could open up the prospect of a base for the naval and air forces of the U.S.S.R. with a profound effect upon Italy and Greece. Moreover, reassertion of Soviet control over the Yugoslav League of Communists could change the nature of the Communist movements in Italy and Greece.

Historic Russian pan-Slavism has long regarded Serbia as an extension of the greater Russian hinterland. The idea has some analogy to Syria's concept of Lebanon being part of a greater Syria, and a Soviet "peace-keeping" role in Yugoslavia analogous to that assumed by Syria in strife-torn Lebanon might—if there was a conflict of nationalities in Yugoslavia—have strong appeal in the Kremlin.

President Tito has established a decentralized federal system in Yugoslavia in an effort to contain separatist conflicts following his departure. The "glue" designed to hold the centrifugal ethnic republics together after Tito is to be supplied by the League of Yugoslav Communists—that is the Party and by the Army which is believed to be dominated by "nationalist," Yugoslav-minded leaders.

Economic development is vital to Yugoslavia's future, not only for its own sake but as an indispensible lubricant to subordinate ethnic and regional rivalries. At present, per capita annual income varies from the $2,500 range in Slovenia to the $300 range in the Albanian region. In pursuit of economic development, Yugoslavia has evolved a brand of communism which they call "self-management" based on the individual autonomy of state-owned enterprises, profit-seeking and open competition among such enterprises in domestic and foreign markets. In addition, Yugoslavia actively seeks private foreign investment by transnational enterprises from the industrialized countries. Dow Chemical has recently invested in a major new project.

The Yugoslav leadership downplays speculation concerning possible Soviet military intervention but has expressed private concerns respecting the implications of the so-called Sonnenfeldt doctrine and of President-elect Carter's statement flatly negating any thought of U.S. troops in Yugoslavia even in the event of fighting there. Yugoslav leaders took the initiative in expressing to me their concerns over the so-called Sonnenfeldt doctrine as it was interpreted in the Eastern European press. This interpretation was to the effect that the United States was giving the U.S.S.R. a free hand as to the political future of the Eastern European states in Comecon and the Warsaw Pact. This is, of course, not the case and any such interpretation has

been rejected by the United States, but Yugoslavia, and how the United States will regard it, is considered an important case in point.

Recommendations

(1) I believe that the United States and NATO have a strong interest in the continuing independence and national integrity of Yugoslavia. In this respect, I believe that judicious encouragement should be given trade and investment opportunities helpful to Yugoslavia's economic development. Moreover, the United States should encourage the European Community to maintain a helpful trading and investment relationship with Yugoslavia. Economic relations could be decisive in holding Yugoslavia together as a nation in a crunch.

(2) On appropriate occasions, both public and private, I believe that the President and Secretary of State of the United States should make clear to the Soviet Union and to the world that the United States strongly supports Yugoslav independence and national integrity and will take a most serious view of any outside efforts to compromise continuance of that independence and national integrity.

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