Weakened NATO Readiness as a Result of the European Union's Economic and Monetary Union.

CSC 1998

Subject Area – Topical Issues

FOREWORD

Prior to attending the United States Marine Corps Command and Staff College, the author served as a Country Director in the *Europe, NATO, Eurasia Division of the Deputy Under Secretary of the Air Force for International Affairs*. Of the four countries he worked directly with, three were European Union members of NATO, and one was a member of Partnership for Peace.

As Country Director, the author served two primary functions as the US Air Force liaison to all military services associated with each of his primary countries: political-military affairs; and Case Manager for Foreign Military Sales. Additionally, the author prepared the Secretary of the Air Force and the Chief of Staff of the Air Force for visits with their respective counterparts. The author worked with various United States agencies, to include: Department of Commerce; Department of State; National Security Agency; Department of Defense Security Assistance Agency; and the Office of the Secretary of Defense.

It was in this position the author gained a great deal of insight relevant to this subject. The primary contacts for each country were: the respective country teams (US military attachés and State Department personnel); each country's military attachés in Washington, DC; each country's relevant project personnel; and US defense contractors. The author also had the opportunity--through military exchanges and briefings--to meet

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with, and hear the views of, various foreign military and civilian personnel up to the level of service chief and minister of defense.

EXECUTIVE SUMMARY

Title: Weakened NATO Readiness as a Result of the European Union's Economic and Monetary Union.

Author: Mark D. Engeman, Major, USAF.

Thesis: Is the domestic economic adjustment being made by the European Union members of the North Atlantic Treaty Organization - required for integration into the common currency - causing a weakened state of readiness for NATO?

Discussion: European Union (EU) members of NATO have decreased their defense budgets by 30 percent since the end of the Cold War. This extensive reduction in defense spending is causing a negative impact on NATO readiness and is just beginning to be felt. NATO is now realizing that it is at, or past its "break even" point.

NATO's current readiness status is characterized by satisfactory funding for current operations, a somewhat less than adequate share of its members' defense budgets going towards modernization and acquisition of systems increasing interoperability, and a moderately declining defense budget. Most EU members seeking monetary union will be accepted for integration beginning in 1999, a few will not. However, EU members still have a long way to go--fiscal austerity will continue to dominate European economic policies for the next decade in order to reduce excessive debt.

Reductions in military spending have come in the form of reduced personnel levels and a significantly curtailed modernization and [improved] interoperability effort. Additional strains on dwindling defense expenditures are induced by continued operations in Bosnia and planned NATO expansion. Finally, Europe is still in the midst of a recession that is causing inflation and high unemployment--strains on national budgets that will ultimately be felt by the defense budgets.

Barring the occurrence of a ma or European economic disaster, the EU will achieve economic and monetary union by 2008 with its current 15 members. The union will also increase in size as it expands into Central and Eastern Europe. As this process unfolds, "the United States will increasingly remind Europe of its duty to take on political responsibilities commensurate with its position as a world economic power."

Conclusion: The domestic economic adjustment being made by the European Union members of NATO is substantial and causing a weakened state of readiness for NATO--readiness that will continue to decrease until the monetary integration process is complete and the euro is stable.

The United States and the European Union members of NATO together, must understand, plan, and prepare to ensure adequate readiness for NATO. For ultimately, if the European Union monetary integration fails--NATO suffers twofold: For the time it will spend now at a reduced level of readiness, and in the future without a strong European economy.

CONTENTS

INTRODUCTION

> The armies of Western Europe, long bound to the United States by treaty and by blood, have failed to prepare for the missions the alliance faces following the end of the Cold War and so have become even more dependent on conventional U.S. military power than in the past, according to defense experts and NATO officials.[1]

The economic adjustment being made by the European Union (EU) members of the North Atlantic Treaty Organization (NATO)--required for integration into the common currency portion of the EU's Economic and Monetary Union--is causing a weakened state of readiness for NATO.

The Cold War came to an end in 1989, beginning with the fall of the Berlin Wall. Since that time, NATO members have transformed a very strong and modem (albeit expensive) military alliance capable of successfully countering the former Warsaw Pact into a smaller force that is shouldering the peace enforcement operations in Bosnia-Herzegovina. With the end of the Cold War beginning to fade from NATO's memory, member nations are reaping the proverbial peace dividend and concentrating on domestic matters. As history has shown, militaries tend to down-size in the periods following major conflicts (such as the World Wars and Vietnam for the United States).

As for Europe, the post-World War period was solely concerned with reconstruction. In contrast, the Cold War ended without armed conflict and avoided any destruction. Nevertheless, Europe's post-Cold War challenge is once again economic. The current global economic climate almost requires integration to compete on a grand

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[1] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post,* 29 July 1996, A1

scale with large economies such as the United States, China, and Japan. Foreign competition is difficult to withstand for a small-to-medium size nation-state. Since the end of World War II, Europeans have recognized the benefits of economic cooperation; however, this fact did not give birth to the European Union (EU): Its origin dates back to the creation of the European Coal and Steel Community in 1951.

This paper will begin with a look at the global economic situation, past and present, the history behind the formation of the modem day EU, and the necessity for forming an Economic and Monetary Union (EMU). An integral part of the discussion relating to economic and monetary union is the financial criteria each country must abide by in order to qualify for monetary union, and a description of the currency to be used, the euro. To put this discussion into context--especially to lay the foundation for setting the period of a conceivable "weakened state of readiness"--the timeline for the monetary integration process will be outlined.

Several variables function as the basis for measuring the state of readiness: defense spending, interoperability, force projection, force structure, equipment and weapon modernization, security organization expansion, organizational structure, and training. Naturally, a significant portion of the *DETERMINING READINESS* section of this paper will be dedicated to an evaluation of defense spending for all of the NATO members. Further, a relationship will be developed linking these spending trends to those EU members of NATO that are integrating, or considering integration, with the EU's single-currency. I will then summarize these variables to describe their effect on the readiness state of NATO forces. My key assumption is that the greater part of NATO

readiness is linked to the independent variable of defense spending. Defense spending in turn, is being determined primarily by the EU members of NATO who are striving for monetary integration.

Finally, a weakened NATO readiness state, if in fact it exists, requires debate with relation to several key concerns. What is the scale and predicted time frame of a negative impact on readiness? What are some of the US's concerns? What does the ultimate result of an EMU for the EU mean to NATO readiness in the future?

INTEGRATION INTO THE COMMON CURRENCY

> First, the Europeans surrendered sovereignty over their coal and steel industries so that they would no longer be able to use them to make war. Then, in the 1950s, they built a common market that provided outlets for German industry and protection for French agriculture. In 1992, the EU created a 'single market' so that goods, capital and labor could flow freely across the continent. But so long as prices were expressed in different currencies, that market would never be perfect. Some producers would not sell in other countries because they did not want to be bothered with the foreign exchange hassle; in other cases, different currencies meant that prices fluctuated widely in different places--in the jargon, prices weren't 'transparent.' On the economic level, EMU is meant to 'complete' the single market.[2]

Development of the European Union

The evolution of the modern day EU began in the post-World War II recovery period starting with The European Coal and Steel Community (ECSC). Founded on April 18, 1951, the ECSC merged six years later with the European Atomic Energy Community to form the European Economic Community (EEC). This new organization was born under The Treaty of Rome signed on March 25, 1957 by Belgium, France, Germany, Italy, Luxembourg and the Netherlands. One of the principal reasons for these first six countries to come together was a vision of monetary union, or a 'European dollar.' However, monetary integration was not achieved--but the idea was successfully planted for economic and monetary union to be sought in the future. The charter of the EEC was revised with an emphasis on economic cooperation, and became the European Community (EC) in 1971. This economic 'revision' proved to be very significant and

[2] Michael Elliot, "Hey, Can You Spare A 'Euro'?" *Newsweek*, 17 February 1997, 48-49.

served as a catalyst for increased membership: In 1973, the EC was joined by Denmark, Ireland and the United Kingdom; in 1981 by Greece; and in 1986 by Portugal and Spain.

In December 1991, the Heads of State and Governments of the EC--meeting at the Maastricht European Council--adopted a Treaty on Political Union and a Treaty on Economic and Monetary Union (EMU). Both of these treaties taken together form the Treaty on EU, commonly referred to as the EU. The EU came in to force following national referendums by all member-states, on November 1, 1993. This union attracted three new members: Austria, Finland and Sweden.[3]

The Need for Economic and Monetary Union

The current competitive global economic climate requires countries to compete on a grand scale (i.e. the US, China, and Japan). Enduring competition on a larger scale is difficult for small-to-medium size nation-states. Europe realized the need for larger scale economic status to compete globally. This understanding provided the focus and urgency for the EU's Economic and Monetary Union. The EU has successfully structured and integrated a collective economy from many European countries. However, the next step in their quest to be a global economic force is to integrate their members into a common monetary unit which will define their collective economic basis.

We can illustrate the scale of the EU's economy by looking at the world's top three exporters and importers during 1996 (see Table 1 on next page).

[3] The 15 current member-nations of the EU are: Austria*, Belgium, Denmark, Finland*, France, Germany, Greece, Ireland*, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden*, and the United Kingdom. Countries annotated with an asterisk (*) are not members of NATO.

Rank	EXPORTERS	Value	Share	Rank	IMPORTERS	Value	Share
1	EU	800.0	20.2	1	United States	817.8	20.0
2	United States	624.8	15.8	2	EU	725.0	17.8
3	Japan	412.6	10.4	3	Japan	349.6	8.6

Table 1. Leading Exporters and Importers In World Merchandise Trade (Excluding European Intra-Trade), 1996.[4] [“Value” is expressed in billions of US dollars, “Share” is percentage.]

As you can see, the EU is the world’s leading exporter. More importantly, its exports are greater than its imports so that as a group, it generates a positive trade surplus. In fact, the EU is the only top three trader to have a positive trade balance--$ 75 billion; Japan places second with its exports exceeding its imports by $ 63 billion; and the US is a distant third, also with a negative trade balance of $193 billion. Table 1 distinctly illustrates the economic strength and significance the EU enjoys with *economic* union.

So, why is *monetary* integration so important? Because while the EU has economic union, the individual nations’ markets are still divided--specifically by their currencies and the associated exchange rates. This “internal” market could be made whole by a common currency; which would substantially reduce the costs and infrastructure of the banks and markets by eliminating the costs of foreign currency transactions among its members. Further, this integration would provide much needed stability to European monetary policies made necessary by economic union. In the long term, monetary integration will enhance the economic strength of the EU, move Europe closer to political integration, and expand membership to the East.

[4] “Leading Exporters and Importers In World Merchandise Trade (Excluding European Intra-Trade), 1996,” Information *from The World Trade Organization Website*,
URL: <http://www.wto.org/wto/intltrad/appendix.htm#append1>, accessed 10 January 1998.

> If all goes according to plan, by 1999 the currencies of many of the major European nations will be locked into a single system. By 2002, francs, marks, guilders and maybe pesetas and liras will be supplanted by a new currency--the euro. European Monetary Union, known to all as EMU, is the biggest thing that has happened to the world financial system since the Bretton Woods agreement of 1944. To hear Europeans tell it, EMU will mark the emergence on the world's stage of a new political and economic force. At Davos, Jacques Santer, the president of the European Commission (the central bureaucracy of the 25-member EU) said that he looked forward to the day when the EU would be a 'global power.' And it's an article of faith among Europeans that they won't increase their standing in the world without having a currency that can look the mighty dollar in the eye.
>
> In their vision, the single currency happens on time, and greatly reduces the 'transaction costs' of buying and selling goods and services. Desperate to be considered 'full' Europeans, countries like Poland and the Czech Republic quickly join EMU. European governments keep their budget deficits under control, risking fines if they do not. Hitherto profligate countries like Italy are able to do this, in effect, by saying that the doctor--or, in this case, a new European central bank--ordered it. The EU reduces its costly social protections, but not to a level that its officials sniffily dismiss as 'American.' Economic growth takes off, benefiting American exporters as well as European producers. [5]

Qualifying for the Euro

Before discussing the status and difficulties the EU members are facing in qualifying for the single currency, the euro, it is important to describe the guidelines each country is striving to meet. The Maastricht Treaty for Economic and Monetary Union stipulates four criteria for membership in the monetary union:

> 1. A country's rate of inflation must be no more than one-and-one-half percent above 'that of, at most, the three best performing Member States,' usually interpreted as the average of the three lowest-inflation countries.
>
> 2. Long term interest rates must be held at no more than two percent above the average of the long-term interest rates of the three countries with the lowest inflation.

[5] Michael Elliot, "Hey, Can You Spare A 'Euro'?" *Newsweek*, 17 February 1997, 48-49.

3. Member states must not be found by the Council of Ministers to be running an 'excessive' budget deficit; which could be triggered by deficits above three percent of gross domestic product (GDP), and ratios of debt-to-GDP above 60 percent.

4. Finally, a government must keep its currency within the 'normal' bands of the European Monetary System (EMS) and not devalue it during the two years prior to entry.

The beginning of the monetary integration process is scheduled to take place in May 1998, when a special summit of the European Council will decide which countries will be accepted for integration in 1999. Then, on January 1, 1999, the following schedule will take effect (detailed 'phases' and events are found in Table 2 on the next page)[6]:

1999 January 1--The participating member states will fix their exchanges rates irrevocably against each other and against the euro. The ECB will begin operating a single monetary policy operation. All its dealings with commercial banks and foreign exchange activities will be transacted in euros. The dollar and the yen will be quoted against the euro, not national currencies.

2002 January 1--After a three year gestation euro notes and coins will be circulating alongside national bank notes and coins, which will be slowly withdrawn.

2002 July 1--National currencies are no longer legal tender. Only euro notes and coins will be in circulation.

PHASE A **Launch of EMU**	**PHASE B** **Start of EMU**	**PHASE C** **Single currency fully introduced**

[6] The conversion to the euro represents a significant political event for EU members. The forfeiture of a country's currency represents an incarnate loss of national identity and sovereignty. To some European leaders, an omen of future rule from an EU government and the associated loss of national strategic decision-making.

Start of the phase: early 1998	Start of the phase: 1 January 1999	Start of the phase: 1 January 2002
* List of the participating Member States * Setting up of the ESCB and the ECB	* Fixing of conversion rates * Euro becomes a currency in its own right * ECB conducts single monetary and exchange-rate policy * Interbank, monetary, capital, and exchange markets in euro * Wholesale payment systems in euros	* Euro notes and coins introduced * Banks have completed the changeover (retail business payment systems) * Only the euro is used * Notes and coins denominated in national currency are withdrawn * Public and private operators complete the changeover
Throughout the phase:	Throughout the phase:	
Stepping-up of preparations and implementation of measures that will, if possible, have been adopted beforehand: * Productions of notes and coins * Adoption of complete legal framework * National steering structure * Banking and financial community changeover plan	* Banks and financial institutions continue the changeover * Public and private operators other than banks proceed with the changeover as and when they wish	
Less than 1 year	3 years	6 months maximum

EMU: Economic and Monetary Union

ESCB: European System of Central Banks
ECB: European Central Bank

Table 2. Introduction of a Single Currency / Sequence of Events[7]

EU members have been bearing significant financial hardship and facing intense political scrutiny due to monetary union. Looking first at financial difficulties, most nations have endured severe budget reductions in ensuring their finances are consistent with the Maastricht qualification criteria listed in the previous section. Originally the Treaty for European and Monetary Union targeted 1997 as the starting date of currency

[7] "The Euro Sign is Born," Information *from The EU Website,* URL: <http://europa.eu.int/euro/home>, accessed 6 October 1997.

integration. It has not occurred yet because of the financial difficulties these nations have encountered in attempting to meet the criteria. Table 3 below shows each country's government spending as a percentage of their gross domestic product for the last 12 years. Remember the Maastricht criteria guideline for government spending is three percent of the gross domestic product.

Country	**1986-1990**	**1991-1995**	**1993**	**1994**	**1995**	**1996**	**Forecasts 1997**	**Forecasts 1998**
Belgium	-7.1	-5.8	-7.1	-4.9	-3.9	-3.2	-2.6	-2.3
Denmark	0.9	-2.5	-2.7	-2.6	-2.4	-0.8	1.3	1.9
France	-1.8	-4.5	-5.8	-5.7	-5.0	-4.1	-3.1	-3.0
Germany	-1.5	-3.0	-3.2	-2.4	-3.3	-3.4	-3.0	-2.6
Greece	-12.4	-11.6	-13.8	-10.3	-9.8	-7.6	-4.2	-3.0
Italy	-10.9	-9.3	-9.6	-9.3	-8.0	-6.8	-3.0	-3.7
Luxembourg	0.0	0.0	1.7	2.6	2.0	2.6	1.6	1.0
Netherlands	-5.1	-3.6	-3.2	-3.8	-4.0	-2.3	-2.1	-1.9
Portugal	-4.7	-5.6	-6.1	-6.0	-5.8	-3.2	-2.7	-2.4
Spain	-3.6	-5.7	-6.9	-6.3	-7.3	-4.7	-2.9	-2.4
United Kingdom	-0.7	-5.8	-7.9	-6.8	-5.5	-4.9	-2.0	-0.6
EU	*-3.6*	*-5.3*	*-6.4*	*-5.4*	*-5.1*	*-4.3*	*-2.7*	*-2.2*
USA	-2.9	-3.5	-4.0	-2.6	-2.3	-1.4	-0.3	0.3

Table 3. Government Spending as % of Gross Domestic Product[8]
["-" indicates deficit]

Table 4 on the next page shows each country's debt as a percentage of their gross domestic product for the last 6 years. Recall that the Maastricht criteria guideline for debt was 60 percent of the gross domestic product.

[8] "The Community Economy in 1997-1999: Autumn 1997 Economic Forecasts," downloaded from *The EU Website*, URL: <http://europa.eu.int/en/comm/dg02/ecofore2.htm>, accessed 9 January 1998.

Country	1992	1993	1994	1995	1996	Forecasts 1997	Forecasts 1998	Forecasts 1999
Belgium	129.2	135.1	133.5	131.2	126.9	124.7	121.3	117.7
Denmark	70.2	82.1	78.4	73.8	71.6	67.0	62.2	57.0
France	39.7	45.3	48.2	52.5	55.7	57.3	58.2	58.2
Germany	44.1	48.0	50.2	58.0	60.4	61.8	61.7	60.3
Greece	98.8	111.6	109.6	111.3	112.6	109.3	106.4	104.2
Italy	108.7	119.1	124.9	124.4	123.8	123.2	121.9	120.0
Luxembourg	5.1	6.1	5.7	5.9	6.6	6.7	6.9	7.6
Netherlands	79.6	81.2	77.9	79.1	77.2	73.4	71.5	69.4
Portugal	60.7	63.1	63.8	66.5	65.6	62.5	60.8	59.5
Spain	48.0	60.0	62.5	65.3	70.1	68.1	66.5	64.8
United Kingdom	41.8	48.5	50.4	53.8	54.4	52.9	51.5	49.8
EU	*60.4*	*66.0*	*67.9*	*71.0*	*73.0*	*72.4*	*71.5*	*69.9*

Table 4. Government Debt as % of Gross Domestic Product[9]

By inspection, Tables 3 and 4 depict heroic efforts by EU members, if not a "national will," in dealing with their fiscal spending. Looking only at the government spending in Table 3, Italy is the only country above the criteria of three percent. But, more important is the trend: Before 1997 and the forecast for 1998, indicate significant problems for Italian fiscal spending. A review of the debt in Table 4 reveals several countries not in accordance with the criteria: Belgium, Greece, Italy, Netherlands, and Spain. Again, the trends need to be considered--especially considering that it takes a long time to reduce debt (as opposed to 'balancing' the budget). An argument can be made for the Netherlands and Spain to be in 'accordance' with the Maastricht criteria.

The EU is approaching the end of the provision in the treaty for a two year window to begin the move to the single currency. In fact, if monetary union does not

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[9] "The Community Economy in 1997-1999: Autumn 1997 Economic Forecasts," downloaded from *The EU Website*, URL: <http://europa.eu.int/en/comm/dg02/ecofore2.htm>, accessed 9 January 1998.

happen in 1999--regardless of the reason--the Treaty on Economic and Monetary Union will be null and void. Despite the extreme difficulties encountered by the members as they try to conform to the standards, many countries will be accepted.

> There are two main reasons why most of the member states stand at least a fair chance of meeting the convergence requirements in time to qualify for monetary union in 1999. First, the convergence criteria will become easier to meet in most countries as the European economic recovery progresses. Increased growth and reduced unemployment will raise tax revenues and reduce social expenditures (e.g., unemployment compensation), bringing the deficit criterion within reach.
>
> Second, there is wiggle room within the convergence criteria that permits countries that do not quite satisfy them to qualify for monetary union nonetheless. A violation of the fiscal norm that is extraordinary and demonstrably temporary is excusable. For example, a debt-to-GDP ratio that exceeds 60 percent can be excused if the annual deficit is small and the government has demonstrated consistent progress in reducing the ratio. The magic numbers of 3 percent and 60 percent are reference values used to guide the work of the Commission and are not strictly defined criteria in themselves.[10]

Two EU members, Denmark and the United Kingdom, have merged with their partners economically--but will not participate in the monetary union. They may hold national referendums to change their current policies, but for now it appears they want to see how the process goes.

Despite the difficulty of meeting the Maastricht criteria, there is some optimism for success: Most members have met the remaining two criteria, inflation and long-term interest rates. Based on figures released by the European Commission, only inflation is presenting difficulty for a few nations: Greece's inflation is seriously out of line, at 10.9 percent; Spain and Portugal, both at 4.7 percent, are uncomfortably above the overall

[10] C. Randall Henning, "Europe's Monetary Union and the United States," *Foreign Policy*, Issue 102 (Spring 1996): 83-100.

average of 3.1 percent; and Sweden and Italy fail at present to meet the interest rate criterion. "The overall situation can be summarized as follows: Nine countries have a good chance of meeting the criteria: Denmark, Finland, France, Germany, Luxembourg, Netherlands, Austria, Ireland, United Kingdom; two countries have an outside chance: Spain, Portugal; four countries are unlikely to do so: Belgium, Greece, Italy, Sweden."[11]

It has now become apparent that if the formation of monetary union were to be delayed until all EU members qualified, it would take years--possibly never happening. However, it is not mandatory for all members to meet the convergence criteria at the same time. The treaty provides for the members that meet these tests to integrate while allowing the others, such as Greece, to join later. The criteria has wiggle room and the out-of-limit countries are getting close to them: Remember the treaty uses these criteria as a benchmark, not strict criteria.

Turning now to political challenges and realities, we find Italy at the heart of the who's-in-and-who's-out debate for monetary integration. Germany and France, essentially the pillars of this union, will certainly be accepted for integration. However, if France is assured of a position with a deficit spending rate of three percent, how can Italy be denied with a similar value? The argument looks at deficit and spending history. Although Italy has one of the highest debts (nearly twice the Maastricht criteria of 60 percent) and has only recently brought its deficit to within three percent. We can expect that Italy will stay in line, if admitted, due to fines and other pressures to conform. But one must remember the political realities: Italy is a founding member of the European

[11] Dick Leonard, "Eye on the EU," *Europe*, November 1995, 4-5.

Commission (as is Belgium and Spain) and although its debt is above 60 percent, Italy constitutes a significant portion of the EU's economy.

The previous analysis provides an example of the need for the EU to work out the advantages and disadvantages of deciding on which countries to accept for integration in 1999 based only on the Maastricht criteria--it is more than that. Politics, as always, has a significant contribution to this economic undertaking:

> It is the European heads of state and not the European Commission that will decide--on the basis of member states' economic performance in calendar year 1997--who is in and who stays out; the decision will be made in the Spring of 1998. The European Commission's unrealistic economic forecasts for its members' economies in 1997 confirm the considerable political momentum in favor of EMU.
>
> These forecasts will not be met, but the loose phrasing of the critical clauses in the Maastricht Treaty provide room for maneuver in claiming that interest, inflation, exchange rate, public debt, and deficit targets have been met. Politically-weighted interpretations will focus on the broader trends and directions of member states' fiscal policies and will thus excuse 'temporary violations' of the convergence criteria.[12]

One final point which needs to be addressed is the impact of the unemployment and recession most of Europe is currently experiencing. This potentially lethal combination of trouble presents major political and financial challenges to monetary integration. Of the two, high unemployment is probably the worst factor weighing on countries working towards integration (see Table 5 for details). Unemployment typically is cured with government spending and reflects the public preference for lax fiscal discipline. Fiscal policy aimed towards integration can be an enemy when the

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[12] Simon Serfaty, "The 'Euro'," Eds. Damien Arnaud, Sinclair Dunlop, and Chad Damro, Washington, DC: The Center for Strategic and International Studies, 18 June 1996. URL: <http://www.csis.org/html/euro2.html>, accessed 27 August 1997.

government cannot afford to spend money to create new jobs in an environment of increasing unemployment. This problem is especially pronounced in Spain and Italy. Their respective governments can bring the deficit to three percent, but to reduce the debt requires decreased discretionary spending--like social programs--leaving nothing left for job stimulation. A recent example from Italy highlights the magnitude of these countries efforts:

> Prime Minister Romano Prodi resigned today after he failed to persuade Communist allies to back his 1998 budget plan, which includes social spending cuts he said were needed for Italy to join the single European currency program scheduled to begin in 1999.[13]

Country	1974-85	1986-90	1991-95	1996	Forecasts 1997	Forecasts* 1998	Forecasts* 1999
Belgium	7.7	8.7	8.5	9.8	9.7	8.8	8.0
Denmark	6.4	6.4	8.6	6.9	6.0	5.4	5.1
France	6.4	9.7	11.1	12.4	12.5	12.3	11.9
Germany**	*n/a*	*n/a*	7.3	8.9	10.0	9.8	9.1
Greece	3.8	6.6	8.3	9.6	9.5	9.3	9.2
Italy	7.0	9.6	10.3	12.0	12.1	11.9	11.8
Luxembourg	1.7	2.1	2.5	3.3	3.6	3.8	3.9
Netherlands	7.1	7.4	6.4	6.3	5.5	4.8	3.9
Portugal	6.9	6.1	5.6	7.3	6.8	6.7	6.3
Spain	11.3	18.9	20.9	22.1	21.0	19.8	18.7
United Kingdom	6.9	9.0	9.5	8.2	6.4	5.8	5.5
NATO / EU (average)	6.5	8.5	9.0	9.7	9.4	8.9	8.5

* signifies extrapolated data from 1997 and 1998 forecasts
** post-unification Germany data only

Table 5. Unemployment (% of civilian labour force, annual averages)[14]

Clearly, the unemployment data in Table 5 reflects a depressed economy and, more importantly, the governments' inability to create jobs due to the priority of fiscal

[13] Vera Haller, "Italian Premier Resigns," *The Washington Post*, 10 October 1997, A32.
[14] "The Community Economy in 1997-1999: Autumn 1997 Economic Forecasts," downloaded from *The EU Website*, URL: <http://europa.eu.int/en/comm/dg02/ecofore2.htm>, accessed 9 January 1998.

austerity in pursuing monetary union. An additional ramification of high European unemployment is the enormous cost for government benefits--Europeans typically receive generous long term unemployment benefits (unlike unemployed US workers who receive only six months of unemployment benefits). Notice how unemployment increased as the deadline for integration approached. There is a large gap between the economic conditions in the South (i.e. Italy and Spain) and the political expectations and more favorable economic conditions in the North (i.e. France and Germany). For example, "The government [of Italy] has outlined the importance of a jobs policy for the South but has made it clear that this will not be achieved at the expense of fiscal austerity: no real-term rise in government expenditure is planned despite 20 to 25 percent youth unemployment in the South. No tax breaks are planned until 1998."[15]

> In fact, "the EU summit in Florence and the G7 [The Group of Seven Industrialized Democracies] summit in Lyons will be used to underline governmental concerns over unemployment. European leaders realize that this problem can no longer be finessed and that its negative impact on consumer confidence threatens the achievement of sufficient economic convergence and welfare reform to meet the EMU deadline. There is, however, a positive sign that the will of the people is still with the euro: The apparent willingness of the unions to ease their stance on [increasing] part-time work provided certain non-wage benefits are spared. "[16]

In summary, it is now or never for EU monetary integration. Recent fiscal policy has created significant hurdles for many countries and unemployment is affecting the union as a whole. Despite these overwhelming challenges, most countries will be accepted to integrate this year, with the rest included by the end of 2002. Our conclusion

[15] Simon Serfaty, "The 'Euro'," Eds. Damien Arnaud, Sinclair Dunlop, and Chad Damro, Washington, DC: The Center for Strategic and International Studies, 18 June 1996. URL: <http://www.csis.org/html/euro2.html>, accessed 27 August 1997.

drawn from the analysis is that whenever it occurs, monetary union is a must for the prosperity and competitiveness for each member. The consequence for NATO's readiness is significant and EU members can be expected to maintain substantially lower defense budgets.

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[16] Simon Serfaty, "The 'Euro'," Eds. Damien Arnaud, Sinclair Dunlop, and Chad Damro, Washington, DC: The Center for Strategic and International Studies, 18 June 1996. URL: <http://www.csis.org/html/euro2.html>, accessed 27 August 1997.

DETERMINING READINESS

NATO has already achieved its original military mission, having deterred attack from the Warsaw Pact:

> We have - like our Allies - restructured our armed forces following the end of the Cold War. We have done so in response to the fall of the Berlin wall, the scrapping of the Warsaw Pact, the implementation of the CFE Treaty, the implosion of the former Soviet Union and the consequent reduction and reform in Russia's armed forces, and the building of new, cooperative arrangements between states that were former adversaries.[17]

Readiness can be and often is, measured in many ways. Our focus is on readiness from a financial point of view. This is expressed in terms of defense spending reductions and increased costs in other areas (variables) that fall under the purview of defense spending.[18]

Defense Spending

While all NATO members have enjoyed their post-Cold War "peace dividend," this windfall has been all but swallowed up by each country's respective budgets--in terms of reduced defense spending. Like its NATO Allies, the United States defense budget has also been reduced (primarily to enhance domestic programs): "The United States presently spends 5 percent of its gross domestic product on defense and by 1999

[17] "European Security," Speech by United Kingdom Prime Minister John Major, *Presidents & Prime Ministers*, 5:2 (March-April 1996): 6-8.

[18] Defense related programs are not always classified as a defense expenditure, operations such as Bosnia are funded, in part, by other programs in a national budget such as State Department programs.

that might be down to 3 percent."[19] More than likely, based on current budget proposals and Secretary of Defense Cohen's strong support of the current defense budget, US defense spending will remain close to five percent.[20]

Defense spending for the EU members of NATO has been declining since the end of the Cold War. The spending data in Table 6 reveals an historic minimum expenditure of 2.3 percent [of GDP] in 1995 and 1996. Some estimates indicate that European defense spending may decrease even further--perhaps as low as 1.8 percent.[21]

Country	**Average 1985-89**	**Average 1990-94**	**1992**	**1993**	**1994**	**1995**	**1996e**
Belgium	2.9	2.0	1.9	1.8	1.7	1.7	1.6
Denmark	2.1	2.0	2.0	2.0	1.9	1.8	1.8
France	3.8	3.5	3.4	3.4	3.3	3.1	3.0
Germany	3.0	2.2	2.1	2.0	1.8	1.7	1.7
Greece	5.2	4.5	4.5	4.4	4.4	4.4	4.6
Italy	2.3	2.1	2.1	2.1	2.0	1.8	2.0
Luxembourg	1.0	0.9	1.0	0.9	0.9	0.8	0.8
Netherlands	2.9	2.4	2.5	2.3	2.1	2.0	2.0
Portugal	2.8	2.7	2.7	2.6	2.5	2.6	2.7
Spain	2.2	1.7	1.6	1.7	1.5	1.5	1.5
United Kingdom	4.5	3.8	3.8	3.6	3.4	3.0	2.9
NATO Europe (average)	3.2	2.7	2.6	2.6	2.4	2.3	2.3
NATO North America (average)	5.9	4.7	4.9	4.5	4.1	3.8	3.6
NATO Total (average)	*4.7*	*3.7*	*3.7*	*3.6*	*3.3*	*3.0*	*2.9*

Table 6. Defense Expenditures as % of Gross Domestic Product (GDP), Based on Current Prices[22]

[19] Stephen A. Cambone, *NATO's Role in European Stability,* A Center for Strategic and International Studies panel discussion report, Washington, DC: The Center for Strategic and International Studies, 1995.
[20] In terms of real dollars, the current five percent will become effectively less when inflation begins to increase.
[21] Stephen A. Cambone, *NATO's Role in European Stability,* A Center for Strategic and International Studies panel discussion report, Washington, DC: The Center for Strategic and International Studies, 1995.
[22] "Defense Expenditures as % of Gross Domestic Product," *United States Congressional Research Center*, November 1997.

In fact, several recent studies suggest that the declining trend in defense spending and commitment to NATO is alarming. One example demonstrating this negative trend is NATO's reduction of major military exercises from one per year to one every three years.[23] The negative impact on NATO readiness of reducing exercises is most apparent because many NATO members consider one exercise per year to be insufficient. Realistically, there are only a limited number of options NATO can take to maximize efficiency and reduce operational budgets to accommodate decreasing funding. Vice Admiral Sir Peter Abbott, Deputy SACLANT (NATO), closed a recent panel *(NATO's Role In European Stability)* with a plea to NATO governments: "My headquarters has had its budget cut by 34 percent in the last five years. It can't go on doing that a great deal longer."[24]

Providing us with an illustration of EU members' continued reductions to their already low defense budgets; the French Finance and Industry Minister, Dominique Strauss-Kahn, announced an 11 percent decrease in 1998 defense procurement expenditures.[25] This announcement is especially meaningful when you note that France's defense expenditure estimate for 1996 is already low--3.0 percent, nearly 25 percent less than the spending level at the end of the Cold War (Table 6). This provides a stark example of just how committed governments are to monetary union--especially in the

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[23] Stephen A. Cambone, *NATO's Role in European Stability*, A Center for Strategic and International Studies panel discussion report, Washington, DC: The Center for Strategic and International Studies, 1995.
[24] Stephen A. Cambone, *NATO's Role in European Stability*, A Center for Strategic and International Studies panel discussion report, Washington, DC: The Center for Strategic and International Studies, 1995.
[25]Charles Trueheart, "France to Curtail Military: Spending to Be Cut, Draft Phased Out," *The Washington Post*, 21 August 1997, Sec. A24.

case of France where traditionally it has been in relatively good financial standing and continues making painful cuts to its national and defense spending.[26]

Personnel Levels

EU members of NATO have been adopting numerous changes in military programs as a way to curb defense costs, one of these changes is a transition to a professional military. The impetus for changing their long standing tradition of conscription is due to a desire to reduce the disciplinary headaches associated with a conscript force. Moreover, the Europeans believe professionalization will reduce personnel costs creating a leaner, more motivated and efficient force. Unfortunately, the trade-off is not producing the anticipated savings because it costs more to maintain a professional force due to requirements for higher retirement benefits and increased pay. Thus, personnel levels are declining even more than planned to realize the cost savings of an all-volunteer military.

Some countries--with either a conscript or volunteer force--are simply reducing their numbers to accommodate their declining defense funds. For example: Belgium has abolished conscription and reduced its armed forces to 47,000 troops. France too is slashing its army by one-third to 350,000 and is transitioning gradually to an all-volunteer force. Germany, on the other hand, is retaining the draft. However, Germany too is radically cutting its military forces from 545,000 to 340,000 troops.[27]

NATO Expansion

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[26] The Jospin government has committed itself to meeting the budget-deficit criteria required for France's participation in the planned single European currency system. French spending plans must not, for political and economic reasons alike, appear to threaten the country's chances of passing muster in the new European money club when member selection begins this May. Source: see footnote 25.

In the previous two sections, we considered the significant cuts made by the EU members of NATO to their respective defense budgets and personnel levels--as part of each member's over-arching reduction in national spending--to qualify for monetary integration. The next three sections will present current major programs competing for the limited available funds in each country's military budget. The first of these, NATO expansion, is perhaps the biggest challenge NATO has faced in the last 20 years. Expansion entails two difficult problems: Political challenges, essentially a security argument; and the cost of adding three new members. Let us address the political questions and issues first, then present the cost estimates and the associated "cost sharing" debate.

The demise of the Warsaw Pact has brought instability to Central Europe, in terms of the breakdown of the communist central government moving towards democratic reforms. Significant transatlantic security differences exists, specifically on Central European strategic concerns, and an introspective focus by all NATO members on their own domestic affairs. Domestic affairs have been dominated by economic and policy changes due to the end of the Cold War. In the case of Europe, microeconomic (national domestic) affairs have taken on a "macro" significance now that EU members are working towards an integrated economic end-state of EMU. Developing and maintaining stability is critical now as the former Warsaw Pact nations face major political and economic challenges as they create western style democratic market economies.

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[27] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.

So how can the United States help foster this needed stability? Through NATO, America's only institutional bond with Europe. The United States can best influence and shape the future security architecture of Europe through its connection with NATO. The US has--similar to the post-World War II era--a unique leadership role in building a solid European security foundation. As Dr. Henry Kissinger put it, "the challenge before the alliance is to translate common interests into common policies and to create an Atlantic zone of stability in a turbulent world." [28] Through the enlargement of NATO, we can embrace Central Europe into the Western society of nations--an historic opportunity that must not be missed.

The recent debate on NATO enlargement best exemplifies the importance of remaining engaged--through obtaining new security agreements. As President Clinton recently remarked, "Some say we no longer need NATO because there is no powerful threat to our security now, I say there is no powerful threat in part because NATO is there. And enlargement will help make it stronger."[29] Expansion is an extremely important issue to all NATO members--primarily Europe. However, the reality of expansion depends upon financial support. The emerging democracies are relatively poor, their existing military equipment presents serious interoperability problems, and there is no suitable command and control system. Additionally, these militaries do not speak English, NATO's accepted language standard. Indeed, adding these countries to NATO involve significantly high start-up costs. The question is, how much will expansion cost NATO to incorporate only Poland, Hungary, and the Czech Republic?

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[28] U.S. Congress, Senate, Committee on Foreign Relations: Subcommittee on European Affairs, *Future of NATO: Views of Central Europe, the Baltic States and Ukraine*, Hearings, 3 May 1995. URL: <http://web.lexis-nexis.com/congcomp/docum...>, accessed 27 August 1997.

Extensive Congressional hearings on NATO expansion were held last fall, foreshadowing the extent the topic will be debated. There are several key issues to resolve. First, what is a reasonable estimate of cost? Second, how will cost sharing among NATO members be allocated? Finally, when should the process begin? The cost sharing arguments are an extension of the burden sharing debate that already exists in NATO (this has always been a difficulty in the alliance). Part of this discussion will include the United States' insistence that Europe pay a larger share of the cost of enlargement. In fact, Sen. Jesse Helms (R-N.C.), head of the Senate Foreign Relations Committee, warned that Congress may balk unless Europe agrees to foot most of the bill for expansion.[30] As for "when to start," the relative peace (except Bosnia) provides some justification to the European members of NATO to try to put expansion on hold--for economic reasons and the view that the US wants to expand NATO into Central and Eastern Europe despite the fact that Europe does not feel threatened by any of its neighbors.[31] In contrast, the US prefers to proceed with the current expansion of the Czech Republic, Hungary, and Poland as agreed upon.

Before addressing the issues of paying for the expansion of NATO, we must first look at the disputed cost of expanding NATO. The problem lies with four separate estimates; each estimate with its own set of assumptions and associated costs. Three of these estimates were generated in the United States with the fourth being accomplished by NATO:

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[29] Peter Baker, "NATO Plan Draws Some Salutes at West Point," *The Washington Post*, 1 June 1997, Sec. A9.

[30] "The Cost of NATO Expansion," *Air Force Magazine*, December 1997, 56-58.

[31] John Gerard Ruggie, "Consolidating the European Pillar: The Key to NATO's future." *The Washington Quarterly*, 20:1 (Winter 1997): 109-125.

A comparison of the results, in terms of total NATO costs, can be expressed as follows:

DoD: $31 billion

RAND: $42 billion * DoD, RAND, and CBO estimates from same source[32]

CBO: $109 billion

NATO: $2 billion[33]

<u>Key Assumptions</u>:

Study	**New Members**	**End Year**	**Planning Threat**	**Eastern Reinforcement Force**
CBO	Poland, Hungary, Czech Rep., Slovakia	2010	resurgent Russia	11.5 tactical fighter wings 11.7 heavy/mechanized divisions
RAND	Poland, Hungary, Czech Rep., Slovakia	2010	low overall threat	10 tactical fighter wings 5 heavy/mechanized divisions
DoD	Four unspecified	2009	low overall threat	6 tactical fighter wings 4 heavy/mechanized divisions
NATO	Poland, Hungary, Czech Rep.	10 years	low overall threat	Existing equipment and troops

In the US, the debate is based on the estimates produced by the Defense Department, Congressional Budget Office, and the RAND Corporation--despite the concern of many legislatures over the significant variance in the estimates (and the added complication to the burden sharing debate). Proponents of expansion maintain that since NATO's members collectively spend $440 billion a year on defense, robust expansion

32 "The Cost of NATO Expansion," *Air Force Magazine*, December 1997, 56-58.
33 "NATO Expansion; More Cost Questions," *Air Force Magazine*, January 1998, 20.

would only raise military budgets by one to two percent.[34] The EU members of NATO, however, prefer to base their projections on the NATO study (also due to the already 'tense' burden sharing debate). The NATO analysts' principal assumption is that NATO faces a rapidly diminishing threat--meaning that the new members can be defended with existing equipment and troops.[35] With the NATO estimate being $29 million less than the lowest US estimate, it was no surprise that Washington treated it with public skepticism. A fifth estimate, provided by the Cato Institute, called "the NATO estimates 'fatally flawed' and puts the true expansion price at closer to $70 billion."[36]

Assuming a two percent increase in average military budgets to cover the average [US] cost projection for expansion, the EU members of NATO would have to increase their defense budgets from 2.9 percent, to 4.9 percent. The increase would amount to two tenths of a percent higher than the last five years of the Cold-War. The increase simply will not happen, at least not in the near term. As we have already seen, European defense budgets are still declining. Remember, Europe perceives a reduced threat in the post-Cold War era and is politically "married" to EMU.[37] As for adding new partners to the Alliance, some experts maintain that "no additional members should be designated for admission until the three countries now in the NATO queue are fully prepared to bear the responsibilities of membership and have been fully integrated into the alliance military and political structures."[38] Perhaps the alternative course to expansion, at least until a

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34 "The Cost of NATO Expansion," *Air Force Magazine*, December 1997, 56-58.
35 "NATO Expansion; More Cost Questions," *Air Force Magazine*, January 1998, 20.
36 "NATO Expansion; More Cost Questions," *Air Force Magazine*, January 1998, 20.
37 European defense budgets eventually will increase out of necessity; likely in the first decade of the next century if, and when, the EU becomes a thriving and prosperous economy with an integrated currency.
38 Warren Christopher and William J. Perry, "NATO's True Mission," *New York Times*, 21 October 1997.

decision can be reached, should be for NATO to maintain the status quo as far as membership is concerned. In this way NATO can maintain, and enhance, important strategic security interests through military relationships via programs like Partnership for Peace (PfP).[39]

Bosnia

The second major competitor for dwindling defense funds is the peacekeeping operations in the Balkans. Bosnian action is a United Nations (UN) sponsored, NATO enforced implementation of the Dayton Peace Accords. Bosnia's fragile accord remains in the balance. The alternatives for Bosnia are continued stability with enforced peace, or chaos if the NATO-led forces withdraw. The likely ramifications of a failed peace here would be a resumption of hostilities and potential spill-over to neighboring countries--a virtually disastrous blow to security in both Western and Central Europe:

> NATO's military commander warned today that reconstruction efforts in Bosnia could collapse and war could resume unless Western nations maintain a substantial peacekeeping presence there after the mandate of the current stabilization force expires in June. In a blunt presentation of Bosnia's security needs, U.S. Gen. Wesley Clark told alliance defense ministers that a significant follow-on force would be required to sustain the U.S.-brokered Dayton peace accords and to break down what he called 'the wall of Serb resistance' to the agreements...
>
> ...Nonetheless, Cohen urged the alliance to devote more resources and personnel to bolstering the 1,700-man international police force already in place

[39] PfP is an excellent military program that provides increased security, stability, and cooperation with non-NATO countries. As with any program, there are costs associated with the benefits. This program could be a viable alternative to NATO expansion; at least until the EU is economically sound. However, if this alternative security arrangement is to be credible, "the partnership should receive substantially more financing from alliance members. Partnership for Peace countries should be as capable of working with NATO as NATO members are."[39]

From the United States Department of Defense point of view, funding from all NATO members is required to "...facilitate partner participation in PfP activities, improve the compatibility and interoperability of these countries' militaries with NATO forces, build bilateral ties between US and Central European militaries, provide us the opportunity to influence the evolution of these defense establishments, and finance a range of cooperative multilateral security activities."[88]

> so that Clinton could demonstrate to Congress that European governments are prepared to carry a larger share of the peace-keeping responsibilities. 'We haven't seen the kind of commitment that needs to be made by the Europeans,' Cohen said. He noted that the United States has contributed about $30 million for the police force while the Europeans have given only $5 million; the force thus remains short of equipment and personnel because much of its $100 million budget remains unfunded.[40]

As the previous quote illustrates, Europe has paid only $5 billion of the estimated $100 million dollar price tag on the operations in Bosnia. However, this cost comparison may be misleading as Europeans do not put a price or cost figure on all aspects of their operations (this concept of cost [burden] sharing is addressed in *The Current Burden Sharing Dialogue* found on page 39). Despite the various interpretations of cost, it is safe to say that the US is paying more than its fair share. Nevertheless, it is extremely important to note that the operational costs in Bosnia represent a small percentage of the total effort. "Most costs are related to reconstruction not military budgetary impact (other than current SFOR operations). This cost currently stands at approximately $225 million in annual reconstruction aid, which is administered by a multi-national consortium (50 countries and organizations) led by the World Bank and the EC--a $5 billion program. The EU comparative figure is about 1 billion ECU, which is $31.1 million per year."[41]

When asked if the Economic and Monetary Union is affected, or affects, Bosnia operations; a source at the EU replied: "As for the troop presence; EU Troops are about

[40] William Drozdiak, "NATO Commander Urges Follow-On Force in Bosnia," *The Washington Post*, 3 December 1997, A41.
[41] A source, principle assistant to a primary delegation member of the EU, who wishes to remain anonymous, interview by author, 9 January 1998.

40,000 and 8000 US. I don't think EMU has any bearing [on Bosnian operations]. The issue is handled separately; it is not even politically linked. Major Bosnia contributions come from the EU."[42] While this is a true statement, it does not point out the fact that the EU is funded by its member nations. Ultimately, Bosnia is cutting into each member's national spending--operations costs coming from their defense budgets and reconstruction money from other fiscal programs.

Modernization and Interoperability

> Despite Western Europe's avowed intent to build a robust, autonomous military capable of acting without massive US support, the gap between American armed forces and those across the Atlantic remains enormous and is widening in key areas, officials said. This disparity can be seen in the size of the forces; the money devoted to defense research and procurement; the key capabilities of movement, intelligence and logistics; and, particularly, in technological acumen. In this last sphere, the United States already possesses a 21st-century military; Europe for the most part remains in the here and now.[43]

"I see the writing on the wall that there could be an ever widening gap, which at the end could be very decisive," said German Gen. Klaus Naumann, who chairs NATO's military committee. Even though the United States Department of Defense is struggling with the increased costs of modernization for its services, as well as procurement of interoperable systems, it is still moving forward at a significantly faster pace than anyone in the world. This could create even more stress on future NATO operations. In fact, this growing gap in interoperability and modernization led General Naumann to remark,

[42] A source, principle assistant to a primary delegation member of the EU, who wishes to remain anonymous, interview by author, 9 January 1998.
[43] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.

"quite clearly that without American support, an operation like [Bosnia] could not be done, there is no security for Europe without the Americans."[44] The dilemma is how much, in terms of operational tempo and cost, is the United States willing to bear to cover this ever-widening gap? Could this entire situation induce some lethargy for NATO to act? It is a possibility that appears to be gaining attention.

Considering the relative peace in Central Europe, the declining defense budgets, and transition to a professional military, it is easy to understand the current disagreements among all NATO members concerning weaponry, strategy, spending and modernization. In fact, some countries believe they should be dismantling and/or integrating portions of their assets with other countries. The Belgians, for instance, have put significant portions of their armor on the market[45]--including almost 300 tanks and 40 F-16 fighters--and melded their fleet with that of the Dutch.[46] In the interim, the EU members of NATO are actually decreasing their spending on modernization and system interoperability, not to mention basic research and development. In 1996, "...the United States spent $35.4 billion on defense research and development, or 14 percent of the Pentagon budget, compared with $13.6 billion spent by European NATO countries combined, or 8.3 percent of their collective defense budgets."[47]

Taking a closer look at defense spending for equipment--primarily for

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[44] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.
[45] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.
[46] Integration of this kind can lead to differing national perspectives on employment of these common assets. On the other hand, integration at the bilateral level may serve as a foundation for a European defense structure envisioned by the EU.
[47] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.

modernization and interoperability--Table 7 presents pre and post-Cold War spending:

Country	**Average 1980-1984**	**Average 1990-1994**	**Change**
Belgium*	12.1	7.8	-4.3
Canada	19.7	18.1	-1.6
Denmark*	14.0	15.8	+1.8
France*	Not Available	Not Available	N/A
Germany*	19.6	13.5	-6.1
Greece*	18.2	22.8	+4.6
Italy*	19.7	16.3	-3.4
Luxembourg*	3.5	3.4	-0.1
Netherlands*	19.8	15.6	-4.2
Norway	21.7	24.9	+3.2
Portugal*	7.6	5.7	-1.9
Spain*	Not Available	12.4	N/A
Turkey	18.2	23.7	+5.5
United Kingdom*	24.8	21.0	-3.8
United States	25.6	25.1	-0.5
AVERAGE: NATO	*17.3*	*16.2*	*-1.1*
*AVERAGE: EU**	*15.5*	*13.4*	*-2.1*
AVERAGE: NON-EU	*21.3*	*23.0*	*+1.7*

Table 7. Defense Spending for Equipment as Percentage of Defense Budget[48]

Clearly, the trends for EU members of NATO indicate significant cuts. The exceptions to declining spending are Greece, Norway, and Turkey. These three NATO members have actually increased their spending on equipment. Acknowledging a potential bias, the EU and NATO changes are more evident when removing the data for Greece and Turkey (to control out their current rivalry--which I believe is skewing the data): *EU** **Change** is now -2.8 %, an 18.2 percent decrease; and *NON-EU* **Change** is +0.4 %; representing only an increase of 1.6 percent (essentially no significant change).

[48] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.

Another strong indicator of decreases in spending is the United States Foreign Military Sales Data, found in Table 8. The data shows a significant and steady decline since 1994. In fact, sales to EU members of NATO is down 71 percent.

Country	1989	1990	1991	1992	1993	1994	1995	1996
Belgium	12.240	100.607	105.477	34.812	329.337	19.930	24.252	57.490
Denmark	21.674	64.918	75.482	68.742	332.778	49.015	46.616	139.289
France	45.570	75.881	71.565	27.411	51.753	49.433	769.451	23.084
Germany	345.840	300.672	304.908	175.132	181.616	221.497	267.128	267.637
Greece	137.493	185.292	272.790	554.605	1,640.329	316.763	204.699	205.722
Italy	46.556	112.679	86.321	203.030	103.501	45.876	32.877	78.318
Luxembourg	.245	.095	.182	.162	.331	.310	.069	3.223
Netherlands	242.230	148.180	314.322	301.982	743.310	47.685	944.109	151.731
Portugal	27.563	13.867	407.691	29.725	15.713	8.352	13.108	4.007
Spain	100.885	347.301	105.747	97.836	116.740	57.457	401.766	119.932
United Kingdom	136.595	401.811	181.447	178.090	120.512	594.792	114.598	489.105
NATO/EU Total	***1,116.891***	***1,751.303***	***2,868.194***	***1,671.527***	***3,635.920***	***5,307.447***	***2,818.673***	***1,539.538***

Table 8. US Foreign Military Sales to NATO/EU Members (US Dollars in Millions)[49]

The final issue of interoperability is the EU's attempt to create and maintain their own air power capability. "'What's wrong in Europe is that you have three fighter aircraft under development: the [French] Rafale, the [British, German, Italian, and Spanish] Eurofighter and the [Swedish] Gripen. That's crazy,' Ruehe said. 'And three tanks. And three frigates. We cannot afford that....Europe has to overcome its nationalism in this field.' But the joint projects intended to make Europe less dependent on the United States are sputtering. The Future Large Aircraft--a German, French and British transport plane--has gone nowhere for eight years. Paris and Bonn recently

[49] U.S. Department of Defense Security Assistance Agency, Financial Policy Division Comptroller, *Fiscal Year Series,* 30 September 1996.

announced that they will not spend the $6 billion needed to develop the aircraft and hope instead that private industry will design a plane that can be purchased "off the shelf."[50]

> In part, the European failure to establish military independence is the result of colliding goals in a broader effort to forge a new economic and political order on the continent. The 15 members of the EU are trying to create a single, integrated market by the end of the century that would be competitive with those of Japan and the Unites States--a goal that requires severe cutbacks in the continent's expansive government spending.[51]

Our review of major costs areas such as defense spending, personnel levels, NATO expansion, Bosnia operations, and modernization and interoperability; reveals that the defense and national budgets for the EU members of NATO have been significantly reduced. Given the goals defined by the Maastricht criteria for monetary integration, combined with the history and political will for full economic and monetary union in the EU, an undeniably strong correlation exists linking defense spending cuts to monetary integration.

Impact on Readiness

From the preceding discussion, we can begin to answer the question of interest: Is the domestic economic adjustment being made by the EU members of NATO - required for integration into the common currency - causing a weakened state of readiness for NATO? All evidence suggest that it does and, unfortunately, NATO readiness is likely to decrease for the next 10 years. The state of decreasing readiness is not lost on senior

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[50] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.
[51] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.

officials in NATO. In fact, Sir Peter Abbott feels that NATO is insufficiently equipped and staffed to meet the anticipated threats of the future.[52] Although there are some funds available in member-nations defense budgets for future systems, long-term modernization could be postponed in order to pay for short-term collective security operations.[53]

There are just too many financial demands on the ever-decreasing defense resources of the EU members of NATO. And while EU economic and monetary union speeds ahead, there is no apparent reprieve in the near term. These countries may even challenge participation in certain operations--except, of course, those operations that protect their individual national security. A recent example which may provide a precedent for this trend is France, Germany, and the UK's threat to withdraw from Bosnia if the United States were to do so.[54] Given the current operational tempo in the United States military right now, it is highly doubtful that the United States can, and wants to pick up the slack--either financially or in terms of resources and personnel. "According to defense experts and NATO officials, the armies of Western Europe, long bound to the United States by treaty and by blood, have failed to prepare for the missions the alliance faces following the end of the Cold War and so have become even more dependent on conventional US military power than in the past."[55]

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[52] Stephen A. Cambone, *NATO's Role in European Stability,* A Center for Strategic and International Studies panel discussion report, Washington, DC: The Center for Strategic and International Studies, 1995.
[53] William T. Johnsen, *NATO STRATEGY IN THE 1990s: Reaping the Peace Dividend or the Whirlwind?* Monograph, Strategic Studies Institute, Carlisle Barracks, Pennsylvania: 25 May 1995.
[54] Michael Dobbs, "U.S. Edges Towards Extending Tour in Bosnia; Perry Supports NATO Study of Need for Force Beyond December Deadline," *The Washington Post*, 26 September 1996, A20.
[55] Rick Atkinson and Bradley Graham, "As Europe Seeks Wider NATO Role, Its Armies Shrink," *The Washington Post*, 29 July 1996, A1.

THE READINESS DEBATE

The previous section, *DETERMINING READINESS*, presented the major areas affected by spending reductions and their negative impact on readiness. This section debates readiness itself. Several elements are important for the debate like, the time frame NATO readiness suffers; the scale, or degree to which readiness is affected; the current burden sharing dialogue; and US concerns.

Time Frame

In May 1998, the European Commission will accept most EU members to integration taking full advantage of the vagueries in the Maastricht criteria. This process will culminate with total EU participation and a stable euro by 2008. The *scale* and *time frame* of reduced readiness for NATO is necessarily a subjective judgment. Clearly, a more difficult and lengthy process (*time frame*) for monetary integration will create a larger negative impact (*scale*) on readiness due to prolonged fiscal austerity. But before we can discuss the *scale* of reduced NATO readiness, we must define the estimated *time frame* of reduced NATO readiness.

Since the window for beginning monetary integration, as defined in the Maastricht Treaty runs from 1997 to 1999, this process comes at a very inopportune time. Europe has been undergoing a severe recession for the last six years.[56] An undertaking the magnitude of monetary union--combined with the current recession and its associated

[56] "Sweating for that Euro," *The Economist*, 15 February 1997, 45-46.

unemployment--understandably has pushed implementation back. For example, look at the EU's political, economic, and monetary stalwart--Germany:

> The latest bombshell was, however, not detonated by any of the usual suspects but by the most important, and seemingly most dependable, country of all, Germany. A huge jump in German unemployment in January [1997] to 4.7m, 12% of the workforce, has pushed the total well above the assumptions in German economic forecasts for the year. Those forecasts had already been revised upwards to show a budget deficit of 2.9%, barely below the Maastricht ceiling. After the January jump in unemployment, hardly any independent forecasters expect this year's budget deficit to be under 3%; most predict 3.5% or more. In addition, Germany looks highly unlikely to meet the debt criterion: even the most elastic interpretation, which would waive the 60%-of-GDP minimum requirement so long as the figures are moving the right way, cannot do the trick. Germany's public debt has been steadily rising for the past five years.[57]

This financial dilemma is afflicting most members of the EU; and as one would expect (and earlier data shows--Tables 3 and 4), some are in worse shape than others.

Estimates are that it will take the monetary union 10 to 15 years to complete and stabilize. However, the members of the EU feel it will happen much sooner. The 15 current members probably will be in by 2002-2005. Although Britain and Denmark have not agreed yet to integrate, they have made it clear they want to join and are working hard towards the goal. By economic and political deduction, it is reasonable to assume that if the UK joins, Denmark and Sweden will as well. Greece will qualify as well, although it will require several years to bring their debt down to an acceptable level. The EU predicts that the euro will be stable by 2008.[58]

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[57] "Sweating for that Euro," *The Economist*, 15 February 1997, 45-46.

[58] A source, principle assistant to a primary delegation member of the EU, who wishes to remain anonymous, interview by author, 9 January 1998.

It is entirely possible that the process could be delayed beyond 1999. In addition to the potential delays caused by recession, other legal and political hurdles need to be overcome. Unemployment is causing severe political problems all over Europe, especially in France and Germany, where national elections will be held this Fall. And, "a group of prominent economists filed a petition...with Germany's highest court seeking to block plans for a single European currency."[59] Their concern is that the conversion to the euro will create an even worse recession because of its anticipated weak value, and a further increase in unemployment. A significant misgiving was revealed during the national referendums of Denmark and the United Kingdom, both of which are currently abstaining from monetary integration.

So, with further delay a very real prospect, can there be a delay? This question cuts across the spectrum of legal and political concerns. Legally, "the date in the Maastricht treaty cannot be changed except by a new treaty, which would have to be ratified by all the EU's 15 members. Yet there are plenty of precedents for stopping the clock in Europe, whatever treaty rules say."[60] As for the ever present political ramifications, voters will not be happy about a delay. They have been living on the proverbial shoe-string budget with continued setbacks and having been promised that it will happen in 1999, there will be a severe backlash at the polls if it does not. The long term consequences of delay may mean the public will never support the program again.

The last bastion of hope and trust in the euro lies in the markets:

[59] William Drozdiak, "Will the Euro Stop Here? Court Case Reflects Germany's Unease With Europe's Single-Currency Plans," *The Washington Post*, 13 January 1998, A10.
[60] "Don't (Even Mention) Delay," *The Economist*, 15 March 1997, 51-53.

> The credibility of a new currency is hard to foster. The EU was pleasantly surprised when it seemed to have persuaded the markets that the euro would be born on time. It would be hard to rebuild that credibility if the euro were delayed, for whatever reason. And it would be especially hard to pressure markets to believe in any revised launch date. That is why both the commission and senior French and German politicians are so insistent that delay is out of the question. They fear that it could easily drift towards cancellation."[61]

There is plenty of precedent to delay this process further, but political and market realities suggest that it cannot happen. As for the EU's cornerstone currency, the deutsche mark: "There must be a risk that delay would push up the value of the D-mark, further hampering the German recovery. But the risk is that Germany, which largely devised the Maastricht criteria, could be hoist with its own petard...A single currency without Germany is, of course, unthinkable."[62] It's now or never, and the whole of Europe realizes this very important fact.

Scale

The scale of a reduced NATO readiness posture--due to monetary integration--is primarily based on the amount of time the entire process takes to complete. The beginning of this process started with the signing of the Maastricht Treaty in 1992, and should finish in 2008 (as presented in the previous section, monetary integration will begin in 1999 and finish in 2008): A total project time of 16 years.

It is clear from the declining defense budgets of the EU members of NATO, that defense spending for the EU is reaching a level of inadequate spending (current budgets

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[61] "Don't (Even Mention) Delay," *The Economist*, 15 March 1997, 51-53.
[62] "Sweating for that Euro," *The Economist*, 15 February 1997, 45-46.

have been reduced by 30 percent since the end of the Cold War). However, we must consider that part of this decrease in defense spending is due to the post-Cold War peace dividend, with the remaining decrease being directly attributable to national measures to qualify for the euro. Analysis of the data in Table 6 (page 18) reveals that post-Cold War decreases amounted to 15 percent (pre-1992). From 1992 to 1996, we can see that an additional 15 percent has been removed--which is directly attributable to monetary integration.[63]

Over the last eight years, defense spending has decreased by approximately 3.7 percent per year. Such a decline cannot continue because it is already at (or arguably below) its minimum acceptable level. However, with 10 years left of monetary integration and stabilization--under continued fiscal austerity for deficit control and debt reduction--it is reasonable to assume there will be continued, albeit small; reductions in defense spending. Extrapolating the combination of these small reductions with relatively high average inflation until 2008, it is clear that there will be even less 'real' money available for defense spending.

So, "scale" needs to be put into context. The current assumption is that NATO is operating at the break even point. Operations are still funded, minimum effort is sustained towards acquisition (modernization and interoperability), and a credible NATO defense capability exists against current anticipated threats. However, with the EU not quite half-way through the process of monetary integration, continued operations in Bosnia, an ever-widening technology gap (with the United States), transition to a

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[63] These values are derived from the percentage decreases from 'Average 1985-89' to 'Average 1990-94' for post-Cold War reductions; and percentage decreases from 'Average 1990-94' to '1996e' for monetary integration reductions. It is difficult to ascertain when spending cuts that are attributable to monetary

professional military, NATO expansion; and less 'real' defense funds available, the result is obvious. NATO will have to decide where to cut funding. Reduced funding in any of these areas signifies a negative impact on readiness. An increasing funding shortfall means decreasing readiness until the year 2008.

The Current Burden Sharing Dialogue

> [President] Reagan apparently seemed to welcome the development of an emergent European defence voice when he observed that, 'the economic strength of Western Europe and the United States are fully comparable, the time has long since come when we should view ourselves as equal partners.' Central to the future of the Alliance is the question of burdensharing, in the widest sense, and whether the US will be willing to relinquish some of its influence in return for an equal European role. The price of burdensharing is therefore decision sharing; something which has thus far been resisted in Washington. A senior official, who was with the State Department office responsible for European and United Nations Arms Control, observed that, 'What Americans usually have meant by "burden sharing" has been that others should pay more for policies Washington decides on.'[64]

At the heart of the dialogue is: Who is paying what? The United States, which is very "cost accounting" driven, feels they are paying for more than their fair share of NATO's defense costs (which is readily apparent in the United States' quantitative measures of costs and payments). For their part, our European allies look at the total picture which includes subjective and objective measures. For example: social dislocation (more important in the European culture), provision of rent-free land to

integration began, and reductions due to post-Cold War dividends ended--I chose 1992 for my calculations as this was the year the Maastricht Treaty was signed.

[64] Simon Duke, *The Burdensharing Debate: A Reassessment*, New York: St. Martin's Press, 1993.

NATO forces, force cost structures (conscript versus volunteer), and actual costs billed by, and paid to NATO.

Another major disagreement between the US and Europe lies with system and weapon modernization. The United States is much more technology driven and feels compelled to make the most of its advances (whether it needs to or not). On the other hand, Europeans want to do only what is necessary--biased by their current economic circumstances. For the Europeans, if the existing forces are adequate, they prefer to let them be. The threat also plays into this calculation. To the United States the threat is global, to Europe it is continental (which is, perhaps, why the US has the imperative to maintain its technological lead). But as conflict in the Middle East has demonstrated--Europe's security can, and will be jeopardized from regions outside the continent. This will become even more evident if and when the EU consolidates its economy and currency, and becomes an even more global force.

The point is that the burden sharing dialogue remains unchanged, and it will become more contentious with a continued decrease in European defense budgets. Additionally, the European argument of subjective (hidden) costs are eroding as the United States reduces its basing in Europe, the Europeans reduce the size of their militaries, and the European militaries transition to an all volunteer force. It is also fair to say that the United States, which has paid a disproportional share of the defense bill for the defense of the western hemisphere, has also enjoyed the benefits of its corresponding leadership and political influence. The recovery of the European economy since World War II has been so successful, with help from the US, that the EU now represents a community of approximately 330 million people with the world's largest

concentration of wealth. It seems only natural that our European allies would assume responsibilities befitting their wealth and political status.[65]

In considering all sides of the dialogue, British Prime Minister, John Major, summed it up best: "...our ambitions for the WEU must consolidate NATO, not weaken it. We also recognise that America is increasingly keen for Europe to bear a greater share of the western defence burden."[66]

US Dilemma

Naturally, the US has many national security concerns in light of the time frame and scale of a reduced NATO readiness posture. However, as became evident in the burden sharing dialogue, the US's major concern is essentially reduced to a shortage of money. So with the US defense budget apparently at a minimum, and European defense spending already low and still decreasing, what action should the US take? Should the US hold to the current demand for fair burden share or cover the shortfall until 2008? Before answering this question, we should note that while Europe is becoming more introspective, world opinion (led by the US) indicates that the EU should assume increased global political responsibility. Demands for the EU to bear a larger share of the international burden are mounting as the US's resources are increasingly used to master its own domestic challenges.[67]

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[65] Simon Duke, *The Burdensharing Debate: A Reassessment*, New York: St. Martin's Press, 1993.
[66] "Memo for the Europe of 2020," *The Economist*, 23 September 1995, 42-46.
[67] Reginald Dale, "Wanted: A Common European Defense," *Europe*, November 1995, 28-29.

One option is to assist the EU members of NATO financially until the euro becomes a stable currency. However, this is an unlikely solution due to: "...the serious structural problems of the U.S. economy that, in the view of many Americans, will be an increasing burden on current and future generations. For instance, the total federal debt has grown from $3 trillion in 1991 to a current figure of more than $5 trillion. Each year, approximately $300 billion--or approximately 20 percent of the federal budget--goes toward paying interest on this debt. It is precisely because the United States must concentrate increasingly on its own economic and social problems that it must also renew its foreign policy efforts. The first step towards solving its domestic economic difficulties is to ensure that the burden of US international involvement, which is as necessary as ever, can be shared more efficiently with its allies and partners."[68]

The inevitable answer is already coming from Congress and the Secretary of Defense. As mentioned before when discussing the shortfall of funding for operations in Bosnia, "Cohen has repeatedly pressured US allies, especially NATO's European members, to take on a larger part of the mutual defense efforts."[69] This sentiment has been echoed in Congress. "This past Fall, several congressional hearings were held evaluating the costs of Bosnia, NATO expansion, and NATO burden sharing; Congress will be taking Europe to task for greater financial participation in all of these areas. They [the Congress] are well aware of the integration effort in Europe, but burden sharing has

[68] Reginald Dale, "Wanted: A Common European Defense," *Europe*, November 1995, 28-29.
[69] "Cohen's National Security Record Stresses Toughness, Consensus," *Congressional Quarterly Weekly Report*, 18 January 1997: 181-185.

always been a problem for the US and is quickly becoming a critical national security issue as Europe continues to decrease its funding."[70]

"The official US view is to distinguish between the overall strategy of European integration, which the US strongly supports, and the tactic of the single European currency as a way to achieve that goal, which is seen as a matter for the Europeans."[71] Regardless of the reasons why, what happens if the European allies do not pay enough money--at least from the US point of view--to cover our national security interests? The shortfall will have to come out of the US's budget. Some funding can come from other programs, but the majority will likely cut into the defense budget. The Commandant of the US Marine Corps, General C.C. Krulak--providing astute insight from senior military leadership--confirmed this suspicion. When asked about the importance of Bosnia operations and NATO expansion to the United States, and asked if we [the US] could proceed with these issues if our European NATO allies could not afford it he replied that, "the worst case possibility is that we would have losses to our V-22, the Air Force F-22, and other major DoD acquisitions--essentially it would have to come from our [military] budget."[72] Additionally, General Krulak acknowledged the potential future economic strength of the EU with an integrated currency, but admits "it is not going to happen in the immediate future, which is our [US] concern."[73]

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[70] Steven Biegun, Legislative Assistant, US Senate Committee on Foreign Relations Subcommittee on European Affairs: Senator Gordon Smith (OR), Subcommittee Chairman, interview by author, 28 December 1997.
[71] Martin Walker, "The Euro: The View from America," From *Everything You Need to Know About Europe's New Currency The Euro,* URL: <http://www.eurunion.org/magazine/eurospec.htm#setting>, accessed 6 October 1997.
[72] C.C. Krulak, General, U.S. Marine Corps, Commandant of the Marine Corps, interview by author, 5 January 1998.
[73] C.C. Krulak, General, U.S. Marine Corps, Commandant of the Marine Corps, interview by author, 5 January 1998.

CONCLUSION

The domestic economic adjustment being made by the EU members of NATO required for integration into their common currency is causing a weakened state of readiness for NATO. In reality, the negative impact of monetary integration on readiness is just beginning to be felt. NATO is now realizing that it is at, or past its "break even" point when looking at several key indicators:

- Insufficient funding for current operations in Bosnia;
- A less than adequate share of its members' defense budgets going towards modernization and acquisition of systems increasing interoperability;
- and members still facing moderately declining defense budgets in the midst of significant inflation.

This trend will increase, albeit at a moderate rate, until the EU's economic and monetary union is complete and their new currency is stable.

Many of the EU members have met, or are close to meeting, the guidelines for currency integration spelled out in the Maastricht Treaty. Most of these countries will be accepted for integration in 1999, a few will not.[74] However, on the whole, there is still a long way to go--primarily due to debt. Fiscal austerity will continue to dominate the European economic policies for the next decade to reduce this debt. Public opinion will "wax and wane" in direct correlation with national elections and the unemployment rates of each nation. Additionally, other variables are sure to present themselves in time, such as: the admission of Central European countries to the EU; the remaining exchange rates

[74] Edmund L. Andrews, "Europeans Clear Remaining Hurdle to Currency Unity," *The New York Times*, 28 February 1998, B1.

between the euro and the currencies of countries not yet monetarily integrated; and the unknown fluctuation of the euro in the global markets as the European economy increases its presence.

However, there is a bright side to this major undertaking. Barring the occurrence of a major European economic disaster, the EU will achieve economic and monetary union by 2008 with its current 15 members. The union will also increase in size as it expands into Central and Eastern Europe. In the next 10 years, there will be many ups-and-downs that will test the wills of Europeans and Americans alike. Even now "there are great problems. But there are also great opportunities. To turn away from the challenges would only mean paying a higher price later. The United States will be an active participant in Europe for a simple reason--our self-interest requires it."[75]

As this process unfolds, "the United States will increasingly remind Europe of its duty to take on political responsibilities commensurate with its position as a world economic power."[76] Naturally, this European evolution will also feel the pressure from the United States to step up its defense efforts--particularly in modernizing its military and developing a power projection capability. But, this should all take place in a positive, unified effort--because the security our alliance provides is in the best interest of America and Europe. There are now, and always will be, times of strained relations across the Atlantic for issues ranging from burden sharing to NATO command structure. But we should all heed the sage advice Sir Winston Churchill provided at a very difficult

[75] "Advancing U.S. Interests in Europe," Congressional testimony by Assistant Secretary for European and Canadian Affairs, Richard C. Holbrook, *US Department of State Dispatch*, 20 March 1995: 209-217.
[76] Reginald Dale, "Wanted: A Common European Defense," *Europe*, November 1995, 28-29.

moment in Anglo-American relations during the Second World War: "There is only one thing worse than fighting with Allies, and that is fighting without them."[77]

In the final analysis, the EU will--through a strong economy and increased membership--bring more strength and stability to NATO. This will be accomplished through increased funding that will serve to execute financially secure operations; modernize weapon systems; acquire interoperable command, control, communications, and intelligence networks; expand the alliance; institute a professional military; and perhaps a more significant benefit--power projection through a sea and air lift capability. All very important aspects to North American and European political and security stature when working with the rest of the world in the 21st century. A more prosperous, single-currency economy will likely lead to political union and, perhaps, a European military. European economic and political union would strengthen United States national security through our existing alliance in NATO. Political union, like monetary integration, will not occur overnight--but it will evolve.

The United States' support is evident:

> President Clinton's relaxed and supportive approach to the euro and to the next phase of the European project reflects the broad consensus of his administration. Treasury Secretary Robert Rubin had set the theme at the G7 summit in Lyons last year, saying, 'They certainly seem to be on the road to a common currency. All of this is a very positive development with respect to Europe, and what's good for Europe is good for all of us.'
>
> 'The best outcome from an American perspective would be a sound euro, underpinned by sound European macroeconomic policies,' Summers declared at the end of April [1997], in the administration's first authoritative policy statement on the euro. But he warned against overestimating its effects. 'The revolution in European financial markets which many expect to follow EMU will not happen overnight. The dollar will remain the primary reserve currency for the foreseeable

[77] "European Security," Speech by United Kingdom Prime Minister John Major, *Presidents & Prime Ministers*, 5:2 (March-April 1996): 6-8.

future, and any further erosion in its relative position in the system is likely to happen, if it happens, only slowly.'

The main concern that is voiced off-the-record inside the National Security Council is that if the euro is established as an act of political will despite the economic difficulties, that could lead to a weak euro that would be buffeted by the markets and could prove a serious setback for the larger goal of European integration. That concern grew after the double shock of the French election result and the refusal of the Bundesbank to revalue the German gold reserves in order for the deutsche mark to meet strict Maastricht criteria to qualify for the euro.[78]

The most important point to take away from our discussion is that the US, and the EU members of NATO together, must understand, plan, and prepare to ensure adequate readiness for NATO[79]. After all, it is in the national security interests of all its members--interests that as Allies we have promised to protect. For ultimately, if the EU monetary integration fails--NATO suffers twofold: For the time it will spend now at a reduced level of readiness, and in the future without a strong European economy.

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[78] Martin Walker, "The Euro: The View from America," From *Everything You Need to Know About Europe's New Currency The Euro,* URL: <http://www.eurunion.org/magazine/eurospec.htm#setting>, accessed 6 October 1997.

[79] The United States strategy of engagement is necessary to support our most critical global partner--Europe. Regardless of how we refer to them: the European Union, NATO, or the Western European Union (WEU); the US and Europe are inextricably linked by a common history, culture, democracy, economy, and security alliance. Therefore, it is our primary partnership with Europe that must remain strong as we move into the 21st century and engage with the Asia Pacific. The feeling in Europe is mutual.

The result in Europe, by 2010, will be a European Union operating with a "Common Foreign and Security Policy" structure. This security pillar will be an evolution of the Western European Union - which currently consists of those countries that are members of both the European Union and NATO - to include most, if not all, European Union members. The final name or title of the resulting European Union security pillar is not important. What is important is that the United States assist the European Union with the development of their new security arrangement, and preserve a leadership role in the resulting transatlantic security agreement that will eventually replace NATO.

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