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#3 report	Problems Ahead in Europe secret <i>open</i> 12-6-83 NLS 83-256 10 p	undated	A
#4 memo	to the President from Henry H. Fowler Secret <i>open</i> 12-6-83 NLS 83-310 2 p	05/25/67	A
#6 memo	to the President from Francis Bator Secret <i>open</i> 5-4-83 NLS 83-79 2 p	05/03/67	A
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~~TOP SECRET/SENSITIVE~~
FOR THE PRESIDENT ONLY

Authority NLJ 83-77
By ..., NAF, Date 5-23-86

SUMMARY NOTES OF 569th NSC MEETING
May 3, 1967; 12:30 P.M.

Problems ahead in Europe

Secretary Rusk: The hearing on the Mansfield resolution calling for U. S. troop re-deployment from Europe went well. The Committee will not now press for adoption of the resolution.

The President, arriving at 12:50 P.M., said the purpose of the meeting was to discuss the problems we face down the road in our relations with Europe. Other meetings will discuss three issues of key importance which are not to be taken up today, i. e., the Kennedy Round, the Non-Proliferation Treaty, and the European financial discussions.

Under Secretary Katzenbach: The State Department paper (copy attached) is candid in discussing problems and possibilities. Many of our difficulties are financial or economic. We need a detailed study of whether mutual troop withdrawals from Europe are in the U. S. interest.

General Wheeler: The Joint Chiefs are reviewing their earlier study of mutual troop withdrawals.

Under Secretary Katzenbach: It is necessary for us to convince Europeans that they must increase their economic assistance to the Third World. The current NATO study is turning out to be interesting. A further study must be made of the problem of British admission to the Common Market. We are "living with" the problems which arise out of the desire of European states to play a larger role.

The President: Chancellor Kiesinger made a point about greater consultation with the United States. He said the quantity of information exchanged is adequate, but the quality is not. We should study closely the choices available to us which are pointed up by the current NATO review.

Secretary McNamara: The quality of our consultation on nuclear matters with our allies has been poor for the last ten years, but we are improving it.

Secretary Fowler: The State Department paper is discouraging. In addition, it overlooks our major problem, i. e., can we live with actions which our European allies are taking in the field of financial affairs? Is it possible for us to reach a rational financial accommodation with the Common Market? Can we halt a process which during the last eight years has led to our reserves going down and theirs going way up? We are carrying on constant consultation with our NATO allies but this isn't producing a solution.

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Secretary Fowler (cont'd.):

France is trying either to expel us completely from Europe or at least to diminish our power there. The French may even use the Common Market to achieve this objective. We must face up to the problem of how to make a coordinated effort in which all U.S. departments and agencies participate to induce Germany and Italy to separate themselves from the French effort to use the Common Market against the United States. Treasury views on this problem will be presented in a paper for circulation to the Council.

The President: On our recent European trip we spent a great deal of time on this problem and we will continue to do so. However, it is doubtful that acceptable solutions can be found.

Secretary Fowler: The French have been trying to use the Common Market structure for the past five years in an effort to diminish our economic, political, and military influence. This French effort in Europe affects our ability to be effective in other parts of the world.

The President: The Vice President has been working on this problem. Perhaps he has views on how we go about finding a solution. It is doubtful that the Europeans will agree to arrangements offsetting the cost of U.S. divisions now deployed in Europe.

The Vice President: Europeans have rejected the world after the loss of their colonies. They resent U.S. power. Detente is what they want. Their young people are causing many problems. The Soviets are still actively seeking the dissolution of NATO.

We should review carefully our exchange of persons program. Its emphasis should be on the young. No one over 40 should be brought to the United States under the program.

We should get the Europeans involved in conferences on subjects other than foreign policy; for example, Interior Secretary Udall's participation in the conference on air pollution. The conference on mass transportation is another example. We should organize conferences which approach problems on a functional basis; for example, low income housing, education, urban affairs.

The Europeans are selfish. We should challenge them to participate in the world outside their borders. We must keep pounding at them on this problem.

The President: We are doing this. Only the press is saying that we are over-emphasizing Asia and are oriented toward Asia. Special missions have been sent and should continue to be sent to Europe.

Under Secretary Katzenbach: We must involve the people of Europe and get the public to put pressure on their governments.

Secretary Fowler: It is not enough for us to limit our activity to discussions by U.S. Ambassadors at the top level of foreign governments.

The President: We should not be so defensive in our approach. We should tell the Europeans of our problems and of their responsibilities.

The Vice President: All legislative delegations going to Europe should be carefully and fully briefed to ensure that what they say fits in with our policy objectives.

The President: The study we are making of mutual troop withdrawals should clearly spell out the choices we have. How can we persuade Europe to contribute more to the defense effort and how can we persuade our Congress to support our current participation in NATO? Should we call a conference on how to distribute fairly the cost of maintaining NATO forces with a view to getting firm commitments from our European allies? A showdown in this country is coming soon. What do we do if the Kennedy Round negotiations fail, if our trilateral financial discussions do not produce a satisfactory solution, and if NATO study does not produce a satisfactory solution for the future of NATO?

USIA Director Leonard Marks: USIA has a serious problem communicating with Europe. The European press is hostile, especially the Agence France press. How do we counteract this hostility? We now have 50 percent fewer people stationed in Europe and are spending only \$7 million in the European area. One way would be to create events which would attract attention. We could send personalities to Europe who would command the news. The Vice President and others should be sent on trips to Europe.

Ambassador Goldberg: The Europeans are causing problems for us in the United Nations. We no longer have a solid bloc of western allies behind us. The British are OK but the Italians are tottering in their support of us. Canadian support is poor.

The view of the European delegations to the United Nations is that the U.S. is neglecting Europe for Asia. They complain of only being informed rather than consulted. We need to caucus with them often and to arrange ways of getting them more involved.

Mr. Rostow: Europe is neglecting the world. It is in an isolationist cycle. We should get one of our Senators to make this point in a major speech.

The President: While agreeing with the sentiment expressed, what we need is a solution. A substantial part of my time is spent dealing with Europeans. We have sent our leaders to Europe -- the Vice President, Secretary Rusk, and others. There has been a very large exchange of information. Even with all of this, all the Europeans say they are neglected. What we need to do is to find a solution. We must find a way of getting them to make a larger contribution to the cost of NATO defense.

Secretary Rusk: The recipients of our aid must be more active. The point of diminishing returns has set in on our begging for others in Europe.

Secretary Fowler: The action of Europeans in the International Development Bank is an example of their attitude. Henceforth, they should participate in decisions in the Bank on the basis of their financial participation.

The President then turned the discussion to Senator Mansfield's concern that the United Nations is unable to do anything about the war in Vietnam. Secretary Rusk summarized the pros and cons of United Nations action, taking the same position he has in the past. Ambassador Goldberg reviewed the past history of the proposal to involve the U.N. and the difficulties which have arisen.

Bowley Smith

~~SECRET~~PROBLEMS AHEAD IN EUROPE

I.

This paper is intended to foreshadow the major problem areas in our relations with Europe which are likely to emerge in the middle term after some of the key issues which lie immediately at our feet are out of the way.

The immediate issues of key importance -- the Kennedy Round, the Trilateral negotiations, the Non-proliferation Treaty, and the liquidity negotiations -- are hopefully on the way to early resolution. Despite all the difficulties, controversy, and travail which have attended international debate on each of these complex and crucial matters the outlook is reasonably good for success within the next few months. If for any reason any one of these four major issues collapses, we will have to focus our attention on a new situation.

It is the period beyond to which we should now begin to turn our attention.

II.

The State of US-European RelationsThe Atlantic

For the past two or three years US relations with Western Europe, while basically solid, have been undergoing perceptible strain. The sometimes heated controversies involved in the KR, NPT and offset negotiations; the French challenge to NATO, and attacks against the dollar; unease over Vietnam and American preoccupation with it; West European fear of US-Soviet deals over the heads of our Allies; American discontent over inadequate aid and military contributions from our Allies; all have played a part.

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When some of the immediate controversies are out of the way, the atmosphere may improve and there should be greater stability in the hitherto unsettling areas of NATO force levels and nuclear sharing. But we should anticipate an increasing disposition in Western Europe to take distinctly European attitudes on many problems with respect to which the Europeans in earlier years were content to follow the US line.

This not unhealthy trend is not due to emerging nationalism in Europe of the old isolationist variety or even of de Gaulle's "nation-state" variety, which has found little echo elsewhere. Rather it stems from the European unification movement fed by increasing European economic strength. There is growing desire for a European "voice," for achieving a parity with the United States in decision-making which more and more Europeans recognize cannot be approached, much less achieved, without a far greater degree of European integration than exists today. The pace of development of the European Communities and the outcome of the UK bid for entry into the Common Market will strongly affect the degree to which the Europeans are in fact capable of expressing a "voice" as distinct from the vague wish to have one.

The major problems in the Atlantic area over the middle term -- 18 months or so -- are more likely to be political and economic than military. ABM developments could, however, upset this calculation.

East-West

The outlook in East-West relations (Eastern-Western Europe and US-Eastern Europe) is for intensified activity of a bridge-building nature but no real breakthrough on a "settlement" with the Soviets, on achieving drastic changes in the political power structure in the Eastern countries or in ending the division of Germany. Piecemeal, modest steps in trade, culture, science, etc., are probably the most that can be envisaged for the foreseeable future. However, Western Europe will continue

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to be sensitive to United States efforts to ease tensions with the Soviets -- even though that is what they themselves are doing -- simply because the two super powers, unlike themselves, are physically capable of jointly imposing solutions which they fear may not be in accord with West European interests. Hence, the importance for the United States to consult its allies fully and carefully in its dealings with the Soviets.

USSR Attitudes

Despite the willingness of the USSR to reach agreements with the US in strictly circumscribed fields, there has been little evidence of change in basic Soviet positions. The Soviet leadership remains conservative, its long-range objectives unchanged. Its aims were restated on March 10 when Brezhnev outlined the goals of Soviet foreign policy in terms that can be roughly interpreted as follows:

1. To solidify the Soviet position in Eastern Europe, i.e., to keep Eastern Europe within the Soviet orbit;
2. To isolate the Federal Republic, maintain the current division of Germany and prevent German access to nuclear weapons; and
3. To strengthen the Warsaw Pact and conversely undermine the NATO alliance and reduce US influence in Western Europe.

In pursuing their objectives, the Soviets have sought to capitalize on the appeal of de Gaulle's "Europe for the Europeans" doctrine as well as the desire of most

West European countries for greater trade and improved relations with the East. They have also benefited from a growing feeling on the part of many Europeans that the United States, preoccupied with Vietnam, is losing interest in Europe and may even be prepared to sell out European interests in a bilateral "deal" with the USSR. The European debate over the NPT has sharpened these concerns.

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III.

Specific Problems

Western Europe

1. UK Entry into EEC

The UK has completed a first round of top level talks about joining and should make a formal decision shortly. Whatever the UK decides, this issue with its many ramifications, will dominate Community foreign relations during the next year. The UK will probably pursue its effort to become a member. As a result, the Five are likely sooner or later to be faced with a choice of a major confrontation with France or accepting a French veto, explicit or de facto.

The UK bid for entry into the EEC may come to a head this year, or it may become a protracted siege. If there is failure to achieve early entry, there will be supporters here and in England for finding an "alternative," such as a North Atlantic Free Trade Area, which is not; however, an adequate solution.

If the UK bid is made and rejected, this could precipitate another crisis in sterling, quite apart from the longer-term British financial problem which remains unsolved. (See below.)

2. The UK Financial Problem

The drastic deflationary measures taken by the Wilson Government are at last turning around the UK balance-of-payments deficit and sterling is for the moment strong. Although the UK must still make large repayments to the IMF -- (some \$900 million this year) -- this can probably be done so long as the domestic economy is kept under control. The crucial question is what will happen to the balance-of-payments when the British, as they must, begin to reflate? Britain's deflationary measures have meant in effect little or no growth in the economy.

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Continued stagnation is not an acceptable policy either in economic or political terms. And the chances are great that once adequate domestic growth is resumed the chronic balance-of-payments deficit will reappear.

New liquidity arrangements through the IMF, if agreed upon this fall, are not a solution to this problem. Neither, in the short run, is British entry into the Common Market, unless it involved a large -- and most unlikely -- financial package.

For the moment this is a problem on the horizon for which no readily negotiable solution is at hand. What the British really need is a long-term loan, perhaps in the \$3 billion range, to give them time to make their wage-price and productivity policies pay off.

3. The Political Side of NATO

With the France-NATO crisis out of the way, and the urgent military issues of force levels and nuclear consultation on the way to solution, renewed emphasis should be placed on the political side of the Alliance.

-- There is a growing public feeling that since international circumstances have changed since 1949, Alliance tasks and procedures are out of date and need to be reviewed to bring them into harmony with the times;

-- There is a desire to offset, at least partially, the French defection by improving NATO as a forum for concerting policies of Member Governments; and

-- Certain NATO countries, such as Belgium and Norway, need to have a reasoned, agreed rationale for indefinite maintenance of the Alliance and its military strength as 1969 approaches. While these nations do not expect to withdraw from NATO at that time, they do anticipate public and parliamentary debates. Their governments wish to be forearmed.

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In view of these circumstances, NATO is this year carrying out a Study of the Future of the Alliance. The exercise, undertaken on Belgian initiative, is to be completed in time for Ministerial action in December.

The Study, initially, is to examine Alliance interest in East-West relations, inter-Allied relations, political aspects of defense policy, and developments outside the NATO area.

A number of difficulties can already be foreseen:

-- In the East-West field, important Allied differences remain as between nations like Denmark and Canada that place primary emphasis on detente and Greece and Turkey whose main preoccupation is with the Communist threat.

-- The problem of Germany and security arrangements in Central Europe remains substantially frozen. The issue in the Future of the Alliance Study is to search for new approaches to these problems while taking account of German sensitivities and avoiding renewed divisions between the Allies that would strain rather than cement NATO.

One point we shall wish to get across is the need for United States involvement in all phases of eventual negotiations on European security. Our special responsibilities on the German question are one reason for our continuing concern. Another is that we shall have to underwrite any final settlement with the Soviet Union. Related to this, we and some others will want to emphasize NATO's role in concerting Western policies toward the Soviet Union and Eastern Europe. The French will object to this on principle. Several others will be reluctant lest it appear that NATO is confronting the East as a bloc.

The French are unlikely in the end to go along with major steps to buttress NATO's political goals or content. We and the other countries will seek to establish the case that, for objective political and military reasons, organized Western strength is needed for the indefinite future. If the French are unwilling to accept this conclusion, we shall probably have to go ahead without them.

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Lastly, under the surface, there remains the feeling of many Europeans that they deserve a bigger voice and role in NATO. The ultimate answer to the lack of balance in the Alliance can only come from the Europeans themselves -- through their unification. While equality is not something we can confer, we look to the Study to develop some ideas for improved European consultation inside the Alliance.

The United States has vigorously supported the Study. While we do not think it will cure all Alliance ills, it can do much to improve NATO political consultation and renew support for the Alliance.

4. US-Western Europe and the Third World

Relations between the richer industrialized countries and the third world will be a major problem area for the foreseeable future. In essence, the problem is one of transferring resources, knowledge, and capital from the developed to the developing countries. In terms of US relations with Europe, it is partly a burden-sharing problem as far as aid is concerned and partly a problem of harmonization of economic and commercial policies.

Inevitably, there will be growing requirements for economic development assistance. For the past five years the total flow of governmental resources to developing countries has remained on a plateau. During the same period, the debt burden of the third world has grown enormously and the population-food balance has deteriorated sharply.

There has been increasing resistance by European countries to American efforts to push for expanded European aid and softer aid terms. Lack of a clear pattern of priorities in our approaches to them may have reduced the effectiveness of our efforts in some cases. There is also a European concern that they are too often asked to finance what they consider an American-conceived project in which they do not necessarily have the same interest.

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Europeans tend to overlook our disproportionately greater defense effort while noting that, after adjustment for per capita income differences, the American economic aid effort falls below that of many European countries.

Given the war in Vietnam, our balance-of-payments problem, the more assertive European approach to relations with us, and the realities of differing specific interests, there is not much room for dramatic improvement in collective aid in the short run. Yet, over the long run, a larger, better coordinated effort all around will be required if political and social stability is to be maintained and development promoted in the third world.

Among the questions for the future to which we might begin to address ourselves in the aid field are these:

For the Short-run

Can we or should we try to establish an order of priorities which would govern our efforts to obtain participation in specific programs by the European countries, Canada, and Japan?

For the Longer-run

Should the United States be prepared, after Vietnam, to substantially increase our overall economic aid effort?

If so, should we not seek agreement from the other industrialized countries to undertake comparable increases, bilaterally as well as through multilateral institutions? In this process, should we not try to formulate, for our own internal guidance, a more adequate measurement than we now have of what would constitute an appropriate sharing of the aid burden among the industrialized countries?

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USSR and Eastern Europe

1. Strategic Weapons Talks

We have engaged the Soviets in discussions which we hope will eventually lead to an understanding limiting the further deployment of strategic nuclear weapons, both offensive and defensive. These negotiations will be both difficult and protracted, and the judgment of how much to tell our allies as the talks progress and how to accommodate their interests will be a delicate one.

We have informed our NATO allies of our preliminary exchanges with the Soviets and have promised to consult with them as the negotiations progress. We must make every effort by judicious briefings at appropriate intervals, to keep them persuaded that the kind of agreement we are attempting to reach will be of direct benefit to their security as well as ours.

2. Mutual Troop Withdrawals

We doubt that the Soviets would consider an explicit agreement for a troop reduction by mutual example or otherwise. However, we do not exclude the possibility of a unilateral Soviet redeployment sometime in the next three to nine months. There are a number of reasons why the Soviets might want to withdraw some troops from Eastern Europe -- one of them being the desire to give some semblance of credibility, in West European eyes, to the communist contention that there is no longer any such thing as a "Soviet threat" and therefore no longer any need for NATO.

We expect to proceed with our present plans for a redeployment of some US forces despite the proposal by some of our allies that no US troops be withdrawn until the Soviets have agreed to reciprocate. Either a private demarche or a public summons to the Soviets would in our view be counterproductive. If they are considering, for reasons of their own, making comparable redeployments, they are more likely to decide to do so without the fact or the appearance of prompting from us.

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3. NATO - Warsaw Pact Relationship

The rapidly developing network of bilateral security treaties between the USSR and the East European countries could be designed to lay the groundwork for a dramatic move to abolish the Warsaw Pact and thus undercut the rationale for NATO's continued existence. We doubt, however, that the Warsaw Pact has yet outlived its usefulness from the Soviet point of view. We should be prepared, nevertheless, over the next three to nine months, for possible modifications of the Warsaw Pact structure. These would have the dual aim of mollifying some of its discontented members and of seeking to persuade the West Europeans that the Pact is not an offensive weapon directed against NATO but rather a purely defensive device to protect the East Europeans from the "revanchist" FRG.

We will need to make clear that, however the Warsaw Pact may change in form, the substance of communist nuclear and conventional military power has not changed and communist intentions, innocent though they may appear at a given moment, are subject to sudden change without notice.

4. Bridge-building

Our economic relations with the Soviet Union and Eastern Europe offer the most promising area for regular, if unspectacular, progress toward peaceful engagement. There will be strong public and Congressional resistance to progress even in this area so long as Vietnam goes on, and we may be hard-pressed to keep up with our European allies in practical "bridge-building" over the medium term.

The success or failure of the East-West Trade Bill will be a touchstone of our efforts. This will be closely watched in Eastern and Western Europe as well as at home. The Department of State is gearing up for the hearings this summer with plans for a major campaign of public, business, and Congressional education.

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THE SECRETARY OF THE TREASURY
WASHINGTON

MAY 25 1965

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MEMORANDUM FOR THE PRESIDENT

Subject: "Problems Ahead in Europe"

You will recall at the NSC discussion of the State Department paper "Problems Ahead in Europe" I criticized the paper as being incomplete and inadequate and asked for permission to submit a supplementary paper as a part of the educative enterprise for those concerned with military, political, economic and cultural relationships with that part of the world.

The principal point of my criticism was that the listing of specific problems we have with Western Europe included such things as

- "(1) U.K. Entry Into EEC.
- (2) U.K. Financial Problem.
- (3) Political Side of NATO.
- (4) U.S., Western Europe and Third World."

and omitted any treatment of what I believe to be at least a major specific problem with Europe -- particularly the Common Market -- namely, what I shall term "The Financial Problem".

I raise this question in a National Security Council context because the financial problem grows out of the disparities in burden-sharing relative to financial strength which result from political, diplomatic and military arrangements.

In essence, I am appealing to the other parts of the Government to give a far higher priority to the importance of viable financial arrangements with Western Europe, particularly the Common Market, in all military, political, economic and cultural activities.

It is my conviction that this financial problem with Western Europe is our Achilles heel which, more than any of the specific problems listed in the State Department paper, are a threat to our position in Western Europe and the effectiveness of our foreign policy in dealing with it.

Accordingly, I have taken the liberty of preparing the attached paper on the financial aspects of U.S.-European relationships -- again for the same background purposes that the previous paper was circulated.

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The principal menace to our position in Western Europe, in my judgment, is the desire of the French, under deGaulle, to expel us as a practical matter from Western Europe. The principal tools which are being employed to achieve that result are blocking measures to achieve a better multilateral sharing of responsibilities by the Common Market partners while the U.S. follows a course which it cannot afford much longer.

If the U.S. is to be effective in partnership with Western Europe and we are to avoid a two-bloc system in the Free World, the relative burdens must be attuned to financial viability. The purpose and thrust of our major political and diplomatic effort must be to effect a more viable and durable financial partnership than our diplomacy has provided in the last decade since the Common Market was established.

Henry H. Fowler
Henry H. Fowler

Attachment

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May 23, 1967

U.S. - EUROPEAN RELATIONS

This memorandum is addressed to the subject of our relations with Western Europe, with particular emphasis on relations with the European Economic Community.

- (1) The United States should not be surprised that a strong and expanding Europe should be different, less amenable, and even disagreeable, as compared to the weak Europe of twenty years ago. Europe wants to be heard, can and does disagree with the United States on various issues, and may do so more frequently in the future.
- (2) To the extent that the above is a problem, it is a problem associated primarily with the Common Market, which is growing in economic and financial strength, and which, despite wide differences on particular issues among its members, is becoming more cohesive in the economic and financial spheres.
- (3) One major, perhaps the primary, difficulty in dealing with the Common Market is France. France employs the principle of "solidarity" asymmetrically -- exploiting it when it suits her -- as in the current international monetary negotiations -- and ignoring it when it doesn't -- as in NATO and in posture toward the Atlantic Community. Solidarity has come to mean unanimity, with agreement reached only at the level of the lowest common denominator.
- (4) A second and more generally applicable difficulty is that the Common Market countries have failed to carry their fair share of the responsibilities that should accompany growing economic and financial strength. They have made less contribution to the common defense than they should (Tab A); they have continued to pile up international reserves, instead of following policies which would reduce surpluses in international payments and, thereby, help eliminate deficits elsewhere (Tab B); they have been overly cautious with respect to broad financial questions -- e.g., new international liquidity needs and additions to their quotas in the IMF. Despite failure to increase quotas to levels more commensurate with their growing strength, they now seek more voting power in the IMF than their current quotas entitle them to. The EEC has actually been a net borrower in the securities markets of the world during this period of financial surpluses (Tab C). Its balance of payments surpluses have been swollen by receipts from U.S. military expenditures (Tab D). In short, it tends to seek growing influence without the burden of growing responsibilities.

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(5) Perhaps the one bright spot has been the fairly prompt and effective response of the Common Market countries to financial "crises." Here, the central banks have played a major role and have been helpful. In other financial matters, the EEC countries have been less prompt and far more cautious. And, in respect of gold policy and international monetary reform, France has been almost an "outlaw," and so regarded even by her Common Market partners. They have been, however, either unable or unwilling to stand up to her steadily and publicly in the international liquidity discussions and recently have allowed her to retard progress in that area.

(6) The above points raise a serious question as to whether it is in the U.S. interest to foster further strengthening of the Common Market, either by widening its membership or by seeking to improve its technology and, thereby, its economic strength. While the Europeans may be interested in closing the "technological gap," this could adversely affect the United States by reducing our receipts and enlarging our balance of payments deficit, and adding still further to European accumulations of dollars that represent a potential or actual gold drain on the United States. At the least, these points raise the question as to whether there should not be more positive evidence of "maturity" and greater acceptance of responsibility before taking further actions to enhance EEC economic strength.

(7) Perhaps one practical way to test for this evidence in "maturity" is in the financial field. Here, as noted, there has been some response to "crisis" and there have been some other evidences of cooperation also where it has been possible to deal on an individual country basis. Some Common Market nations have shown some sense of responsibility for the working of the international monetary system. Italy and Germany have, by and large, not converted dollars into gold at the expense of U.S. gold reserves. In recent years, they have attempted to channel some of their excess funds into international financial markets, thereby reducing strains. They have been fairly forward-looking in the technical discussions on planning for future reserve needs of the world. (Recently, however, Germany has shown more propensity to accept the French point of view.) In the recent Trilateral negotiations, it was German Bundesbank cooperation that provided a solution for the financial aspect of the problem. At Chequers in January, there was general understanding reached on a particular problem -- high interest rates -- between the financial ministers of the U.S., U.K., Germany, Italy, and France, though the French have recently shown signs of drifting away from this informal understanding.

(8) We cannot afford to see our own international strength reduced further through continued deficits. European surpluses must be reduced if we are to reduce our deficits. Correction of this balance of payments gap between North America and Western Europe is of much greater importance than a reduction of the "technological gap" which would work in the reverse direction, enlarging the existing imbalance between the two areas. Moreover, a better balance in the international accounts between these two great industrial areas will, in itself, foster better financial cooperation from Europe. For these reasons, we cannot afford to strengthen European surpluses, unless it is abundantly clear that Europe will take the necessary action to diffuse these surpluses by net public and private capital exports equal to these surpluses. Thus, we should not further encourage the strengthening of Europe, and especially that of the EEC, until the EEC demonstrates that it can carry out the responsibilities of a surplus area wisely and cooperatively. One way of demonstrating this would be through agreement with the United States and the rest of the world on an effective plan for creating a new international reserve asset to provide the essential future growth in world reserves.

(9) In addition to international monetary reform, it is necessary to work out arrangements with Western Europe (and elsewhere) to provide for a more equitable sharing of the foreign exchange costs of common defense efforts. Worldwide, our military expenditures, net of military receipts, have averaged \$2 billion annually over the past six years, a sum equivalent to 90 percent of our total payments deficits, on the liquidity basis, during that period. We have political and military partnerships without a full-scale financial partnership. We need a multilateral understanding that the United States will not suffer balance of payments disadvantages from the maintenance of our military forces in Europe.

(10) Unless we can achieve a better financial partnership, and unless we can persuade Europe, particularly the Common Market countries, to accept their full share of responsibilities, commensurate with their growing economic strength, there is the possibility of the development of an economic bloc system, such as we saw in the 1930's. This did no one any good.

attachments

NOTE ON NATO DEFENSE EXPENDITURES

By a number of standards, other NATO countries are making less of a contribution to NATO defense than they should be making. In terms of the commonly used comparison of defense budget to percentage of GNP, in CY 1966, the U.S. was at 8.6 percent, the over-all NATO average was 4.6 percent, and the over-all EEC average was 4.3 percent. The next highest percentages to the U.S. were the U.K, 6.7 percent, France, 6.4 percent, Turkey 5.4 percent, and Germany, 4.8 percent.

The larger percentage of U.S. defense effort stems from some extent to worldwide responsibilities, but we have always regarded our total deterrent force, including nuclear weapons, as contributing to NATO defense. The U.S. is the only member of NATO which has regularly fulfilled the quantity and quality of forces required according to agreed NATO plans. Other NATO countries continue to show regular deficiencies in lack of modern equipment, shortages in reserve stocks, and inadequate manning in major combat units.

May 23, 1967

B-11

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

See notes on page 1 of 3

Calendar Years - In Millions of Dollars

Page 1 of 3

COUNTRY	1958		1959		1960		1961		1962		1963		1964		1965		1966 ^E	
	Defense Expend.	% of GNP	Defense Expend.	% of GNP	Defense Expend.	% of GNP	Defense Expend.	% of GNP	Defense Expend.	% of GNP	Defense Expend.	% of GNP	Defense Expend.	% of GNP	Defense Expend.	% of GNP	Defense Expend.	% of GNP
Belgium	366	3.5	374	3.5	383	3.3	391	3.2	422	3.3	445	3.2	497	3.2	501	3.1	550	2.9
Denmark	143	2.9	143	2.6	161	2.7	171	2.6	224	3.0	239	3.0	255	2.9	236	2.9	310	2.8
France	3,356	6.8	3,631	6.7	3,881	6.5	4,131	6.4	4,493	6.2	4,628	5.8	4,918	5.6	5,125	5.6	5,300	5.4
Germany (F.R.) ..	1,713	2.8	2,772	4.2	3,029	4.1	3,294	4.0	4,308	4.9	4,981	5.3	4,888	4.7	4,979	4.4	4,950	4.1
Greece	149	5.2	158	5.3	170	5.3	168	4.5	170	4.3	179	4.0	188	3.8	210	3.8	240	3.8
Italy	1,035	3.8	1,067	3.6	1,136	3.6	1,199	3.4	1,377	3.5	1,649	3.6	1,789	3.6	1,939	3.7	2,125	3.5
Luxembourg	8.6	2.0	8.0	1.8	5.3	1.1	5.8	1.1	7.1	1.4	7.0	1.3	9.2	1.5	9.5	1.5	9.8	1.5
Netherlands	457	4.6	416	3.9	477	4.0	556	4.4	604	4.5	637	4.4	735	4.4	750	4.1	775	3.7
Norway	143	3.6	155	3.6	148	3.3	165	3.3	192	3.6	205	3.6	220	3.5	266	3.9	260	3.4
Portugal	86	4.2	98	4.5	105	4.3	171	6.6	200	7.2	199	6.6	224	6.7	232	6.0	240	5.8
Turkey	163	4.1	239	4.8	267	4.9	302	5.5	331	5.4	351	5.0	382	5.1	425	4.9	445	4.9
United Kingdom ..	4,456	6.9	4,449	6.5	4,634	6.4	4,785	6.2	5,078	6.3	5,236	6.1	5,599	6.1	5,855	6.0	6,150	5.9
Total European NATO ...	12,076	5.0	13,510	5.2	14,396	5.0	15,339	5.0	17,406	5.2	18,756	5.1	19,704	4.9	20,578	4.8	21,335	4.6
Austria	73	1.4	77	1.4	73	1.2	73	1.1	80	1.1	100	1.3	135	1.6	118	1.3	135	1.4
Spain	290	3.0	298	3.1	314	3.1	344	2.9	442	3.3	487	3.0	538	3.0	577	2.7	753	3.1
Yugoslavia ^a	161	7.2	196	7.2	210	6.5	248	6.5	270	6.2	285	5.4	332	4.8	396	4.3	450	3.8
United States ...	45,096	10.1	45,833	9.5	45,380	9.0	47,808	9.2	52,381	9.3	52,295	8.9	51,213	8.1	51,882	7.6	53,220	7.8
Canada	1,610	5.3	1,519	4.7	1,530	4.6	1,587	4.6	1,674	4.5	1,584	4.0	1,677	3.9	1,535	3.2	1,600	3.0
EEC	6936	4.3	8268	4.8	8911	4.6	9577	4.6	11211	4.9	12347	4.9	12636	4.6	13303	4.5	13870	4.4

EXCHANGE RATES USED:

Belgium	50 francs	Greece	30 drachmas	Norway	7.14 kroner	Austria	26 schillings
Denmark	6.91 kroner	Italy	625 lire	Portugal	28.75 escudos	Spain	60 pesetas
France	4.937 new francs	Luxembourg	50 francs	Turkey	9 liras	Yugoslavia	4 dinars
Germany (F.R.) ..	4.0 DM	Netherlands	3.82 guilders	United Kingdom ...	\$2.80	Canada	\$2.36 per Can.

E - Estimate

SERVICE SET

(Millions)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
	<u>% Tot.</u>																	
United States	39%	22,540	21,504	19,359	18,753	17,220	16,843	16,672	15,450	14,881	21%	-7,659	-34%					
EEC	21%	12,205	12,330	15,924	18,098	18,522	20,005	21,971	22,907	24,095	34%	+11,890	+57%					
Other Developed	21%	13,590	14,151	15,627	16,819	18,498	19,821	20,327	20,693	20,819	29%	+7,229	+53%					
Less Developed	16%	9,235	9,340	9,340	8,615	8,355	9,320	9,475	10,745	11,255	16%	+2,020	+22%					
TOTAL	100%	57,570	57,325	60,250	62,285	62,595	65,990	68,445	69,800	71,050	100%	+13,480	+23%					

1961 - 1966

	<u>Amount</u>	<u>%</u>	<u>% Total Increase</u>
United States	-3,872	-25%	-44%
EEC	+5,997	+33%	68%
Other Developed	+4,000	+24%	46%
Less Developed	+2,640	+31%	30%
Total	+8,765	+14%	100%

SERVICE SET

GROSS INTERNATIONAL SECURITY ISSUES

(1958-1965)

(million dollars)

Country	Foreign issues(1) on domestic market	Domestic issues abroad (2)	Balance (+ sign indicates net export of capital)
Germany	418	250	+ 168
Belgium	132	393	- 261
France	68	253	- 185
Italy	120	264	- 144
Netherlands	282	88	+ 194
<hr/>			
EEC Total	1,020	1,248	- 228
United States	8,314	413	+ 7,901

Source:

- 1) Including International organizations
- 2) Including Euro-issues

U.S. MILITARY EXPENDITURE
(billions of dollars)

In Western Europe

Global

	<u>Gross Expenditures</u>	<u>Gross Receipts</u>	<u>Net</u>	<u>Gross Expenditures</u>	<u>Gross Receipts</u>	<u>Net</u>
	-1.5	.4	-1.1	-3.0	.5	-2.5
	-1.6	1.2	-.4	-3.1	1.4	-1.7
	-1.5	1.1	-.4	-3.0	1.2	-1.8
	-1.5	1.0	-.5	-2.8	1.2	-1.6
	-1.5	1.0	-.5	-2.9	1.3	-1.6
	-1.5	.8	-.7	-3.7	1.3	-2.4
year total	-9.1	5.5	-3.6	-18.5	6.9	-11.6
Annual Average	-1.5	.9	-.6	-3.1	1.2	-1.9
Percentage of Bilateral Deficit (5-yr period)	71%		29%	145%		91%
Percentage of Official Settlements Deficit (6-yr period)	105%		43%	213%		153%
Percentage of Military Expenditures in Western Europe (6-yr period)	80%		32%			
Percentage of the Rise in Western Europe's Reserves (5-yr period)						

SERVICE SET

5

Tuesday, May 2, 1967, 7:00 P. M.

Mr. President:

The Order of Business for the 45-minute NSC discussion of problems ahead in Europe:

1. Your opening remarks
 - a. The purpose of the meeting is to discuss those problems which face us down the road in our relations with Europe.
 - b. In order to limit the length of today's meeting, three immediate issues of key importance--the Kennedy Round, the non-proliferation treaty, and the European financial discussions, are to be discussed in other meetings.
2. Ask Under Secretary Katzenbach to lead off the discussion by summarizing the State Department paper
(Secretary Rusk will probably be late because he is testifying on the Hill)
3. Ask Secretary McNamara to comment
4. Ask Secretary Fowler for his views on the problems discussed.
5. Conclude the meeting by saying that
 - a. We must keep on top of the many problems arising from the changing situation in Europe
 - b. We must give no impression of neglecting our relations with Europe because of our intense concern about Vietnam.
 - c. We must convince our European friends that they have to carry their fair share of responsibility for solving the problems discussed today.

W. W. Rostow

SERVICE SET

THE WHITE HOUSE
WASHINGTON

Wednesday, May 3, 1967

~~SECRET~~

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Order of Business for 45-Minute NSC Discussion on Europe

I. You might open as follows:

- purpose of the meeting is to discuss problems facing us in Europe over intermediate future assuming that the Kennedy Round, non-proliferation treaty, international liquidity negotiations all come out reasonably well.
- I would like Nick Katzenbach to summarize the State paper, and then to have comments from Bob and Henry. (Secretary Rusk will probably be late. He is testifying on the Hill.)

II. Toward the end, you might raise the following questions (and give instructions for further study):

- (1) On future of NATO: We want to be well-prepared for the conclusions which might come out of the Belgian-sponsored study of the future of NATO. I would like to see a paper laying out what kinds of things might be done to make good use of NATO. What are the limitations on using a military alliance for other purposes? What kind of institutional changes might make sense? ~~We need to avoid getting trapped into supporting proposals for new arrangements which lead nowhere. (We do not want another M-F history.)~~
- (2) On the Russians: I would like to see a more specific paper on what kind of Russian moves we might be facing with respect to Europe during the next 2-5 years. Are they likely to float proposals for settlements? Will they try to organize a European security conference? What are the alternative ways in which we can respond? Are there things we could do to exploit possible Russian moves rather than react defensively? We do not want to assume that the Russians are changing their spots when they aren't. On the other hand, neither do we want to ignore the kind of changes that may be taking place in their sense of what their possibilities are.

NLS 83-79

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5-4-83

SERVICE SET

~~SECRET~~

- (3) On mutual troop withdrawals: We should have a detailed scenario of the alternative ways we might explore the possibility of mutual troop withdrawals in Europe. I would like a careful analysis of what we mean by "balance", and the alternative ways of this issue might be explored within the Alliance and with the Soviet Union. I want to see the choices.
- (4) Getting more aid out of Europe, and out of the U.S. Congress. What should we be doing now about the possibility of larger aid programs following Vietnam? Do we know what the needs really are? Are we preparing ourselves so that we will be ready to move when the time comes? Should we announce anything now about what we might be prepared to do after Vietnam?
- (5) On the British money problem(Mr. President: the organization and timing of a study on this is very delicate; I think it would be better not to instruct anyone to undertake the study at this meeting. I will do a paper for you suggesting a procedure. You might just say this is an interesting problem and we don't want to be caught napping.)

FM
Francis M. Bator

~~SECRET~~

SERVICE SET

LIST OF ATTENDEES, NSC MEETING

Wednesday, May 3, 1967; 12:30 P.M.

Vice President Humphrey

Secretary of Defense McNamara

Secretary of State Rusk

Under Secretary of State Katzenbach

Deputy Secretary Vance

Assistant Secretary John Leddy

CIA Director Helms

JCS Chairman Wheeler

Secretary of the Treasury Fowler

USIA Director Marks

OEP Chairman Bryant

Ambassador Goldberg

Walt Rostow

George Christian

Francis Bator

Bromley Smith