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*The Impact of International
 Economic Factors
 on the Conduct of Foreign Policy*

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THOSE who are familiar with the situation of world politics will consider the relations between the United States and the Soviet Union—which, ever since the two “summit meetings,” have become more definite, and which from the beginning, have been predominantly economic in nature—as constituting a warning that Western Europe might become isolated before it can exercise an influence on world politics corresponding to its economic strength. “Western Europe still represents only an enormous concentration of economic power, but not a political factor, which, as a subject of equal standing, might outbalance the American protective power or the neighboring Russian superpower.”¹

Yet if one sets out from the certainly bold hypothesis—as was done by a European Community (EC) spokesman—that “a rational foreign policy no longer depends on the number of soldiers or the state of armament of a nation, but is based rather on the economic capacity and, consequently, on the trade volume of a country, the European Community, being the most important trading partner in the world, certainly exercises an eminently political function.”² Apart from the common development policy pursued from the very beginning, the common trade policy, effective since January 1, 1970, constitutes the concrete start of a common foreign policy. It is assumed, for example, that the European Community will coordinate the attitudes of the member countries within the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF)

¹ Dalma, “Bis auf Weiteres auf dem Abstellgleis,” *Die Presse* (Vienna), June 30–July 1, 1973. All translations into English have been made by the author.

² P. Bahr, “Handel und Händel zwischen Ost und West,” *Europa-Archiv*, May 1973, p. 173.

and, to a certain extent, within the Organization for European Cooperation and Development (OECD), the Economic Commission for Europe (ECE), the United Nations Conference on Trade and Development (UNCTAD), and the International Economic Association (IAE), and will adopt a concerted stance³—an assumption that undoubtedly is, for the time being, highly optimistic.

Likewise, Secretary General Brezhnev, in his address to the Congress of Soviet Trade Unions on March 3, 1972, referred to the “real situation” in Europe, which had to be recognized, and also mentioned in this context the European Community. His formulations have been used repeatedly by other Soviets, and at the end of August 1973, the secretary general of the Council for Mutual Economic Assistance (Comecon), Nicolai Faddeyev, contacted an acting chairman of the Council of Ministers of the European Community. Although it appears to be too early to infer therefrom a radical realignment of policy on the part of the Soviet Union and the Eastern bloc toward the European Community (at present a recognition of the European Community as a subject of international law by the Eastern countries appears as unlikely as contracts “between the blocs”), it becomes apparent that the attitude toward the Common Market, which set in some time ago, is continuing. The improvement in long-term economic cooperation between the West and East European countries should also be an important issue of the Conference on Security and on Cooperation in Europe (CSCE). Thus, the *Ostpolitik*, which is now primarily pursued by the Federal Republic of Germany, will be increasingly multilateralized owing to the harmonization and joint proceeding of the nine member countries of the European Community. The scope of such a process will, however, depend on the success of West Germany's *Ostpolitik*. In this context it should be borne in mind that Bonn's *Ostpolitik* is a highly controversial issue within the conservative circles of Western Europe in particular. The former German chancellor, Brandt, who in the end failed owing to his *Ostpolitik*, is blamed for having sold everything while receiving almost nothing in return. Not only could a closer cooperation of the European Community and Comecon, which would have to be based on the principle of reciprocity, contribute to European security; but by taking into account imperative economic

³ See R. Dahrendorf, “Europäische Alternativen,” *Wiener Schriften*, no. 36 (Apr. 1972), p. 11.

necessities it could bring the economic blocs, which today are still isolated, closer together as part of an intensified integration of world economies.

President Nixon's address of May 3, 1973, on current world affairs also reflects this crystallization of international economic politics as a supporting element—as an instrument for peace—in the concept of foreign policy.⁴ The Europeans, however, are faced with the fundamental question: Can the principle of the Atlantic unity of defense and security be made compatible with the economic policy of the European Community, which is becoming increasingly regional in nature? The American euphoria of the late 1950s and early 1960s, which was focused on the hope of a quick formation of a solid West European bloc, gave way to the fear of the consequences of the development of a European economic area, which the Americans in some respects consider “discriminatory, introverted, unfair in the fields of trade and monetary policies, and unable or unwilling to share on an equal basis with the Atlantic partner the burden of defending the free world.”⁵ This reveals the great extent to which relations between Europe and the United States are at present determined by economic factors, such as the international monetary situation and the differences between the two large economic blocs regarding their trade policies. However, the relationship between Europe and the United States is not governed exclusively by economic issues. In order to safeguard its security, Europe is in need of the military protection and the undiminished engagement of the United States. There is certainly some justification for the presumption that the Soviet-American détente might lead to a deterioration of the traditional West European security system. The Strategic Arms Limitation Talks (SALT) agreements might weaken the nuclear guarantee, and sooner or later a détente would have to result in a reduction of American troops in Europe; the Mutual Forces Reduction (MFR) negotiations only support this tendency.

The further development of the relationship between the United States and the Soviet Union, which was again emphasized by the summit conferences in 1973 and 1974, has escalated the European concern that the course has been set and that the United States will increasingly shift to bilateral arrangements which frequently will be strongly influenced by domestic tendencies in Washington and

⁴ See “Die Internationalisierung der amerikanischen Wirtschaftspolitik,” *Neue Züricher Zeitung*, May 6, 1973.

⁵ “Der Eigenwert der Handelspolitik,” *Neue Züricher Zeitung*, Apr. 1, 1973.

Moscow and which will tend to anticipate discussions on the multi-lateral scene at a later date. Whether or not this European concern is justified, whether it will grow or diminish, might essentially depend on the long-called-for reorganization of the Atlantic alliance and its adjustment to the “new realities.”⁶ The increasing impact of economic factors on foreign policies can, in any case, no longer be ignored.

Political Expectations in West and East as a Consequence of Intensified Interbloc Trade and Cooperation

The Relationship between the United States and the Soviet Union

President Nixon's visit to Moscow in May 1972 paved the way for contacts between the United States and the Soviet Union. What has followed has confirmed the fact that countries whose economic and political conditions are diametrically opposed can bring about economic and cultural agreements more quickly and easily than disarmament treaties. The latter, so far, have been concluded within a limited scope and have reduced the arms race only to a small extent, if at all.

One has to be aware of this fact since, after all, it results from the nature of human relations and can be traced back to the beginnings of the history of mankind. Power politics is a reality and cannot be assessed by moral standards. It would be a fatal mistake to believe that the striving for power might one day disappear from human life. Nobody should ever struggle for such a utopia, since power as such is the instrument of order. The policy of the Soviet Union is based on its strength, and one must never expect that Moscow—under any circumstances whatever—would be willing to cede

⁶ On April 23, 1973, in his analysis of European-American relations, Henry Kissinger proceeded from the fact that the political, military, and economic issues in transatlantic relations were “tied together by reality” and that the global interests and responsibilities of the United States and the regional interests of the European allies need not necessarily be identical. Yet, despite the criticisms made with regard to several aspects of the European integration policy (see, for example, the address made by Secretary of Commerce Peter G. Peterson, Jan. 18, 1973), Kissinger emphasized that the United States planned to continue to support European integration as a component of the Atlantic partnership and would not withdraw its armed forces from Europe unilaterally. However, the United States expected that it would be met on a basis of reciprocity and that each ally would accept a fair share in the common defense burden.

even the smallest portion of its acquired power. But it would be equally wrong to conclude from this fact that Moscow might intend to start another world war. The striving for peace is not incompatible with the desire to strengthen one's own power. The development of nuclear weapons—an expansion and increase of military potential that fifty years ago would have been inconceivable—eventually led to the “balance of terror” predicted by Winston Churchill, which in all probability will render another world war impossible. This balance is not in contradiction to the fact of locally limited wars (in the Middle and Far East); they are basically an outlet for maintaining the existing balance of power. Hence disarmament conferences will be successful only if they do not effect any change in this balance. For Europe this means, in concrete terms, unrestricted maintenance of the military presence of the United States in Western Europe and absolute American nuclear protection in this area. It cannot be denied that the European contribution to its own defense capacity ought to be larger than it actually is.

Let us now consider the economic aspect. On July 8, 1972, the conclusion of an arrangement between the United States and the Soviet Union was announced, according to which the Soviet Union, in the course of the following three years, would purchase cereals and forage valued at \$750 million. Only a few weeks later this amount was raised to \$1,000 million. This is the most comprehensive trade agreement in the field of agriculture ever made between two countries. The fact that Russia, after over fifty years of Communist rule, is time and again forced to import cereals proves the failure of the collectivization of agriculture. The United States is primarily interested in importing those raw materials which it lacks or whose natural supply it does not wish to exhaust. Above all, this holds true for natural gas, enormous quantities of which have been discovered in Siberia. At present, the Russian need of supplies from the United States by far exceeds the American demand for supplies from the Soviet Union. It is estimated that in the next years the favorable United States balance of trade with the Soviet Union will show the advantageous ratio of 3 to 1, which might change in favor of the Soviet Union once the deliveries of natural gas have begun. This is a new development which will affect the monetary sector. The Eastern countries have no substantial convertible currencies at their disposal. Their hard currency assets stem almost exclusively from the proceeds of their export industries. This means that the major part of West-East trade continues to be barter trade. The industrial ex-

ports of the Eastern countries are limited in scope because of the inferior quality of the Eastern industrial products and the absence of technical service facilities. If the Soviet Union plans to intensify the exploitation and export of its natural resources—in particular, of natural gas and crude oil—it will substantially improve its liquidity. This will greatly stimulate the export of industrial goods and of know-how from West to East. Furthermore, Russia's enormous potential in this field could for some time satisfy the increasing West European energy demands.

The 1972 agreement on the settlement of World War II liabilities and postwar indebtedness constituted an additional basis for new trade agreements. Moreover, Soviet experts are of the opinion that transactions in the range of thousands of millions of dollars could be carried out if the mutual preferences became fully effective.⁷ This might overstate Russia's export possibilities, since recent experience with tariff and nontariff trade barriers shows that the Soviet Union has lost much of its importance in the field of trade.⁸ Apart from food and forage supplies, the Soviet Union is interested in American technological achievements, particularly in computers and agricultural machinery. “An accumulation of agreements of all kinds and of varying significance, surging like a torrent,”⁹ could be observed within a period of less than two years. They range from consular issues to arrangements governing cooperation in the fields of public health, medical research, environmental protection, science and technology, from the joint exploration and exploitation of space for peaceful purposes, including a joint space flight planned for 1975, to the agreements on the prevention of accidents on the high seas. In addition, at the second summit meeting an agreement was concluded on cooperation in the usage of atomic energy for peaceful purposes, particularly of controlled nuclear fusion. This is a field in which the West European countries find it difficult to unite because

⁷ An influential group in the U.S. Senate makes the concession of this trade clause dependent on initial steps by the Soviet Union regarding its emigration policy; the trade-unions object to such concessions toward the Soviet Union for basic political reasons and out of fear that they might have a negative sociopolitical effect on the American worker.

⁸ See “Vor einem Handelsboom?” *Finanz und Wirtschaft*, Apr. 4, 1973. In 1972, the American administration granted export licenses to the Soviet Union in the amount of \$1,700 million, and over 2,500 American entrepreneurs have submitted individual suggestions for business transactions to Moscow.

⁹ C. Gasteyer, “Weltmächte und Weltordnung,” *Europa-Archiv*, Aug. 25, 1973, p. 541.

they are faced with both overt and hidden resistance on the part of their American ally. There is some speculation that the Soviet attitude is, among other things, determined by the view that what they call the influential circles in the United States had realized the increasing importance of their energy problems and had unemotionally assessed the advantages of cooperation with the Soviet Union. The changes in the American policy toward the Soviet Union since the beginning of the 1970s are considered to be a logical consequence of a realistic appraisal by the American administration of U.S. strength against the background of the energy problem.

Secretary of State Henry Kissinger has defined the U.S. policy as aiming at the incorporation of the agreements reached with the Soviet Union since May 1972 into a gradually tightening web of manifold commitments in order to influence the Soviet attitude in foreign affairs in terms of greater self-restraint, joint responsibility, and cooperation. In addition to the immediate economic advantages of West-East cooperation, the West is regarded as having substantive political advantages in that an intensified cooperation will lead to a certain degree of interdependence and, eventually, to a higher degree of integration.¹⁰ C. A. Andreae sees some relationship between economic cooperation and détente.

Cooperation requires an adjustment of the systems of commercial laws, especially of the laws governing patent and license trade in East and West. The granting of licenses to the East will be useful and successful only if they are protected by contract against abuse and if, at the same time, a license is financially advantageous and necessary for both parties. This, however, makes it necessary for the licensee to establish a better competitive position vis-à-vis other Eastern enterprises of the same category. Market competition has not yet become identical with a capitalistic economic pattern. However, the introduction of the concept of competition in the Eastern economic process constitutes a step toward greater liberties for the customer and citizen. It is a step toward East-West rapprochement.¹¹

¹⁰ See *ibid.*, p. 546: The basic difference between the American and the Soviet views on the conduct of foreign policy has been described by Nixon along the following lines: The Americans consider international tensions abnormal and, therefore, attempt to settle them as quickly as possible. In contrast, the Soviet Union regards such tensions as a projection of the conflict of rivaling social systems to the interstate level. Thus, in the Soviet view tensions are something natural and unavoidable; to take advantage of them and possibly benefit from them is considered a perfectly normal policy.

¹¹ "Ost-West-Kooperation—ein Weg zur Befriedigung Europas," *Wirtschaftsdienst*, Aug. 1969, p. 443.

Andreae cites other examples of supposedly far-reaching effects of the license trade on the Eastern economic system and on Eastern ideology in order to prove that the economic West-East cooperation resulting from common economic interests might perhaps lead to the political development aimed at by the West.¹² Thus, intensification of economic relations with the Soviet Union ought to be regarded as a political instrument that no doubt is also based on a concept aiming at long-term effects and goals since it would be unreasonable and politically irresponsible to demand cooperation solely for the sake of short-term economic profits.

So much about the advocates of the so-called theory of convergence. At this point a forthright statement must be made regarding this theory. The division of our world into the two spheres of Western democracy and the Communist social order, or of the social market organization and planned economy, which dominate the political world scene is, like all things in human life, subject to natural and permanent changes. In Stalin's times the cold war prevailed. Nikita Khrushchev gave way to the principle of coexistence, that is, to the mutual recognition of the two social systems based on the status quo, above all in Europe. From this developed, last but not least, stimulated by the technological development, the need for close economic contacts, which finally resulted in an intensified economic intercourse. This led in the Eastern countries to a growing economic intrabloc cooperation and to a substantially greater Eastern bloc emphasis on the countries' economic interests, above all on trade interests.

The great number of trade agreements between West and East and the resulting increasing trade volume, whose limits have already been pointed out, were the natural consequences of this evolution. Furthermore, there arose the necessity for certain adjustments within the system of planned economy, adjustments designed to improve the competitiveness of the Communist national economies in the world market by means of increased productivity and of a more liberal handling of certain aspects of business administration.

This development resulted in the so-called theory of convergence. What is the essence of this theory? It says that because of the mutual recognition of the sociopolitical systems and the need for intensified economic intercourse, the two economic systems, namely, social mar-

¹² *Ibid.*, p. 447. See also H. D. Schoen, "Systemkonvergenz durch Lizenzkooperation zwischen Ost- und Westeuropa," *Wirtschaftspolitische Blätter*, Mar. 1970, p. 171.

ket and planned, will increasingly converge. Eventually they will show little divergence and, finally, will end up in a mixed composite of the two systems. To give an example, the proponents of the convergence theory claim that because of technological progress and the need of both blocs for an intensified economic intercourse, the bases of and the necessities for an international trade policy and a modern industrial management are resembling each other to an ever increasing degree. This concept misses a crucial point. The social market economy is based on the principle of private property, on the entrepreneur's own responsibility, and on the free and independent policy of the trade-unions. The system of planned economy rejects the idea of private ownership of the means of production, as well as in trade and agriculture, and permits private initiative only to a very limited extent. The principle of a state-controlled economy is also maintained in countries like Yugoslavia. However, according to the principle that the employees are the owners of and responsible for their enterprises, a system has been introduced which in its appearance and in nothing but its appearance somewhat resembles the cooperative principle. The production programs of such enterprises are also subject to approval of the authorities.

If we apply the convergence theory to the West, it becomes evident that here too it fails the test of the realities. If, for instance, government licenses are required in a Western foreign trade system, this is done only for reasons of bilaterality vis-à-vis the Eastern trading partner and not as a matter of principle. Nor does the system of nationalized industries, which plays an important part, particularly in Austria, conflict with the principles of a social market economy; these enterprises are organized under the Austrian corporation law, according to which the rights of the state, as the owner, do not go beyond those of any private shareholder. However, problems of industrial management are subject to the private sphere, whereas in the system of planned economy such problems in particular are under strict central control by the authorities.

Thus it becomes evident that the so-called theory of convergence is not valid. This opinion coincides in all points with political convictions in the East, where it has been pointed out repeatedly and emphatically that there is not the slightest intention of watering down the present system. The Eastern economists and politicians continually stress the point that all development trends within the system of planned economy have to be incorporated into and subjected to the principles governing this system. This clearly stated position is

not surprising for, in reality, there exists no such thing as a liberalization of communism, since any liberalization would inevitably mean the end of communist society. The same holds true for the West. A social market economy is possible only in countries embracing the democratic form of government as we know it, that is, in a system in which political forces can develop freely within a multiple party system. The system of planned economy, however, calls for a one-party system as its integral political basis. On neither side of the demarcation line between the two political and social orders is there the slightest intention of deviating from these principles.

The question of convergence versus coexistence thus answers itself. The simultaneous existence of the two political and economic systems, their mutual acceptance, and the principle of noninterference are the characteristics of coexistence. Coexistence is also the prerequisite for a reasonably peaceful development in the world.

At this point I would like to comment briefly on my native country, Austria. Austria is a neutral state. The freedom of the political profession of democracy in the Western sense, and the social market economy, is in no way restricted by the status of Austria's neutrality under international law. The Austrian neutrality is a condition of the State Treaty of 1955, and not an element of it. The neutral status obliges Austria to refrain from interfering with the concerns of other parties and, at the same time, protects Austria from outside interference. Thus it is a manifestation of coexistence in terms of international law. Since Austria is a purely Western country on account of its domestic structure, its existence also disproves the claim of convergence.

These reflections coincide fully with the Soviet Union's expectations. The Soviet Union considers its agreements with the West "first and foremost to mean recognition as an equal partner of the United States, something it had always aimed at."¹³ In other words, its goal is primarily political.

The arms race has driven both superpowers, at enormous costs and risks, to accumulate a military potential hitherto unknown. This has not resulted in a higher degree of independence or flexibility for them. On the contrary, now that they have reached the climax of their power, their security is based on cooperation and not on rivalry. The efforts of the Soviet Union to reach a political arrangement with the West on the state level went hand in hand

¹³ Gastgeyer, p. 546.

with the ideological backup of its "policy of détente" by propagating an intensified class struggle.¹⁴ It cannot yet be determined to what extent this has nourished the distrust of many potential cooperating partners in the West or to what degree it has counteracted the Soviet economic interests. Also, the consequences of the Soviet-American summit arrangements for all minor partners in the West and the East cannot yet be appraised. Do they mean a new basis implying changes or even losses? Does rapprochement in the field of foreign trade improve the integration effect in the East and the West, or do pinpointed bilateralities among individual Eastern and Western partners rather result in a stagnation, a weakening of solidarity, of voluntary interdependence among the members of the European Community and Comecon?¹⁵

The question has been frequently raised in recent years in connection with European integration whether the European Community, as it was initially established by the 1956 Treaty of Rome, and as it has developed under the 1960 European Free Trade Association (EFTA) Treaty and the so-called 1972 Global Treaty, will have a real chance in the future or whether it will break up again due to internal differences or external interference. My answer to this question can be anticipated: the structure of European integration is stable and will continue to develop and to consolidate. This statement requires proof. First of all, it must be pointed out that once created, a large economic area, within which trade can develop free from tariff barriers and protectionist institutions, can never be split up again into individual parts without severe damage to their economy. In other words, the internal exchange of goods and services, both within the European Community and the remaining EFTA members, as well as between these two integration areas, has reached such dimensions that nobody can reasonably contemplate the re-introduction of trade barriers. European integration is, however, not

¹⁴ Time and again one can read statements like the following one, made by Brezhnev: "While we are pressing for the enforcement of the principle of peaceful coexistence, we are, at the same time, aware of the fact that successes in this important sphere do in no way mean to us a weakening of our ideological struggle. On the contrary, we ought to be prepared for an intensification of that struggle, as well as for the fact that it is transformed to an ever increasing degree into a bitter fight between the two social systems" (*Pravda*, June 27, 1972, quoted in F. St. Larrabee, "Die sowjetische Politik in Osteuropa und das Problem der Entspannung," *Europa-Archiv*, Apr. 25, 1973, p. 280).

¹⁵ O. R. Liess, "Supermächte und West-Osthandel," *Die Industrie*, June 29, 1973, p. 20.

confined to trade. There also exists within the European Community a common market organization in the field of agriculture. Complicated and in need of reform as this organization may be, it would be impossible for the European Community to abstain from a joint control of agriculture, since this would lead to grave disturbances. Common external economic borders urgently require a great number of additional regulations going beyond trade and agriculture. The Treaty of Rome and numerous additional agreements within the European Community already contain pertinent provisions. The monetary community is in a state of great difficulty and in urgent need of development. But also within the free trade area, common regulations are bound to develop, above all to avoid competitive distortions. This means that the West European integration has become a permanent institution with which the world must reckon and which the Soviet Union takes into account in pursuance of a highly realistic policy (see the above-quoted Brezhnev speech of February 1972).

The Relationship between the European Community and Comecon

In the European Community the member countries execute their sovereignty jointly in those spheres in which they waive their sectional rights. Comecon has the character of an international organization without any commitments toward the so-called interested members. In contrast to the European Community, which as a customs union has from the outset aimed at establishing common foreign relations, the status of Comecon—its goal being to coordinate production—has no external relevance. Although the range of equal or similar competences is extremely limited at present, the European Community has declared that it is willing, in principle, to cooperate with Comecon. "We aspire to a tight interlacing of Eastern and Western Europe," Dahrendorf says, and he continues: "The stronger we are interconnected, the greater the interest will be in peaceful relations."¹⁶ Thus a great number of common economic interests oblige the parties concerned to maintain cooperation and to avoid possible problems and tensions. "Even the best security system is sterile, unless the interested parties are connected by numerous long-term, common, interdependent economic interests."¹⁷ It has

¹⁶ Dahrendorf, p. 18.

¹⁷ J. Bognár, "EWG, EFTA, COMECON—Bilanz und Chancen," *Wiener Schriften*, no. 36 (Apr. 1972), p. 29.

been observed that small Comecon members have often taken the initiative in their relations with the Western free-enterprise countries. These initiatives have now been taken over by the Soviet Union as the supreme body of Comecon. Hungary, Rumania, and later on particularly Poland and the German Democratic Republic have experimented with new forms of cooperation with Western democratic partners. That the concepts of industrial coproduction, third-country transactions, and joint ventures are no longer unknown in East-West trade may be attributed to these countries.¹⁸ Although Eastern bloc reorganizations ("complex program") have been underway since 1971 with the goal of intensified integration, it must be borne in mind that at the 26th Comecon meeting in July 1972, Kosygin emphasized the Soviet position that "to us integration is not only an economic question but also an important factor in the development of the socialist system."¹⁹ This is again a rebuff of the Western proponents of the convergence theory. Thus it becomes apparent that the Soviet policy of détente aims at keeping the Eastern bloc in a rigid interdependence under Soviet hegemony, in order to enable it to benefit from all advantages of an increased technological and economic cooperation resulting from the improved climate of West-East relations.

Since January 1, 1973, bilateral cooperation in the field of bartering, in particular the conclusion of trade agreements between the European Community and the socialist countries, has not been possible. Pursuant to Article 113 of the European Economic Community Commission (EEC) Treaty, the common trade policy is directed in accordance with uniform principles. So far, however, in relations with countries with planned economies, the "classical" instruments of foreign trade policy contained in that article (alteration of tariff rates, conclusion of tariff and trade agreements, unification of the liberalization measures, export policy, measures for the protection of trade) are not accorded the same importance as cooperation agreements. Thus a number of EC countries recently concluded such cooperation agreements; these carefully took into consideration the obligatory range of a common trade policy and, for this reason, were not even the subject of consultation procedure within the European Community. The Soviet Union is thus doubtlessly given ample opportunity to play off the EC partners one against the other.

¹⁸ See O. R. Liess, "Von der Konfrontation zur Kooperation," *Die Industrie*, Sept. 28, 1973, p. 27.

¹⁹ Quoted in St. Larrabee, p. 277.

In making efforts to reach separate solutions through bilateral cooperation agreements and their institutionalized, so-called mixed commissions, the Soviet Union envisages two objectives: on the one hand, it appears as though the Soviet Union intended to check the "treaty-making power" of the EEC by endeavoring to incorporate as much as possible into these corporation agreements, which do not fall within the competence of the European Community; on the other hand, the more the Western countries yield to the Eastern demands for most-favored-nation treatment and for liberalization, the more trade with Eastern Europe will be conducted outside of tariffs and quotas. In response, the EEC Commission has drawn up a proposal for the Council of Ministers calling for a community information and consultation procedure for EC agreements with the Eastern bloc countries, which would facilitate a coordination of the cooperation policy. It is of the utmost importance to ensure that the economic relations with the East do not bypass the European Community. The fact that Comecon Secretary General Faddeyev established contacts in the fall of 1973 reveals that such a practice under the banner of détente might be incorporated into Soviet policy. However, for the time being, direct negotiations, not to mention the conclusion of contracts, between Comecon and the European Community are hardly to be expected, since Comecon lacks, to a great extent, the necessary institutions and competences.

The projections of the United Nations Economic Commission for Europe proceed from the assumption that the commercial intercourse for the whole of Europe will increase at a relatively rapid pace.²⁰ Whereas it is expected that West European exports to the East computed on the basis of 1965-67 will have increased fivefold by 1980, Comecon is expected to expand the volume of its exports to the West fourfold. Due to the low starting position—in Europe East-West trade constitutes less than 4 percent of world trade—the total volume increases slowly.²¹ However, it is estimated that during the period from 1970 to 1985 the number of cooperation contracts between the two systems will rise more than tenfold and that the economic East-

²⁰ See M. Schmitt, "Die wirtschaftliche Zusammenarbeit zwischen EWG und RGW," *Wirtschaftsdienst*, Dec. 1972, p. 660.

²¹ The small volume can be partly explained by two factors: First, interbloc economic relations were for many decades impeded by an embargo of the NATO countries under the strict control of the United States; now that the United States has joined in the competition for East European markets, these relations have become largely liberalized. Second, the competitiveness of East European production is limited in Western markets.

West exchange will amount to between 33 and 50 percent of this figure. There is a growing desire to secure resulting economic advantages by means of military and political guarantees covering all of Europe to the extent to which the economic exchange—trade, cooperation, and coproduction—between East and West increases. Exporters, above all if they act as creditors, require a certain degree of security in order to become actively engaged in business transactions. Therefore, European export intensive countries are particularly interested in pertinent interbloc military, economic, and political agreements concluded between the various governments. "Economy has indeed often paved the way for politics," says Prof. M. Schmitt, and he continues: "Even at a time when neither a friendly attitude toward the East nor a new *Ostpolitik* existed, the economic interests established the contacts with the trading partners in the East under the most trying circumstances and maintained them despite many political strains. We have thus contributed within our range of possibilities, be it only to a modest degree, to paving the way for urgent developments from which politics could benefit later on."²² One could add that this constitutes another example of the fact that economists are far from being at their wits' ends, even though politicians have given up all hope.

The Economic Components of the Revival of the Atlantic Partnership

The "year of Europe," 1973, proclaimed by President Nixon after his reelection in November 1972, and Henry Kissinger's appeal for the revival of the Atlantic partnership in April 1973 constituted a call to the allies to engage in a constructive dialogue which, according to the American idea, should deal with the monetary, trade, and security problems of the alliance under the guiding principle of joint responsibility and a just distribution of the burden. The development of a broad political perspective would permit the reconciliation of differences in the interest of achieving higher objectives. This concept manifests the American "package thinking"—that is, the interlocking of political and economic concerns. Thus President Nixon, in his 1973 message on the State of the World, expressed the idea of matching, by means of multilateral solutions,

²² "Ökonomische Perspektiven in der Ostpolitik," *Aussenpolitik*, Apr. 1971, p. 193.

the effects of the American military presence in Europe against the American balance of payments in such a way that it would make practically no difference whether the troops were stationed in Europe or in America.

Consequently, the European Community finds itself in the complex situation of having to operate, so to speak, simultaneously on the "inner and outer fronts." It constitutes a challenge to Western Europe to continue the development of the European Community from the viewpoint of integrating its members and, at the same time, to give them a distinct profile to the outside.²³ However, the various stages of the European-American dialogue also stimulate intensified West European efforts to harmonize and to develop a profile of the community of the Nine vis-à-vis the United States. It will be important for the harmonization of the attitude of the European Community toward the United States that the member countries define their place in world affairs, particularly with regard to the Soviet-American relationship. "There can be no question of creating a third independent power center between the United States and the Soviet Union at equidistance from the two others, and of equal standing. Within an interdependent alliance system with common goals, West Europe and the United States have the same basic concept of human rights and of democratic liberties. Therefore, the policy of the Western Europe of the Nine will show qualitatively different features."²⁴ The monetary and trade systems within which international relations have developed after World War II were determined to a high degree by the United States as the leading economic power. The United States is still the supreme economic power, but, at least in the field of foreign economy, its leading role is no longer uncontested. Consequently, monetary and trade problems play a decisive part in the transatlantic dialogue.

Monetary Problems

The acute crises of the international monetary system in 1971 and 1973 climaxed a long-term development during the course of which the structural inadequacy of the postwar monetary system became apparent. The agreement reached at Bretton Woods, based on the

²³ See E. Thiel, "Dollarkrise und Bündnispolitik," *Europa-Archiv*, June 10, 1973, p. 373.

²⁴ Günther van Well, "Die Europäische politische Zusammenarbeit in der ausenpolitischen Sicht der Bundesrepublik Deutschland," *Europa-Archiv*, Sept. 10, 1973, p. 583.

strong U.S. position in international trade and monetary relations after World War II, led to a monetary system within which the U.S. dollar served as the principle currency of intervention in order to guarantee a structure of stable exchange rates.

This preeminent position of the dollar enabled the United States—unlike other countries—to compensate for its balance-of-payments deficits in its own currency, that is, with the printing press. During the period of scarce dollar reserves—because of the enormous demand for capital on the part of Europe and the developing countries and to the limited convertibility of currencies—this system worked well. The massive conversion of French dollar balances into gold in the late 1960s and finally the deterioration of the international competitive situation of the United States necessitated an ever increasing number of bilateral standstill agreements, swap arrangements, the granting of standby credits, etc., in order to protect the dollar. These measures led to a substantial loss of confidence in the American currency, which was gradually overcome when the U.S. balance of trade became favorable toward the end of 1973. In this context it must be borne in mind that it was precisely American support through the Marshall Plan which turned the war-stricken countries into keen competitors, and that America, due to its commitments in world politics and development aid, had to bear extraordinary burdens by itself. The world should never forget that. Nevertheless, the Bretton Woods system clearly reflects hegemonial traits. Within the International Monetary Fund, which through recommendation should ensure equilibrium in national balances of payments, the United States enjoys a prominent position in the decision-making bodies. The dollar, based on the American economic potential, came to assume a key position as a leading and reserve currency in international trade and monetary transactions. Once Western Europe and Japan had acquired economic strength, the United States could no longer pursue the policy of “benign neglect” of its balance of payments.²⁵ The difficulties in connection with the reorganization of the monetary system are not only due to the necessity of finding or further developing new instruments to replace the dollar in its function as a reserve currency on a long-term basis. New mechanisms of adjustment in the international monetary system and new patterns

²⁵ Such a policy was recommended to the American government by the internationally known economist, Gottfried von Haberler. Although it was not officially adopted, it had numerous advocates in the U.S. administration before the sharpening international currency crisis in August 1971.

of behavior of the countries concerned must also be tried out. These reforms would oust the United States from its position of hegemony. At the beginning of 1972, the internationally renowned American economist Henry C. Wallich stated that for a long period of time the United States had gained considerable advantages from the reserve function of the dollar. However, the world is no longer willing to concede these advantages to the United States, and America itself is also no longer keen on them, since the cheaply financed deficits finally led to an intolerable overvaluation of the dollar. And shortly before the 1973 World Monetary Conference in Nairobi the same author wrote in an article for the September 7 issue of the *Frankfurter Allgemeine Zeitung*: “Basically, the American wishes and goals can be reduced to a common denominator: The United States advocates a monetary system which, in one way or another, would accomplish the same as the traditional dollar standard.” Thus it becomes apparent that the United States attaches great importance to the loss of its monetary hegemony in the transatlantic dialogue.

In mid-1973 West German Minister of Finance (now Chancellor) Helmut Schmidt expressed the view that despite certain approximations of viewpoints there existed substantial differences of interest and opinion on important issues between Europe and the United States, differences which basically continued after the Nairobi conference. The bulletin of the Press and Information Service of the federal government in Bonn quoted him on June 2, 1973, as saying:

It is true, there is a certain degree of uniformity with a view to the future role of the special drawing rights as a main reserve instrument in place of the U.S. dollar; but what shall happen with the glut of dollars? Is it going to be consolidated and, if so, by whom, when, to what extent and under which conditions? What will happen to the gold as a traditional currency reserve in the central banks of many countries? How can one define the special drawing rights into which all currencies can be converted since they are an instrument of liquidity only between the central banks and the IMF? Who is to decide, and according to which criteria, on the creation of special drawing rights? Should they really serve purposes of development financing as well? Furthermore, by virtue of what kind of regulations shall the surplus and/or the deficit countries be induced to adjust either their general economic policies or their exchange rates? Shall controls of capital movements be permitted? In which instances? Shall there be a harmonization of the levels of interest rates? Finally, what kind of sanctions shall be provided for? By whom are they to be applied? By the IMF? But who is then the decision-making body of the IMF? Will a big country also yield to an IMF decision? Will the United States help to

restore the authority of the IMF after it had substantially contributed to its curtailment?

The listing of some significant questions indicates the whole range of potential monetary conflicts.

Problems of Trade Policy

The controversy over various trade practices between the two partners of the Western alliance is of long standing. However, the economic conflicts have constantly increased in the past four years.

The European Community's objections to U.S. trade practices in the fields of tariff and nontariff trade barriers are countered by the United States' severe condemnation of the protectionist agricultural policy of the European Community. In addition, the policies of association and preferential treatment practiced by the European Community in its relations with the Mediterranean countries in Africa are subject to sharp criticism since the United States is of the opinion that they markedly increase the regionalization of world trade at U.S. expense.²⁶ Great Britain's entry into the European Community has extended its influence to the former British colonies. Therefore, on account of the special relations with the former French, Belgian and British possessions, an enormous sphere of interest of the European Community is developing in Africa.

By submitting the new trade law which incorporates numerous protectionist escape clauses, the U.S. administration clearly demonstrates the growing significance it attaches to economic policy within the overall context of American foreign policy. After the cease-fire agreement in Vietnam and the general disengagement of the United States in Asia, and backed by the newly established relations with the Soviet Union and, above all, with the People's Republic of China, the United States turns more and more in the direction of worldwide integration endeavors. Those in influential U.S. political circles regard the European unification as a political relief. This is the reason why the integration and expansion of the European Community are welcome, since they constitute an effective counterweight to the Eastern countries.²⁷

But for some time this development has been increasingly considered to be a challenge disadvantageous to the U.S. economy. Along

²⁶ See K. Grimm and H. Hansenpflug, "Die handelspolitische Kontroverse EWG-USA," *Wirtschaftsdienst*, Apr. 1973, p. 187.

²⁷ See R. Dahrendorf, "Möglichkeiten und Grenzen einer Aussenpolitik der Europäischen Gemeinschaften," *Europa-Archiv*, Apr. 1971, p. 118.

with the deterioration in competitiveness, which increasingly applies also to high-quality technological products, the United States fears that, in the long run, it might forfeit the power upon which its supremacy was based and which has been the material basis of the American engagement in Western Europe. The course of unifying foreign policy decisions within the European Community is being energetically pursued. In particular, the task performed by the ambassadors of the member states in third countries will be increasingly coordinated. From the results of the consultations held so far—measured by the reactions in third countries—it becomes apparent that the newly acquired political identity of the European Community is highly valued by third parties. Cooperation with the European Community is widely considered a solution to the dilemma of choosing between the two superpowers. Above all, it is the policy of preferences pursued by the European Community toward the Mediterranean area in the Middle East which is expected to lead to an expansion of its territorial influence sphere. The introduction of a global Mediterranean policy is designed to establish a customs union or a free trade area within the Mediterranean region. As for the European Mediterranean countries, whose political structures resemble those of the EC countries and whose industries have reached an adequate level of development, the possibility of entry should be left open. During the past decade, economic ties were established which in the future might call in question the political and economic reasons for American and Soviet presence in this area. Dahrendorf has said that the European Community itself wishes to "contribute to a long-term stability."²⁸ This means working toward relations that will further an intensified economic intercourse, that is, economic modernization, and, at the same time, will safeguard an adequate, stable form of government. Thus the European community consciously joins the superpowers in their competition for the political molding of the world. Therefore, it does not come as a surprise that the great powers should make remarkable efforts to influence the European Community's organized common foreign policies.

There are still other economic problems which might lead to serious difficulties. Should the energy supply become as critical as anticipated by many experts, a lack of cooperation on the part of the consumer countries could result in a greater number of controversial issues between the United States and Europe. But even if this

²⁸ *Ibid.*, p. 128.

should not come about, the question will arise as to whether Europe is in danger of having the United States take advantage of European dependence on American nuclear protection in order to obtain unilateral economic concessions.

From an American point of view, this possibility cannot be excluded. However, according to Henry Kissinger, the recently increasing speculations concerning substantial disparities of views are largely unjustified. The presently parallel developing processes should be kept apart: European integration, the debate on organizing security within the framework of NATO, and—in a way overlying all these problems—the revised definition of the Atlantic relations, pursuant to Kissinger's original suggestions, in the form of a "New Atlantic Charter." In Kissinger's view, the discussions among European countries that have taken place in recent months have created a far-reaching conformity of views. Therefore the United States, which in the postwar period has persistently advocated the formation of a "European identity," considered the September 27, 1973, declaration of the Nine an important initial attempt of the European allies to adopt a concerted stance with regard to the political reshaping of Atlantic relations. At the same time, Kissinger expressed the view that the United States would have to reserve its right to present its own views in further negotiations. Washington's proposals should not be regarded in terms of a "take-it-or-leave-it" attitude, but as a basis for a free discussion among partners.

Summing up, we can note that in our times economic policy has a decisive impact on foreign policy, and that economic factors can even constitute a significant reason for foreign policy developments. We can also say that elements of national economics are turned into instruments of foreign policy. Let us think, for instance, of crude oil and of the possibly dangerous effect that the quest for energy resources might have on decisions in foreign affairs. Today's world is getting smaller and smaller. The times when, as Goethe says in *Faust*, "in Turkey or lands far away . . . malcontents have unleashed the dogs of war, . . . while in Europe people could go for their peaceful Easter stroll," have long since passed. There is no event in any spot of the world which could not cause its waves to flood all over our planet. Space has become smaller; particles in space collide ever more. Thousands of new problems arise daily. However, we are also becoming aware of the fact that we, people of all races, nations, and creeds, must live together. May we draw from this awareness hope for lasting peace?

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