

other industrial sectors, are being eroded, increasing the budget deficits of governments. High interest rates reduce state refinancing capacity.

Fourth, Europe's export potential is being undermined—and the West German economy in particular cannot survive without exports, the key to its economic and political stability. Fifth is a significant reduction in employment thereby created which produces an increased potential for social political instability. Sixth, exports to the developing sector nations can no longer be financed. This has forced a deterioration among so-called LDCs from a desperate situation to something like a hopeless situation. This cannot be seen purely in economic and financial terms, since it results in political destabilization, civil wars, and regional conflicts, with very immediate implications for the global situation.

The seventh point, which is in a way the most important, is that all of this high interest-rate policy allegedly was designed to fight inflation. Yet the result of two years of high interest rates in Europe is that inflation is worse than ever. Many of those people, like Volcker himself, who are pushing for high interest rates actually say more or less publicly that it is not intended so much simply to fight inflation, but that high interest rates are effectively being used for so-called structural readjustments of the world economy as well as the national economy toward a "postindustrial" orientation.

The United States could rely in NATO—up to the 10th of May—upon the Franco-German alliance as the pillar of stability for global security and in respect to the Warsaw Pact. This no longer exists. Giscard is out and the military cooperation, in the context of NATO, between France and West Germany is pretty much out the window too. Under Giscard and Schmidt a "division of labor" developed between France and West Germany, in which France concentrated on building up its nuclear deterrent capability while West Germany concentrated more on the conventional side.

One has to be aware, whenever there are complaints about arms spending in Western Europe, that during the fiscal year 1980-81 the increase of the French defense budget was 18 percent, something I can assure you will change under the government of François Mitterrand. France had a major nuclear deterrent buildup: six nuclear missile-launching submarines, the development of the neutron bomb, the development of the mobile counter SS-20, which could be a crucial factor in the European nuclear balance, and the development of other tactical nuclear weapons systems. All these are now in question.

From the West German side, there has been a rather ambitious conventional arms buildup, including the Leopard II tanks, a rather sophisticated anti-aircraft missile system, a buildup in naval strength, the "Tor-

## Chancellor Schmidt: 'economics is the key'

*West Germany's Chancellor Helmut Schmidt in 1977 leveled a criticism against the failure of Western—notably British—defense analysts to take into account the close relationship between military security and economic development. The following is taken from his Oct. 28, 1977 address to the London International Institute for Strategic Studies (IISS), in honor of the Institute's founder Alastair Buchan.*

In preparing for this lecture I picked up again Alastair Buchan's book *Power and Equilibrium in the 1970s*. It is an important and a very thoughtful book in which Alastair analyzed the structure of world politics only five years ago. He concerned himself mainly with the power equilibrium among the United States of America, Western Europe, Japan, the Soviet Union, and China. Brilliant thinker that he was, he did not at that time devote much attention to the

economic, the social, and the domestic aspects of Western security, which I will list today as a new dimension. . . .

What exactly are these new dimensions? First, economic development. By this I mean the necessity to safeguard the basis of our prosperity, to safeguard free-trade access to energy and to raw materials, also a monetary system which assists us in reaching those targets. There was a feeling not too long ago that we had only a few problems in this field. But the oil crisis, the phasing out of the Bretton Woods agreement, worldwide inflation, unemployment, and too little economic growth have changed the picture and given rise to widespread insecurity.

Second, social security. By this I mean the necessity to achieve and maintain social peace at home, making the goods and the jobs available for our people and at the same time bluntly telling them that there are limits to what the state can do for them. . . .

Third, domestic security. By this I mean the necessity to strengthen and defend our society against terrorists whose sole aim is to destroy the fabric of that society through acts of brutal killing and kidnapping.