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Remarks: D/U Portions of
Material for Kissinger on Inflation

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Eastern Europe: Impact of Western Inflation

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8 November 1974

Eastern Europe: Impact of Western Inflation

1. Eastern Europe* has felt the pressure of the worldwide inflation to a much greater extent than the USSR. Unlike the USSR, with its vast land mass and enormous natural resources, the East European countries must rely heavily on foreign sources for basic raw materials and semi-finished goods. The prices of these imports from the West have risen sharply whereas prices of exports have not kept pace. As a result, Eastern Europe's terms of trade with non-Communist trading partners have declined; in contrast, the Soviet Union has gained from the global inflation because of its continuing exports of oil, gold, and other primary products.

2. Eastern Europe's terms of trade with the Soviet Union -- constant since 1971 under five-year trade agreements -- are expected to decline sharply in 1976 when new agreements, based on current higher prices, become effective. For example, the price of Soviet crude oil will double in 1976.

3. Eastern Europe has insulated its economies from Western inflation by subsidizing imports. Except in Hungary,

* Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. Yugoslavia, with its market-oriented economy, is not representative of the more highly planned economies of Eastern Europe. Indeed, the cost of living for the first eight months of 1974 has increased 20% compared with the same period last year.

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which officially sanctions some inflation, domestic retail prices have shown little upward movement because of tight control over wages and prices. However, soaring subsidies and the desire to conserve oil have prompted the East Europeans to raise internal fuel prices in 1973-74. In addition, the governments have adopted a wide range of economy measures including conservation programs, emphasis on domestic resources, and curtailment of "non-essential" imports.

4. These steps have helped the East Europeans to cope with Western inflation. Nonetheless, the additional burden of Soviet price hikes in 1976 will present the various leaderships with perhaps their most difficult planning problem since post-WWII reconstruction. This dilemma is magnified by Soviet demands that the East Europeans (a) purchase more of their raw material needs in the West and (b) invest more capital and manpower in programs for the development of Soviet raw materials.

5. These developments portend a reduction in the volume of imports of machinery and other industrial products from the West. A reduction of this sort would be especially painful to the East European economies because of their growing reliance on the West not only for technology and equipment for modernization but also for basic chemicals, special steels, plastics, and other key inputs into growth industries. In an atmosphere of consumerism exemplified by the Polish riots of 1970, the East European authorities are reluctant to slash imports of consumer goods and foodstuffs.

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6. In order to minimize cutbacks in imports, Eastern Europe will try to obtain credits on concessionary terms from the Soviet Union, to borrow further in Western money markets, and to arrange additional barter deals with Middle-Eastern countries. Nevertheless, planners will have to resign themselves to slower economic growth rates during the remainder of the decade. The sectors hardest hit by cutbacks in fuel supplies will be chemicals, metallurgy, agriculture, and food processing. A pause in plans for increasing consumer welfare -- possibly including a slowdown in the auto boom -- is almost certainly in the cards.

7. The impact of Western inflation varies considerably from one East European country to another, depending on its raw material resources. The worst hit will be Czechoslovakia, Hungary, and Bulgaria. Romania, Poland, and the GDR are better off. Romania has substantial exports of raw materials including petroleum. Poland exports coal, copper, zinc, and sulphur. East Germany is partially sheltered because of its extensive sales of raw materials to West Germany.

Romania

8. Because of its own large raw material base, Romania is more sheltered against fluctuations in world market prices than other East European countries. Bucharest predicts that consumer prices will rise only 0.9% in 1974, a remarkably low figure even if overly optimistic.

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9. Romania is the only Eastern European country where terms of trade with the West may be improving. In value, exports of petroleum products to the West, for example, offset by far imports of Western crude oil in value. The Romanians are also taking advantage of high prices on the world market by pushing exports of fertilizers and other chemicals. And in October, Bucharest devalued the exchange rate for Western tourists by 16%, claiming that this was intended to equalize purchasing power between Western and the Romanian markets.

10. Terms of trade are apt to deteriorate after 1975 as Romanian requirements for Western coking coal, iron ore, and bauxite soar. And the Romanians expect that by 1980 one-half of their crude oil imports will be needed for domestic consumption instead of being processed for export.

Poland

11. The strong demand in the West for Polish coal helps offset high world prices for imported oil and other raw materials. Nevertheless, the Poles have reported some deterioration in their terms of trade with the West in the first six months of 1974. Among the counter measures Warsaw has taken so far is to increase sharply the domestic prices of petroleum products and to announce its intention to cut back on "unnecessary" imports. In early October, Premier Piotr Jaroszewicz said that the Polish economy was experiencing difficulties due to price increases in Western markets. He was optimistic that the government could overcome these problems.

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12. Rising world prices serve to compound inflationary pressures already existing in Poland. Consumer prices have not increased much since the December 1970 riots in spite of rising wages, increased costs of procurement from domestic farmers, and more expensive imports. A 3.8% rise in the overall price level between January and June -- due in part to the increased prices for petroleum products -- was more than compensated by a 12% increase in money wages. Savings deposits, while growing rapidly, are not yet at an alarming level.

East Germany

13. Mainly because of higher prices for its oil products, brown coal, and chemicals, East Germany has experienced little if any deterioration in its terms of trade with West Germany, which accounts for some 30% of total trade with the West. The terms of trade with other Western countries have deteriorated. In an attempt to soften the impact of higher world prices, the government is stressing the need to push exports -- especially machinery -- and to slow the growth of imports from the West. Because of the heavy reliance on Western materials and technology, consumer goods will bear the brunt of any curbs on imports.

Hungary

14. Purchases in 1973-74 of Western crude oil, chemical products, and cotton in the West have contributed to a serious deterioration in Hungarian terms of trade with the West. In the first six months of 1974 compared with the same period last year, the prices of Hungarian imports from the West went up by more than 40%, while export prices rose by only 25%. The

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Hungarians have responded by expanding coal production, restricting the use of oil products for industrial and consumer use, and raising the domestic price of fuels 25% in September 1974.

15. As part of their economic reform, the Hungarians have permitted some domestic inflation. They have attempted to keep the rate below 3%. The rise in world prices would have resulted in consumer price increases of 6% in 1973 and 7% to 8% in 1974 if the government had not stepped in with massive import subsidies.

16. Sizable subsidies however, defeat a major goal of the reform, namely, exposing enterprises to world market forces and prices. The government intends to abolish subsidies for imported raw materials in January 1975 and at the same time reduce taxes on enterprises. Enterprises will be generally prohibited from passing on price increases to the consumer. In another anti-inflation step, the government plans to revalue the forint in 1975.

Czechoslovakia

17. Czechoslovakia depends heavily on the West for high-priced chemicals, cotton, and other raw materials. During the first quarter of 1974, prices for Western raw materials and chemical products were more than 50% higher than in first quarter 1973. Export prices have risen at only half this rate. Budget subsidies to foreign trade enterprises have been increased more than one-third over 1973 to offset higher import prices. Subsidies for 1975 will probably be more than two-thirds larger than in 1973.

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18. So far, the Czechoslovak consumer has been insulated from these price rises. In the first half of 1974, retail prices increased less than 1%, although gasoline prices doubled in April; food costs have shown almost no increase. But plans for a large cut in wholesale prices have been dropped. According to some rumors, retail prices will be increased 4% across-the-board in the near future.

Bulgaria

19. Bulgaria may be the hardest hit by higher Western prices -- at least as far as oil is concerned. Higher oil prices alone could add more than 25% to total hard currency imports by 1975. At the same time Bulgaria will also continue to require Western materials caught up in the inflation, such as chemicals and cotton. Prices of exports (fruits and vegetables, finished steel, and consumer goods) are rising much less rapidly.

20. Bulgaria has followed the trends in Eastern Europe -- high budget subsidies to hold the line in retail prices and a sharp increase in domestic oil prices. Like Romania, it has revalued the exchange rate for Western tourists.

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USSR: Concern Over Foreign Inflation Unfounded

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Office of Economic Research
Central Intelligence Agency
11 November 1974

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USSR: Concern Over Foreign Inflation Unfounded

Soviet concern over the impact of double-digit foreign inflation on the Soviet economy is unfounded, provided the inflation does not proceed to the point of political and social chaos in the West.

The inflation is having minimal impact on internal Soviet budgetary and economic affairs. As for Soviet trade with non-communist countries, the USSR has benefited much more from rises in export prices than it has suffered from high prices of its imports; this advantage may be eroded by future price changes.

"Creeping inflation" within the USSR itself is a long-term phenomenon, entirely different in nature from the virulent inflation in the market economies and should be regarded as a second-rate economic issue readily coped with by the Soviet command system.

Soviet Concern

As part of the widening exchange of views under detente, Soviet economists have recently been more open in expressing their concern over the negative impact that inflation elsewhere might have on the USSR. Speaking before a joint

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US-USSR symposium in September, several Soviet economists departed from the usual view that inflation is a "capitalist malady," presenting little or no danger to communist states. They identified two domestic areas especially vulnerable to continued worldwide inflation:

- Agriculture: "There is definitely a link between external inflation and our agriculture," admitted one senior Soviet economist. The need to purchase grain abroad at current high world prices strains the Soviet policy of keeping retail prices for basic food products at fixed levels.
- State budget: Although external inflation enhances the value of Soviet exports and gold reserves, it also results in higher import bills. Larger subsidies are required to cover differences between import and domestic prices.

This concern over world inflation stems in large measure from a Soviet realization of the deepening interdependence among the world's economies. Soviet observers are becoming more sensitive to economic developments in the West. They are also in a better position to exchange views with their Western counterparts.

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In the past, Moscow's economic policies kept foreign influence at a low level; little trade was conducted outside the communist bloc, and domestic prices were set with scant attention to the cost of imports.

This isolation is being breached by rising commercial intercourse with the West -- trade was up 59 percent in 1973 -- and by long-term pressures to align domestic prices with costs, including costs of imports. Purchases of Western equipment and technology -- especially for the chemical and electronics industries -- have increased sharply. Fulfillment of Soviet plans to increase the supply of meat depends on the availability of large supplies of foreign grain in poor harvest years.

An Assessment of the Soviet Position

We believe that these economists overstate the effects of Western inflation on the USSR. As a huge continental economy with tremendous natural resources, the USSR can satisfy most of its needs internally and thus conduct a comparatively small volume of foreign trade. Even though its technology is backward in important respects, the Soviets demonstrate a crude vitality in training large masses of engineers and technicians and conducting wide-ranging scientific and industrial research.

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Failures in moving smoothly from the research and development phase to the mass production of new products hinders but does not prevent the achievement of economic goals. In any case, inflation in the West affects the prices of only a small fraction of the machinery being introduced into industry and the grain going to the consumer.

As for the Soviet budget, inflation elsewhere does require accounting adjustments, such as subsidies to offset increased prices of foreign grain going to the milling industry and machinery going to various branches of industry. While the need for these adjustments complicates the problem of moving toward a more "rational" system of wholesale and retail prices, it is only a minor element, compared with the major barriers that block throughgoing price reform.

Inflation abroad has proved to be an advantage in one major area. At the same time that import prices have gone up, the prices of major Soviet exports -- gold, oil, and other primary products -- have risen sharply. Indeed, the rise in export prices has overshadowed the rise in import prices so that the Soviets are now enjoying a turnabout in their hard currency balance of trade -- from a deficit of $1.75 billion in 1973 to a surplus of between $1 and $1.5 billion in 1974.

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This advantage may be eroded by future inflation, however, as the prices of manufactures are continuing to rise rapidly, while the downturn in worldwide economic activity is depressing the prices of some raw materials.

Soviet Domestic Inflation

The admission that inflation in the West could hurt the domestic economy has been accompanied by denials that inflation exists within the Soviet Union. Soviet spokesmen have long held that inflation cannot develop in their centrally planned economy. They boast that for many years retail prices have been unchanged, with the exception of prices for luxury items like caviar, smoked fish, and gold jewelry.

Official Soviet wholesale and retail price indexes, however, do not accurately reflect price movements; as one Soviet participant in the symposium declared, "Up to now, our economists have not built good price indexes."

Soviet economists at the conference privately estimated the annual rise in the cost of living to be 3 to 4 percent -- roughly equivalent to the average annual growth in money wages. Various Western observers have placed the recent rise in the cost of living at between 4 percent and 5 percent annually.

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Some inflationary pressure does indeed occur in the USSR as wage increases typically outstrip the availability of consumer goods. The extra rubles have been absorbed partly by growing savings deposits and partly by hidden and overt increases in prices.

Hidden increases often take the form of eliminating the less expensive product lines. Sales of meat and consumer durables have been particularly susceptible to this form of "creeping inflation."

Western Versus Soviet Inflation

The internal inflation in the USSR differs markedly in its origins, nature, and consequences from inflation in the Western world.

- Internal Soviet inflation stems from the efforts of industrial and household consumers to get goods in a situation of chronic shortages and bureaucratically set prices and wages; in the West inflation largely stems from the institutionalized process of 10 to 20 percent annual increases in money wages and from serious supply bottlenecks.

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- "Creeping" Soviet inflation results in grumbles, but not in the acceleration of price increases or in wholesale flights from the ruble; Western inflation seriously harms important classes of consumers and businessmen and brings social unrest and even changes in governments.
- By continuing the strict controls on wages, prices, credit, production, and distribution the Soviet authorities can readily live with their inconspicuous inflation even if import prices rise further; in contrast, Western authorities are being driven in some cases to important changes in fundamental economic policies.

This estimate -- that the Soviet economists are showing unwarranted concern about worldwide inflation -- is valid only if inflation does not proceed to the point of political and social chaos in the West. Though Soviet propaganda suggests a certain glee at the discomfiture of the capitalist nations, the Kremlin probably does fear the uncertainties and dangers that would attend a breakdown in the international order. Economic problems then would play second fiddle to political and military issues.

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GROWTH IN MAJOR NATO COUNTRIES

Economic prospects for the major NATO countries have dimmed considerably in recent months. Recent forecasts made by OECD lowered the projected average annual growth rate of real GNP of these economies to 2.2% for the current half and 1.7% for the first half of next year. Projections made by OECD in July indicated average growth of 3.4% for both periods. For the second half of next year, OECD foresees a further deterioration, with growth averaging only 1.2% in these countries.

We are in fairly close accord with the OECD projections for this half and the first half of next year. Our September projections for average growth in the five major, foreign Atlantic economies were 1.8% for the present half and 2.8% for the first half of 1975. In view of recent economic developments, we currently see our September estimates for the first half of 1975 as overly optimistic for several countries.

- The growth outlook in Canada is dimmed by worsening economic conditions in the United States;
- The outlook for France, still relatively bright, has been dampened by slackening consumer demand,

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scaled down industrial expansion plans, worker strikes, and an apparent slowdown in French export volume;

- In general, the growing realization that potential production cuts due to drawdowns of large inventories and a third quarter drop in real exports from major industrialized countries are likely has led to less optimistic outlooks in all countries.

Our forecasts for the last half of 1975 are not complete but we do not now see much, if any, decline in economic growth for that period in the major NATO countries as does OECD.

The inflation projections for next year by both OECD and ourselves have become slightly more optimistic. With demand now expected to be lower than originally forecast and inventories apparently quite high, a slowdown in price rises of selected manufactured goods is now likely. Combined with a continued expected decline in industrial raw material prices, the chances are that inflation will decelerate more rapidly than earlier expected.

Inflation rates will remain extremely high by historical standards, with only Germany containing its inflation to a rate significantly below 10%. Inflation in the United Kingdom and Italy will remain particularly virulent, with broad-ranging cost-of-living agreements stimulating inflation.

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Significant revisions have not been made with respect to current account balances of the major NATO countries. The greater slowing of economic growth will lead to a fall in the import volume in these countries. But, because so much of their trade is with each other, declining import demand will also reduce export volume. The net change on projected current account balances consequently is small.

Of the five countries, Germany, and to a lesser extent Canada are expected to continue their relatively favorable payments balances throughout 1975. Germany's trade surplus will slide somewhat in early 1975 but should remain at about a $20 billion annual rate in the second half. On the other extreme, France, Italy, and Britain will probably improve their current account deficits next year, but the deficits will remain large, in the neighborhood of $5 - $6 billion compared to about $7.5 - $8 billion.

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GNP PROJECTIONS FOR FIVE MAJOR NATO COUNTRIES

Percent Change Over Previous Period
At An Annual Rate

	1974 II			1975 I			1975 II		
	OECD JUL	CIA SEP	OECD OCT	OECD JUL	CIA SEP	OECD OCT	OECD JUL	CIA SEP	OECD OCT
West Germany	3.5	-1.0	0.0	4.2	3.9	3.0	--	--	0.7
France	4.5	3.3	4.5	4.2	3.9	3.0	--	--	1.7
United Kingdom	4.6	2.2	5.0	1.2	0.6	-1.0	--	--	0.7
Italy	0.0	0.4	0.0	1.3	0.6	-0.2	--	--	-0.2
Canada	3.5	2.2	2.5	5.2	4.0	2.5	--	--	3.7

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CONSUMER PRICE PROJECTIONS FOR FIVE MAJOR NATO COUNTRIES

Percent Change Over Previous Period
At An Annual Rate

	1974 II			1975 I			1975 II		
	OECD JUL	CIA SEP	OECD OCT	OECD JUL	CIA SEP	OECD OCT	OECD JUL	CIA SEP	OECD OCT
West Germany	11.2	8.5	7.0	9.2	8.5	7.0	--	--	6.7
France	16.0	15.5	15.2	14.0	13.0	13.2	--	--	10.5
United Kingdom	18.2	16.0	15.5	12.0	13.0	15.5	--	--	14.2
Italy	25.0	25.0	26.0	18.0	19.0	26.0	--	--	12.5
Canada	8.0	9.0	12.0	7.2	8.1	12.0	--	--	10.5

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TRADE AND CURRENT ACCOUNT PROJECTIONS FOR FIVE MAJOR NATO COUNTRIES

(MILLIONS US DOLLARS)

		1974 II			1975 I			1975 II		
		OECD JUL	CIA SEP	OECD OCT	OECD JUL	CIA SEP	OECD OCT	OECD JUL	CIA SEP	OECD OCT
...any	Exports	44,850	44,900	44.950	47,700	47,250	46,950	--	--	49,000
	Imports	36,000	32,800	35,350	39,200	35,000	37,350	--	--	39,000
	Trade Balance	8,850	12,100	9,600	8,500	12,250	9,600	--	--	10,000
	Current Accounts Balance	2,000	4,756	3,250	750	4,589	2,800	--	--	2,700
...nce	Exports	23,350	24,500	24,750	25,250	26,900	27.000	---	--	29,000
	Imports	25,400	26,900	27,600	26,700	29,300	28.950	--	--	30,300
	Trade Balance	-2,050	-2,400	-2,850	-1,450	-2,400	-1,950	--	--	-1,300
	Current Accounts Balance	-3,200	-3,700	-3,850	-2,700	-3,750	-3.050	--	--	-2,700
...ted ...gdom	Exports	18,300	18,630	19,750	19,500	19,840	21,500	---	--	23,400
	Imports	24,400	24,800	24,800	27,700	25,750	26,000	--	--	27,000
	Trade Balance	-6,100	-6,170	-5,050	-5,200	-5,910	-4,500	--	--	-3,600
	Current Accounts Balance	-4,950	-4,955	-3,900	-4,200	-4,847	-3,400	--	--	-2,600
...ly	Exports	15,100	15,275	15,950	16,700	16,634	17,400	--	--	19,150
	Imports	19,500	18,295	20,350	20,050	19,190	21,000	--	--	21,800
	Trade Balance	-4,400	-3,020	-4,400	-3,350	-2,556	-3,600	--	--	-2,650
	Current Accounts Balance	-3,750	-3,370	-4,000	-2,750	-2,906	-3,200	--	--	-2,550
...ada	Exports	18,050	15,859	17,700	19,400	18,175	18,500	--	--	19,200
	Imports	17,350	15,086	17,050	18,700	17,319	18,100	--	--	19,200
	Trade Balance	700	773	650	700	856	400	--	--	-0-
	Current Accounts Balance	-800	-418	-1,000	-850	-358	-1.350	--	--	-1,900

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OVERVIEW

Defense spending has been declining as a share of GNP and of total government spending in the major NATO countries. Although most of these countries have increased defense spending substantially in nominal terms, rapid inflation generally has outpaced these gains. Because of rapid inflation, defense spending in real terms probably will continue to decline for the next year or so, except in West Germany. Italy and the United Kingdom have such serious economic problems that defense spending will fall faster in real terms in these countries than in the other NATO countries.

Rapidly rising wage costs are also affecting the distribution of defense expenditures in many NATO countries. The percentage of total military spending devoted to pay and allowances has increased while manpower levels have declined. In some cases, equipment procurement has had to be lowered because wage gains have cut into appropriated funds.

Special problems in several smaller NATO nations present some cause for concern. Political instability in Portugal, Greece, and Turkey has clouded their defense spending postures. Greece remains a NATO ally only in a political sense at present. Turkey is in a

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stable position but the country remains saddled with its concern over Greece and Cyprus, which in this past year has drained about $1 - $2 billion from the economy. Turkish intentions include various types of military buildup and investment in armaments, largely spurred by its conflict with Greece.

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WEST GERMANY

West Germany remains in the strongest economic position among NATO nations. The rate of inflation currently is running at 6.9%, and unemployment is not yet a major problem. In coming months, however, exports may soften as nations importing German goods decrease orders, and unemployment is expected to rise. The government may decide to stimulate investment to forestall rising job losses. Defense-related investments might benefit from an expansionary turn in policy.

Defense expenditures have increased in both absolute and -- in contrast with spending in most other NATO countries -- real terms since 1970. Defense expenditure projections indicate that this trend will continue over the next 3 to 5 years unless inflation unexpectedly accelerates. Defense spending has remained a constant 3.9% of the GNP for the last two years even though it has dropped, and probably will continue to decline, as a share of total federal spending.

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FRANCE

France faces serious economic problems, though less severe than those in Italy or the United Kingdom. Despite government austerity measures, inflation continues at a 14.5% annual rate and the current account deficit stemming from increased oil import costs remains large. Decreases in government capital expenditures should continue to restrict the equipment procurement sections of the defense budget, which presently account for about half of defense expenditures.

Even though budget spending has been rising in nominal terms, defense expenditures are expected to show a 6% decline in 1974 after adjusting for inflation. Real defense spending will decline by an estimated 4% next year. As a share of GNP and of total government spending, defense expenditures have fallen off in recent years. As a percent of GNP, French defense spending remains very low, exceeded by nine other NATO countries.

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ITALY

Italy is experiencing the worst economic problems among the major NATO countries. Inflation has topped 20% annually, fed by large wage increases. The balance of payments is in massive deficit, and Italy will have to continue heavy foreign borrowing to remain solvent. The government has raised taxes and tightened credit to ease these problems, but austerity may have to be scrapped because of rapidly rising unemployment, labor unrest, and union demands for better social services.

Defense spending has decreased in real terms in recent years, and the defense budget has declined as a percent of GNP and of the total government budget. Because of heavy demands on government for better social services at a time when it is trying to show more fiscal responsibility, Italy's defense spending efforts are unlikely to improve. Appropriations for the army and air force for 1974 have already been cut and force reductions are possible. Italy will not meet the NATO force improvement goals for 1978. Because wages are rising very rapidly, the share of defense spending devoted to operating expenses will rise at the expense of funds devoted to equipment procurement.

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UNITED KINGDOM

The United Kingdom faces economic problems exceeded only by those of Italy among the major NATO countries. It is faced with 16.9% inflation at an annual rate, massive labor problems that periodically paralyze the economy, and stagnant GNP. The current account deficit at close to $10 billion this year will approximate 6% of the GNP. Rising unemployment and high inflation are likely next year.

The Labor government, which promised large defense budget cuts in the early 1974 election campaign, so far has not carried out its promises. Denis Healey announced a small cut in defense spending in his spring budget but shelved further cuts pending a defense review. Because of Britain's precarious payments position and pressures from left-wing Laborites, the defense review probably will lead to further paring of the defense budget. Meanwhile, the defense budget has been declining as a share of the total government budget and of GNP. Increases in defense expenditures are expected to be the lowest among the European NATO allies in 1975-80, and further cuts in manpower, equipment procurement, and overseas forces are likely as defense spending declines in real terms.

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CANADA

The Canadian economy has been experiencing problems similar to those of the Europeans although not as severe. Inflation is now at a 12% annual rate. Labor problems are widespread while wage rates have risen 14%. Real growth of GNP has been near zero for the past two quarters.

Current Canadian thinking is to sacrifice manpower and possibly the commitment to NATO forces in Europe in order to maintain equipment quality, which now accounts for 20% of the defense budget. Canadians are talking of reducing their armed forces from 78,000 at present to a well-trained, well-equipped 50,000 man force with reduced overseas duties. If the government carries out its plans and inflation proceeds at close to its current rate, defense expenditures will drop in real terms for the rest of the decade. Defense spending will also continue to decline as a percent of GNP and of total government spending.

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DEFENSE SPENDING IN FIVE MAJOR NATO COUNTRIES

	Defense Expenditures (Billion Current $)		Percent Share Of Government Spending		Percent Share Of GNP	
	1973	1974	1973	1974	1973	1974
West Germany	11.98	13.34	26.5	26.1	3.9	3.9
France	8.59	9.30	18.0	16.0	4.2	3.9
Italy	3.94	4.16	11.8	11.4	3.3	3.0
United Kingdom	8.16	8.25	20.3	19.7	5.7	5.4
Canada	2.38	2.55	10.9	10.5	2.4	2.2

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NATO PROJECTIONS OF NATIONAL DEFENSE SPENDING

1975-1980

(Billion 1974 dollars and Percent Change from Previous Period)

	West Germany		Italy		United Kingdom		France		Canada	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1975	13.87	4.0	---	---	8.32	0.8	10.20	9.7	2.58	1.2
1976	14.53	4.8	---	---	8.34	0.2	---	---	2.71	5.0
1977	15.28	5.2	---	---	8.44	1.2	---	---	2.84	4.8
1978	16.04	5.0	---	---	---	---	---	---	2.99	5.3
1979	---	---	---	---	---	---	---	---	3.13	4.7
1980	---	---	---	---	---	---	---	---	3.24	3.5

--- data not available

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