The transatlantic relationship is America’s most enduring and arguably its most important. The sixty-three year-old cornerstone of the relationship is the North Atlantic Treaty Organization (NATO), which has evolved from a collective defense arrangement into a mechanism for attaining transatlantic goals globally, as seen most recently in operations in Afghanistan and Libya. But U.S. interests in the region intersect in complex ways with Europe’s grand experiment in continental economic integration, the European Union. Twenty of the twenty-eight members of NATO are also members of the European Union, with a twenty-first (Croatia) soon to join the EU. Indeed, the continent’s economic integration is an essential pillar of its regional security strategy. Through the purposeful blurring of national economic boundaries, European leaders have sought to diminish the risk of inter-state conflict. This deep connection between European security and economic integration makes the formulation of U.S. foreign policy in the region a challenging venture. How does the United States define its own interests in this region, given that Europe behaves in some ways like a single state, and in other ways like a collection of states?

The most urgent item on the transatlantic agenda is Europe’s economic crisis. Indeed, it has become increasingly clear that Europe faces not one crisis, but four: (1) high debt and public deficits in both peripheral and core Eurozone countries; (2) a banking crisis affecting private European banks; (3) economic recession and high unemployment in both peripheral and core Eurozone countries; and (4) persistent trade imbalances among Eurozone members.1 These crises directly threaten the viability of Europe’s monetary union, the stability of one of the world’s most important currencies, and the cumulative benefits of decades of hard-fought institution-building.

A successful resolution to these intertwined crises promises significant economic and political benefits for the United States. Yet there still is not agreement (or even clarity) on what a “successful resolution” would look like. In addition, diminished European and American fiscal capacity poses significant challenges for managing not just the current crisis but also for immediate strategic challenges, like fostering economic growth and democracy in North Africa or managing instability in the Middle East. Many NATO partners appear to be less willing to invest in the alliance’s military capacity, arousing concern over burden-sharing across member-countries. Leading policymakers have voiced fears of a “two-tiered” NATO, in which some countries contribute effectively to combat operations while others cannot (or will not).2 What can U.S. policymakers do to help Europe address its crises, while not exacerbating their own

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domestic crisis? How can the United States influence Europe to support U.S. geostrategic interests while encouraging European states to bear more of NATO’s collective security burden?

**Europe’s Crisis**

Europe’s sovereign debt crisis erupted in the spring of 2010, when Greece revealed that previous estimates of its budgetary deficit were inaccurate. New estimates for 2009, released in April and November 2010, put Greece’s deficit as a proportion of GDP at 13.6% and 15.4% respectively, well over the 3% level required for membership in the Eurozone and well over the 12.7% previously reported. The country’s debt-to-GDP ratio is projected to rise above 150% by 2012. This information led Standard & Poor’s to downgrade Greece’s debt to “junk” status, forcing interest rates on Greek bonds to rise to over 15% to compensate investors for the increased risk of holding these assets. Greece is caught in a vicious financial cycle: the extremely high cost of borrowing undermines faith in Greece’s ability to repay its bondholders, which increases the threat of a sovereign default, further causing the cost of borrowing to rise.

As a member of the Eurozone, Greece has no national currency to devalue in an effort to reduce its national debt burden. Its only options are a default, a loan or transfer from Euro members to Greece, or a new financial instrument, such as a Eurobond, that would allow for a consolidation of national debt instruments into a single EU-backed bond. All these options potentially endanger the European Union, and all so far have proven politically unpalatable in big Eurozone economies, particularly in Germany.

By late 2011, bond yields in both Italy and Spain had climbed to rates widely seen as unsustainable. Widening gaps between the interest rates on Spanish and Italian bonds and those on German bunds pose a severe risk to the credibility of the single currency, the monetary union, and the fiscal solvency of EU members. While the crisis began in Europe’s periphery, it is now boring into the Eurozone’s core. Concerns about downgrades of core Eurozone members’ credit ratings have continued to plague European debt markets.

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In early 2012, there was some optimism about Europe’s ability to manage its quadruple crisis. Investors finally accepted a write down, or “haircut” on Greek debt, the IMF offered a second joint IMF-EU member state assistance package to Greece, and the ECB injected over $1 trillion into ailing private banks. In exchange for agreement on an EU “fiscal compact” requiring member states to balance their budgets, hawkish member states agreed to increase the size of the rescue fund, now referred to as the European Stability Mechanism (ESM).  

In spite of all this activity, pressure began to mount on struggling Eurozone members in the second half of 2012. Poor growth figures, unemployment, and trade imbalances, continued to bedevil policy responses to the crisis. And domestic politics within a number of European nations called past progress into question. Increased stress on the Spanish banking sector put significant pressure on Mariano Rajoy’s government, from the “indignado” movement of restive Spaniards, from Euro partners, and from bond markets. Additionally, the gap between European states favoring austerity measures and “fiscal rectitude,” such as Germany and the Netherlands, and states whose leadership has been more critical of austerity widened. The election of Francois Hollande in France in May, coupled with the Greek election in June, highlighted this issue. At the same time, Italy’s technocratic Prime Minister Mario Monti seemed to distance himself from Europe’s champion of austerity, Germany’s Angela Merkel.

This fall, the European Union and its member states continued to struggle with the management of Europe’s quadruple crisis. Economists and policymakers have begun to lift the taboo on discussing a “Grexit,” or a Greek departure from the Eurozone. The main concern with such a departure is the effect that it would have on market confidence in the rest of the Eurozone – so European policy makers tend to emphasize the uniqueness of the Greek situation.

The Eurozone members aim to replace the EFSF (European Financial Stability Facility), set to expire in 2013, with a more permanent European Stability Mechanism (ESM). However, the ESM’s future came into question as Germany’s Constitutional Court prepared to consider the legality of the fund itself and the treaty establishing it. As usual, there were strong arguments for a response entailing less cession of sovereignty (and, in this instance, more “fiscal rectitude”), but also calls for “more Europe,” and for more solidarity with debtor states.

European policymakers face a stark choice: deepen their economic union by accepting a degree of fiscal harmonization and sacrificing a degree of national sovereignty, or loosen their union by allowing countries to leave the Eurozone, thus opening the door to further exits that

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might imperil Europe’s grand experiment. In Europe, these questions are elemental, but just how meaningful are they to the United States? What outcomes should the United States seek, and what policy tools can it deploy in seeking them?

As an economic matter, the United States hardly can afford indifference to the fate of Europe. The U.S.-EU economic relationship is, after all, the world’s largest. The EU is the largest trading partner of the United States, both in merchandise and services. In merchandise, the EU accounts for $239.7 billion (18.7%) of total U.S. exports and for $319.2 billion (18.1%) of total U.S. imports. Within services, the EU accounts for $170.2 billion (31%) of total U.S. services exports and $138.5 billion (34.4%) of U.S. services imports. In what sense does this tremendous interdependence create vulnerability for the United States, and in what sense does it create opportunities? How and to what extent should the United States attempt to influence its European partners? Given its own fiscal and financial difficulties, does the United States even have the credibility to try?

**European Security**

Europe is not only the United States’ leading trade partner, but it also its most important security partner. Twenty-five European states (twenty of which are current EU members) are allied to the United States through NATO. The ongoing crisis in the Eurozone has made the allocation of resources to national defense (and collective security) an even greater challenge for European allies than it has been in the past.

With austerity beginning to bite into defense budgets, the European Union has initiated a policy of “Pooling and Sharing” in defense matters, while NATO has developed a program for “Smart Defense.” As NATO’s war in Afghanistan drags on, American policymakers at the highest levels are concerned about their European allies’ ability to contribute robustly to the alliance’s challenging missions.

Much was made of former Secretary of Defense Robert Gates’s final address in Brussels in June of 2011, in which he referenced the growing impatience in America with dwindling defense expenditures in Europe, using the words “dim” and “dismal.” However nuanced Secretary Gates’s address may have been, and however committed an Atlanticist Gates himself might be, his words prompted serious questions: are “Pooling and Sharing” and “Smart Defense” just euphemisms for unrestrained cuts in resources devoted to collective security?

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17 Secretary Gates made a point of mentioning that he considered this a “possible, but not inevitable future.”
At the same time that conditions of austerity have begun to strain NATO, the United States announced its “Pacific Pivot,” a refocusing of security energies toward Asia, while counting on Europe as a producer, rather than a consumer of security.\(^\text{17}\) The United States has, of course, always been a “Pacific Power,” and the fact that the territorial integrity of European states is not under immediate threat might signify the success of transatlantic security cooperation since the Second World War, rather than a grave threat to future cooperation. But perceptions matter. And the “Pacific Pivot” has seemed to many an “Atlantic Abandonment.” The UK Parliament’s Joint Committee on the National Security Strategy concluded that “geographical and functional shifts in U.S. policy… [raise] fundamental questions if our pre-eminent defence and security relationship is with an ally who has interests which are increasingly divergent from our own.”\(^\text{18}\) Other NATO Allies are contemplating adjustments as well: Atlanticist stalwart Poland has begun to warm to stronger EU defense ties in an attempt to “diversify its security guarantees.”\(^\text{19}\)

The historic “transatlantic bargain” has been renegotiated a number of times, each time addressing disagreements on burden sharing, but the underlying Alliance has remained surprisingly stable. Much has been made recently of the precipitous decline in the percentage of NATO’s overall expenditures\(^\text{20}\) undertaken by European Allies since 1990 – from forty percent to twenty-five percent by 2011.\(^\text{21}\) A quick glance at this metric over the course of NATO’s history reveals a somewhat different story, however. The fact is that 1990 was a bit of an outlier – one of the highest years in history for European NATO cost share, and well above the historical average of around twenty-seven percent. For the majority of NATO’s history, European allies’ cost share has hovered between twenty and thirty percent, and it has been between twenty-five and thirty percent for most of the last twenty years (see Appendix).

The challenge for the United States, then, is to encourage its European allies to contribute more (and more efficiently) to global security, without alienating allies or exacerbating the current crisis. Can NATO allies really do more with less?

**Conclusion**

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\(^\text{20}\) Note that “overall expenditures” refers not to NATO common funding, which is extremely limited, but to total member expenditures on defense, otherwise known as “cost share.”

Europe continues to be the United States’ “partner of first resort,” both economically and geopolitically. Ongoing economic, financial and fiscal challenges on both sides of the Atlantic represent a risk to the security of both Europe and the United States. At the same time, defense expenditures contribute to the cost side of the fiscal imbalances that have become such a challenge to many NATO members. As Europe, in particular, embraces policies of austerity that appear likely to impact defense budgets acutely, the United States finds itself struggling to determine where it can exert influence on its European allies and how. In an era in which resources, both material and reputational, are increasingly limited, U.S. policymakers are faced with difficult choices. But such difficulties are not unprecedented – the United States and its allies have had hard conversations and made hard decisions about burden sharing in the past, and surely will in the future.

Appendix

Figure 1. NATO Cost Share, 1949-2009

Recommended Readings

The Transatlantic Economy and the Eurozone Crisis


Transatlantic Security


Burden Sharing


Additional Readings


