

# Burden-Sharing and Security in Alliances: The United Kingdom, West Germany, and Japan During the Cold War

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## ABSTRACT

This article examines the economic consequences of US long-term global troop stationing after WWII, through which the country sought to guarantee the security of its allies in the escalating Cold War. Despite the undisputed post-war economic and military preponderance of the United States, domestic critics continued to highlight the burden of US global commitments. Events leading up to the breakdown of the Bretton Woods system in 1971–73 convinced most US (and British) policy-makers that the country was over extended and that allies should share the burden. First, this study focuses on burden-sharing between the United Kingdom and West Germany regarding the costs of occupation zones in West Germany in 1947. Second, it examines the trilateral negotiations on burden-sharing among the United States, the United Kingdom, and West Germany in 1966, from a balance-of-payments perspective. Third, burden-sharing in West Germany and Japan is analyzed by conceptualizing these countries' behavior as a security exporter or security importer. Whereas Germany transformed itself from a security importer to a security exporter, thus shedding the constraints of burden-sharing, Japan has remained a security importer.

**Keywords:** Burden-sharing, Offset negotiations, Security export, Occupation costs, Trading security

**JEL classifications:** N40, O57, P16

## 1 Introduction

Soon after WWII, the United States made the momentous decision to deploy troops globally on a long-term basis and thus guarantee the security of its

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allies in the escalating Cold War. However, such a global security-exportation strategy was very costly. Despite the undisputed post-war economic and military preponderance of the United States, domestic critics continued to point out the burden associated with global commitments. As early as in the 1950s, President Eisenhower tried to contain the cost with the so-called “New Look” program (Dockrill, 1996). The increasing pressure since 1958 on the US dollar as a global reserve currency showed that the United States’ economic base—which had supported the country’s role as a “security exporter”—was in gradual decline. The breakdown of the Bretton Woods system in 1971–73 finally convinced most US policy-makers that the United States was overextended. Thus, the issue of burden-sharing gradually became one of the most serious political controversies in the alliance. Very soon after the Cold War started, the allies under US hegemony were asked to share the burden of the security costs. Given their dependence on the protective shield of the United States, they had to accept these requests, at least in part; they regarded this as the unavoidable cost of “importing security.”

Burden-sharing was a particularly difficult problem for West Germany and Japan, both of which were security importers from the United States. Here, in line with Zimmermann (2008b), we define “security importers” as

states which are unable to solve their fundamental security problems, such as territorial integrity and safeguarding their sovereignty, on their own. Therefore, they have to rely on direct or indirect security guarantees of more powerful states.... [Meanwhile,] Security Exporters need no partners to deal with their fundamental security problems. They try to contain threats by preventively (or pre-emptively) combating potential risks through (military, economic, and cultural) engagement abroad. (p. 130)

As security importers, Japan and West Germany had to pay host nation support; they also purchased very large volumes of US military equipment and invested in US Treasury bills.

Guided by these concepts, in this study, we analyze in-depth three cases of burden-sharing. In section 2, we focus on the case of burden-sharing between the United States and the United Kingdom with regard to the cost of the occupation zone in West Germany. We show the shift of political power in the occupation zone from the United Kingdom to the United States; this was one of the reasons for the United States’ involvement as a security exporter to West Germany. In section 3, we study the trilateral negotiations in 1966–67 on burden-sharing among the United States, the United Kingdom, and West Germany, from the perspective of balance-of-payment problems that existed at that time. These negotiations started the practice within the West German central bank (Bundesbank) of purchasing US Treasury bills—something that stood as one of most spectacular episodes of burden-sharing by West Germany, and was directly linked to its role as a security importer. In section 4, we compare the burden-sharing problems of West Germany and Japan. We show that Germany

transformed itself from a security importer to a security exporter; meanwhile, Japan remains to this day a security importer, and is thus compelled to accept the burden-sharing demands of the United States.<sup>1</sup>

## **2 Negotiations Between the United States and the United Kingdom Regarding the Costs of Occupying West Germany**

### **2.1 Establishment of the Bizonal, and occupation costs**

This section focuses on how the United States and the United Kingdom shared the economic burden associated with occupying post-war Germany. Specifically, it considers the implications of a key currency shift—that is, from the pound sterling to the US dollar after WWII—on burden-sharing within the Atlantic Alliance.

After WWII, Germany was divided into four occupation zones that were managed by the United States, the United Kingdom, France, and the Soviet Union. The economy of the US zone was stagnant, given the destruction of the normal divisions of labor among the four zones. The zone was in considerable need of daily necessities, and these were imported from foreign countries. Lack-  
ing sufficient foreign currency to pay for these goods (due to a very low level of exports), the US zone depended on aid from the United States.

The US government was eager to reduce these increasingly expensive occupation costs, which were ultimately borne by US taxpayers. It was deeply dissatisfied with the situation, and the Republican Party attacked the Truman administration on this point. The United States needed a burden-sharing paradigm with regard to occupation costs, if it were to reduce this burden. Thus, it began negotiations with the United Kingdom in October 1946 to integrate the US and UK zones into one zone, called the Bizonal (Eisenberg, 1996, Chapter 6).

Naturally, the biggest issue arising from these negotiations was the sharing of occupation costs,<sup>2</sup> most of which were US dollar-denominated. Providing the necessities of life, especially food, in the occupied zone was very much contingent on imports from the US dollar area; other regions were unable to supply most of these items, and essential goods were more expensive outside the US dollar area.

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<sup>1</sup>The following sections were written by the following authors: section 2, Nobuki Kawasaki; section 3, Takeshi Sakade; and section 4, Hubert Zimmermann.

<sup>2</sup>“Occupation costs” usually refer to the sums paid by an occupied country for the maintenance of foreign troops on its soil. When West Germany and Japan became allies of the United States, the term was changed to the less politically charged “stationing costs.” From the 1960s onward, West Germany no longer paid directly for the maintenance of US troops, but rather tried through various measures to “offset” the foreign exchange loss the United States experienced, as their troops had to convert US dollars to the local currency. Thus, negotiations in this period were called “offset negotiations.” For a description of these different kinds of contributions in the case of Germany, see Zimmermann (2004).

The United States and the United Kingdom needed to pay these occupation costs in US dollars, whereas the occupation zones did not have the US dollar and were in economic crisis. This was particularly problematic in the United Kingdom, which had suffered from a shortage of US dollar holdings ever since the start of WWII. The United Kingdom, obliged to return to pound sterling conversion under the Anglo-American Financial Agreement in 1945, needed to retain its US dollar holdings. In the United Kingdom, the burden of occupation costs was not only a matter of raising a relevant amount of money, but also of holding a foreign currency (i.e., the US dollar). The United Kingdom therefore strongly expected that the United States would pay for most of the occupation costs.

During the United States–United Kingdom negotiations regarding the establishment of the Bizonal, the UK negotiators continued to request that the United States pay 80% of the occupation costs; the United States refused to do so. The United States took an optimistic view of the United Kingdom's US dollar shortage problem, noting that the shortfall had been shrinking and that the United Kingdom would hence still be able to pay half the occupation costs.<sup>3</sup> As a result, both countries agreed in December 1946 that the costs of occupying the Bizonal would be borne equally by the United States and the United Kingdom. The Bizonal was then established, in January 1947.<sup>4</sup>

## 2.2 The sterling crisis, and US policy change

Soon after the establishment of the Bizonal, the United Kingdom's US dollar shortage problem worsened. Starting with a meeting of the Council of Foreign Ministers in Moscow in March 1947, the UK government continued to ask that the United States reduce the United Kingdom's US dollar-denominated occupation costs with regard to the Bizonal. As a result of these negotiations, the relevant part of the agreement was modified in June 1947. The United States thus agreed to reduce the United Kingdom's US dollar payments for the Bizonal; meanwhile, the United Kingdom was obligated to convert the pounds sterling held by the Joint Export–Import Agency (JEIA), which controlled foreign trade in the Bizonal, to US dollars.<sup>5</sup> Still, this relief measure did not resolve the United Kingdom's US dollar problem. In July 1947, the sterling crisis made it impossible for the United Kingdom to pay the occupation costs.

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<sup>3</sup>Division German and Austrian Economic Affairs, British Dollar Problem, November 13, 1946, Box2, RG59, United States National Archives, College Park, Maryland (hereafter USNA).

<sup>4</sup>For more details on these negotiations, see Kawasaki (2012), Chapter 3.

<sup>5</sup>The United Kingdom was obligated to convert sterling in order to maintain minimum dollar holdings for the Bizonal. The Bizonal's minimum was USD20 million—or, if the cash holdings were less than USD40 million, one-half of the total amount needed to be held in dollars. Reports of Financial Subcommittee on Preparations for Bizonal Conference, October 8, 1947, Box 74, RG56, USNA.

Through the Anglo-American Financial Agreement, sterling convertibility was made available for all currencies, as of July 15, 1947. Still, the United Kingdom was unable to drain away its many US dollar holdings to foreign countries. Finally, on August 16, the United Kingdom ended the convertibility of the pound sterling (Schenk, 2010, Chapter 2). It then requested a renegotiation of occupation cost sharing, as these costs imposed a major burden on the United Kingdom's US dollar holdings. For example, in the first half of 1947, 38.6% of the UK government's overseas expenditures were related to Bizonal occupation costs, and also accounted for 16% of the UK trade deficit at the time.<sup>6</sup>

In response to the United Kingdom's request, the US government concluded that the US dollar burden borne by the United Kingdom should be zero, demonstrating that the United States had finally recognized that the United Kingdom economy was unable to bear such costs. According to an investigation by National Advisory Council (NAC) staff, the United Kingdom was required under the agreement to pay USD150 million for the first half of 1948. If the United Kingdom paid nothing for the remainder of 1947, the United Kingdom would need to pay another USD65 million. The United States recognized that even if the United Kingdom were relieved of US dollar-denominated occupation costs, its US dollar shortage problem would not be perfectly resolved. Even so, it would have some effect in terms of settling the problem. Subject to renegotiations in June 1948, the United States thus set the removal of the United Kingdom's US dollar payments as a key objective of the negotiations.<sup>7</sup>

The United States met the United Kingdom's request through two modifications to the agreement. First, the United Kingdom no longer needed to assume the occupation costs in US dollars. Second, the Bizonal would promote trade with the sterling area.<sup>8</sup> The United States was intransigent, however, about the convertibility clause: the United Kingdom had to convert pounds sterling held by JEIA into US dollars, as per the agreement of June 1947.

Naturally, the United Kingdom requested that the United States modify this convertibility clause, so that it could save its US dollar holdings. The United States nevertheless rejected this request, and did not consider the clause the target of negotiations.<sup>9</sup> The United Kingdom insisted that it still faced a considerable shortage of US dollar holdings, and all non-Bizonal countries accepted

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<sup>6</sup>Memorandum, Table 1, no date, Box2, RG56, USNA.

<sup>7</sup>National Advisory Council Staff Committee, Financial Aspects of Procurement for Bizonal Area of Germany, October 9, 1947, Box 74, RG56, USNA; Recommendations Regarding US/UK Conference on the Revision of the Financial Provisions of the Fusion Agreement of December 2, 1946, October 8, 1947, Box 74, RG56, USNA. For the contents of the negotiations beyond sterling convertibility, see Kawasaki (2012), Addendum.

<sup>8</sup>US/UK Discussions to Review the Financial Provisions of the Bizonal Fusion Agreement of December 2, 1946, Final Agreement, December 18, 1947, Box 74, RG56, USNA.

<sup>9</sup>US Delegation, Summary of Record of Informal Meeting, November 4, 1947, Box 74, RG56, USNA.

the suspension of sterling convertibility. It was thus difficult for the United Kingdom to explain to other countries why the Bizonal was so “privileged.” In any case, the United States’ policy stance remained unchanged.<sup>10</sup>

The United States gave three reasons for preserving the convertibility clause. The first reason was that the United Kingdom had to bear the burden through a means other than payment in US dollars. Second, the accumulated sterling that could not be converted into dollars became a burden to the United States in the Bizonal. The third reason involved Congress: if the United Kingdom did not maintain sterling convertibility in the Bizonal during the Marshall Plan deliberations, Congress would be given the impression that the United Kingdom was on the verge of going into default. This impression made it difficult to negotiate the plan with Congress. The administration was required to explain to Congress that the United Kingdom was a “good financial risk.”<sup>11</sup> US policy-makers clearly felt that if the Marshall Plan were to be enacted in 1948, the United Kingdom’s US dollar shortage problem would be resolved.<sup>12</sup>

As a result of the negotiations, the United States agreed to add a safeguard to the United Kingdom’s US dollar holdings, but maintained sterling convertibility within the Bizonal.<sup>13</sup> Thus, the United States did not change its policy stance. The United Kingdom was released from making US dollar payments to support the Bizonal. As long as sterling convertibility was maintained, the United Kingdom was unable to fully escape its US dollar burden.

### **2.3 Burden-sharing and the importation of security**

After WWII, the US dollar area grew to become a major supplier for Europe. As the role of the key global currency gradually shifted from the pound sterling to the US dollar, European countries came to badly need the dollar. In these circumstances, the United Kingdom lacked sufficient US dollar holdings and needed to carefully guard those that it already held; as a result, the burden of occupation costs in dollars had become a major issue for UK policy-makers.

Responding to the United Kingdom’s request, the United States finally took responsibility for costs in the Bizonal. While US policy-makers modified their

<sup>10</sup>Summary Record, October 14, 1947, Box 74, RG56, USNA. In August 1947, Governor Brian Robertson told the United States Office of Military Government that the United Kingdom would maintain sterling convertibility for the Bizonal. After that, however, the United Kingdom changed its position, sowing distrust on the part of the United States. U.S. Delegation, Minutes, October 12, 1947, Box 74, RG56, USNA.

<sup>11</sup>US Delegation, Informal Meeting—U.S. Side, November 19, 1947, Box 74, RG56, USNA.

<sup>12</sup>Summary of Record of Informal Meeting, November 20, 1947, Box 74, RG56, USNA.

<sup>13</sup>US/UK Discussions to Review the Financial Provisions of the Bizonal Fusion Agreement of December 2, 1946, Final Agreement, December 18, 1947, Box 74, RG56, USNA.

previously optimistic view of the United Kingdom's US dollar problem, they continued to request that the United Kingdom maintain sterling convertibility in the Bizonal Military Government. The United Kingdom, mindful of its dependence on the United States as a supplier of security, had no choice but to acquiesce to the United States' request, and it was soon placed in a lower rank in the Bizonal Military Government.

The United States had expected the United Kingdom to be an equal partner as a security exporter for the Bizonal Military Government; thus, in the burden-sharing agreement in 1946, occupation costs and power in the Bizonal Military Government were divided equally. Nonetheless, the burden-sharing arrangement in 1947 between the United States and the United Kingdom made it clear that the United Kingdom had become a "junior partner." Regardless of the United States' recognition, the United Kingdom had since WWII become a security importer from the United States; therefore, the United Kingdom could not refuse the United States' request. Thereafter, the United Kingdom was compelled to accept burden-sharing, given its role as a security importer. However, the decline of the UK economy and the rise of two economic powers—namely, West Germany and Japan—soon changed who would be the United States' main burden-sharing partners.

### **3 Defense Spending, the Aircraft Industry, and Budgetary Offsetting in the Late 1960s**

Burden-sharing and arms transfers were especially closely linked in the Cold War years because security exporters' overseas outlays, including occupation costs, were often offset by security importers' purchases of arms equipment from the security exporter. This section focuses on the experiences of the UK aircraft sector—which served as the core of the country's arms industry—in its dealings with the United States, France, and West Germany in the 1960s. Thus, this section addresses burden-sharing and arms transfers, including the international development of aircraft projects.

In the 1960s, the United States needed the United Kingdom, as a junior partner, to help bear global burdens. Particularly, the East of Suez tasks were important to supporting both the US war in Vietnam and UK troops in West Germany (also known as the British Army on Rhine, or BAOR) during the Cold War in Europe. However, in the 1960s, the United Kingdom experienced serious problems with its balance-of-payments and defense deficits. The three major defense items were the development of advanced aircraft programs (i.e., TSR-2s, P-1154s, and HS-681s), the East of Suez tasks, and BAOR. This section examines how Harold Wilson's Labour government negotiated with the United States and West Germany in choosing from among the three aforementioned major defense items, and tried to find a "new role" after losing the Empire.

First, as Hayward (1989) observes, the project cancellation of the fighter-bomber TSR-2 led to the formation of the European aircraft industry,

especially as a rival to that of the United States. Hayward concludes that the Wilson government steered a “European” course at this point, to survive the difficult years of the 1960s (Hayward, 1989, pp. 95–98). Second, as Zimmermann shows, there were intense conflicts between the United Kingdom and West Germany in the 1950s and 1960s, regarding the foreign exchange costs of stationing UK troops in West Germany (Gavin, 2004, p. 137; Zimmermann, 2002, pp. 179–189). Third, Dockrill (2002) explains the major issues that related to the UK retreat from East of Suez, concluding that the United Kingdom’s role had become a “European” one, away from a “global” one. Generally, the United Kingdom—which had previously been characterized in terms of the three contexts of the British Empire and Commonwealth, an Anglo-American special relationship, and the unification of Europe—became a member of Europe after losing the Empire.

In contrast, it is argued here that the United Kingdom reaffirmed its close alliance with the United States throughout the 1960s. While the United Kingdom’s participation in European integration, especially in the European Economic Community, was prominent, its priority was maintaining a strong relationship with the United States. This policy was an important factor for the United States, as France was shifting to Gaullist policies just as the United States was becoming involved in Vietnam’s struggles—an effort in which the United Kingdom was its only reliable ally. Hence, this section examines the three aforementioned issues from the perspective of the United States–Europe relationship.

### **3.1 Cancellation of British military aircraft programs<sup>14</sup>**

When Wilson took office in October 1964, the biggest problems the Cabinet faced were a budgetary deficit and a severe balance-of-payments problem. The TSR-2 fighter had become a symbol of the East of Suez policy of the Conservative government, and of UK technology. It became much more than a simple aircraft project, given the US aircraft industry’s dominance of world markets since the mid-1950s and the management crisis that the UK aircraft industry faced. In response to this crisis, in the first stage of industrial rationalization, the UK Ministry of Supply tried to consolidate manufacturers through TSR-2 fighter-bomber contracts, in rivalry with the US F-111s. The Macmillan government in this way tried in the 1960s to rebuild the UK aircraft industry through these projects; it strove to maintain an independent defense industrial base, in order to defend the British Empire even after the Suez crisis

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<sup>14</sup>This subsection is based on Chapter 5 of Sakade (2010), “From cancellation to collaboration: How Britain finally abandoned its hegemonic aspiration and joined forces with the United States, 1965–1966.”

in 1956. The plan was for TSR-2s to carry nuclear bombs and have the function of providing a “nuclear umbrella” for East of Suez. Project cancellation of military aircraft programs for the TSR-2s, the P-1154s, and the HS-681s by the Wilson government in the spring of 1965 shocked the British people and journalists of the time. The Wilson government’s decision attracted much attention, as it symbolized the United Kingdom’s “retreat from a world role” (Straw and Young, 1997, p. 44, note 80). Hastings’s *The Murder of TSR-2* expresses the common sentiment that the government’s decision damaged national prestige, and also set back the UK aircraft industry (Hastings, 1966; Wood, 1986).<sup>15</sup> Later, scholars argued that the government’s decisions were economically justified (Williams, Gregory, and Simpson, 1969).<sup>16</sup> More recent studies based on newly available government documents and biographies of the decision-makers of the time support the view that the Wilson government’s decisions were justified. Straw and Young also describe the decisions as rational and courageous, as they helped achieve budget cuts by withdrawing from East of Suez (Dockrill, 2002; Sakade, 2010, pp. 135–136; Straw and Young, 1997).<sup>17</sup>

Just after taking office, UK Minister of Defence Denis Healey proposed cancellation of the TSR-2, P-1154, and HS-681 projects. On November 21–22, Wilson met with key Cabinet members at Chequers Court to discuss UK defense policy, in preparation for discussions in December with US President Lyndon B. Johnson (hereafter, LBJ). A report previously prepared by the Treasury and Ministry of Economic Affairs pointed out that military spending had trended upwards over the previous five years; it also predicted that military spending would rise to GBP24 billion by 1969–70. The Ministry of Economic Affairs proposed setting a ceiling of GBP20 billion for the military budget, to solve the economic difficulties that the United Kingdom had faced under the Conservative government—that is, a stop–go cycle. Wilson approved the proposals, and said that “We should not seek to maintain in the future our three roles on their present scale” (Dockrill, 2002, p. 57). While the most effective way of cutting military spending was to retreat from East of Suez, most ministers supported the continuation of UK involvement in that region (Dockrill, 2002, pp. 49–58). Therefore, the target of cutting GBP4 billion from the military budget was achieved by reducing military research and development expenditures. Hence, Healey proposed cancelling the TSR-2, P-1154, and HS-681 projects, and purchasing equivalent US aircraft instead (Sakade, 2010, p. 142;

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<sup>15</sup>The conclusions of Straw and Young, and of Wood, are based primarily on government statements and interviews. They formulate a view that emphasizes the negative effects of government decisions on the UK aircraft industry.

<sup>16</sup>Written by defense authorities, this study explains the impact of cost-effectiveness analysis on the cancellation of the military programs, and takes the position that the decision was rational.

<sup>17</sup>In Chapter 4 of her book, Dockrill (2002) analyzes these cancellations and the purchase of F-111s, from a wider perspective—that is, the UK retreat from East of Suez.

Straw and Young, 1997, pp. 22–25; Wilson, 1971, pp. 35–37; Zuckerman, 1988, pp. 374–377).<sup>18</sup>

The effect of foreign exchange on the purchase of the F-111s became the main obstacle. Henry Kuss of the US Department of Defense, International Logistics Negotiations (ILN), as well as Air Marshall Sir Christopher Hartley, negotiated during December 14–18, 1964 the UK purchase of the US aircraft. The ILN estimated a foreign exchange cost of about USD1.6 billion over 10 years, if the United Kingdom were to buy 100 F-111s, 180 F-4s, and 100 C-130s; it recommended to US Secretary of Defense Robert McNamara that he send a letter to the UK Minister of Defence Healey expressing the willingness of the United States to discuss ways and means of easing the foreign exchange impact (Sakade, 2000, p. 144).<sup>19</sup>

The Cabinet split into three factions: those supporting cancellation of the TSR-2s, and instead purchasing the F-111s; those supporting continued development of the TSR-2; and those supporting the procurement of neither. Enactment of the third alternative would mean that the United Kingdom would be forced to retreat from East of Suez. Healey advocated the first alternative. Since the Washington summit, he had maintained a close and cooperative relationship with McNamara, and introduced to the UK military budget the cost-effectiveness analysis used in the United States by McNamara. This analysis showed that development of the TSR-2 was a waste of money, given the high per-unit cost attributable to the limited production quantity. Roy Jenkins, Minister of Aviation, advocated the second alternative, to avoid damaging the UK aircraft industry, but he was inclined towards the third alternative, because of doubts concerning the UK role in East of Suez (Dockrill, 2002, pp. 78–79; Jenkins, 1991, p. 172; Sakade, 2010, p. 145).

On April 1, 1965, there were two lengthy Cabinet sessions at which the proposed cancellation of the TSR-2 project was discussed. To address the main obstacle—namely, the foreign exchange problem—the United Kingdom and the United States began negotiating, on a *quid pro quo* basis, how much UK military hardware the United States would buy in return for the UK purchase

<sup>18</sup>US Secretary of Defense Robert McNamara's view was that the United Kingdom had to rationalize its defense budget (i.e., switch its nuclear umbrella from the TSR-2s to the F-111s) so that it could afford the cost of a continued role in East of Suez; this bolstered the United Kingdom's commitments in Southeast Asia to support the United States in Vietnam (Note of Meeting Between Mr. McNamara, The Minister of Defence for the Royal Air Force and the Charge D'affaires at the Pentagon on 25 March, 1965, T225/2583, The National Archives, Kew (hereafter TNA); Sakade, 2010, p. 143). Alongside the basic objectives of the ILN (headed by Henry Kuss) of the US Department of Defense was cessation of the development of the TSR-2, and opening of the UK military market to US hardware (US/UK Military Sales Negotiations, January, 1965, Background Data, Box 16, E5172, RG59, USNA).

<sup>19</sup>Report of United Kingdom Aircraft Survey and United States Proposal, December 23, 1964, Box 16, E5172, RG59, USNA.

of the F-111s. Although a majority of ministers agreed with the proposal to cancel the TSR-2 project, many of them did not support purchasing the F-111s, given their concerns about foreign exchange problems. As noted earlier, Minister of Defence Healey strongly insisted on the purchase of the F-111s, and Minister of Aviation Jenkins opposed it. During the meeting, a new US proposal was presented: the United Kingdom could initially buy only 10 F-111s for training purposes, and then decide whether to order an additional 70–100 F-111s by January 1966. The United Kingdom could thus postpone the decision to buy F-111s until January 1966, allowing it to review at length its overseas defense policy. The Cabinet decided to cancel the TSR-2 project, purchase 10 F-111s, and take the option of buying 70–100 F-111s (Crossman, 1975; Dockrill, 2002, pp. 89–90; Healey, 1990, p. 273; Sakade, 2000, p. 147; Straw and Young, 1997, pp. 35–36; Wilson, 1971, pp. 89–90).<sup>20</sup> With these decisions, the United Kingdom abandoned three major military programs, effectively ending the United Kingdom's independent aviation programs. Still, the Cabinet avoided making a final decision about buying F-111s as replacements for TSR-2s (Sakade, 2010).<sup>21</sup>

To overcome foreign currency problems, the US and UK governments looked to secure a Saudi Arabian aircraft order in the autumn of 1965, with Lockheed (the United States), Dassault (France), and British Aircraft Corporation (BAC; the United Kingdom) all vying for the order. The Saudi government was inclined towards Lockheed's F-104. UK Minister of Defence Healey appointed Sir Donald Stokes, a civilian, as government advisor on selling arms in competition with the United States. In August, Stokes approached McNamara about US support for the UK bid for the Saudi order, to help resolve the United Kingdom's balance of payments problem resulting from the purchase of US aircraft (Sakade, 2010, pp. 155–156; Sampson, 1987, pp. 157–163; Stonehouse, 1975, p. 50; Thayer, 1969, p. 260).

Because of the Saudi deal, the UK government grew reluctant to accept the French Mirage as another contender for a TSR-2 replacement. In the "Defence Review Memorandum" of November 5, 1965, Minister of Defence Healey and Minister of Aviation Jenkins expressed opposition to the adoption of the Spey-Mirage (powered by a Rolls-Royce Spey engine), given its overall cost and introduction schedule. When *Time* magazine carried an article on the Spey-Mirage, Foreign Minister Michael Stewart urged Minister of Defence Healey to send a message to France that the United Kingdom had no intention of purchasing the Mirage. Stewart highlighted, from a diplomatic standpoint, the risk of adopting the Mirage. With continuing French objections to NATO, if the United Kingdom were to have adopted a French rather than a US aircraft as its

<sup>20</sup>CC(65)20, CC(65)21, CAB128/39, TNA.

<sup>21</sup>UK Purchase of F-111: British Interest in Quid Pro Quo, April 12, 1965, Box 21, E5172, RG59, USNA.

next-generation nuclear delivery vehicle, there would have been serious political repercussions (Sakade, 2010, p. 156).<sup>22</sup>

With the UK government purchasing the F-111s, Rolls-Royce was then able to sell its Spey engine to the US Department of Defense and successfully penetrate the huge US military market. Project cancellation of the TSR-2 by the Wilson government in 1965 was a major turning point in the history of UK aircraft development. The United States helped the United Kingdom offset the cost of the F-111s by participating in cooperative aircraft sales to Saudi Arabia, thus enabling BAC to penetrate the Middle Eastern military market, which had previously been dominated by the United States. Moreover, on account of the F-111 purchase, US and UK officials agreed that the US Department of Defense would make an exception to their “Buy American” policy in the case of UK military products. This agreement enabled Rolls-Royce to compete on the same terms as US manufacturers (Sakade, 2010, p. 157).

The military spending problem between the United States and the United Kingdom progressed, and it centered on the purchase of US arms by the United Kingdom through the offset. At a meeting on February 14, 1966, the UK Cabinet resolved to purchase United States-made F-111 fighters for its “nuclear umbrella” for East of Suez. A French-made fighter (Mirage IV) had also been a candidate, but the main factor behind the UK Cabinet’s decision to purchase the US fighters was the United Kingdom’s foreign currency spending problem. Unlike France, the US government was prepared to cover the foreign currency of USD725 million needed to purchase the F-111s, through the joint United States–United Kingdom export of arms to Saudi Arabia worth USD400 million. Additionally, the US government committed to purchasing USD325 million of UK arms. In other words, this arrangement provided the United Kingdom with the prospect of acquiring a “nuclear umbrella” for East of Suez without having to pay for it in foreign currency. Hence, the US government’s commitment to purchase UK arms came to bear important meaning in the offset negotiations among West Germany, the United Kingdom, and the United States (Sakade, 2010, pp. 158–159).

### **3.2 Trilateral offset negotiations in supporting the cost of troops in West Germany<sup>23</sup>**

Turning to the offset problem with West Germany, the finance of BAOR support costs had created a severe conflict between the United Kingdom and

<sup>22</sup>Spey-Mirage IV, December 13, 1965, PREM13/716, TNA.

<sup>23</sup>This subsection is based on the extra chapter in Sakade (2010) entitled “The NPT Regime and Defense Industrial Base: The Anglo–United States–West Germany Offset Negotiations from March 1966 to April 1967.”

**Table 1.** Net UK Foreign Exchange Losses, 1962–66 (millions of USD).<sup>24</sup>

	1962	1963	1964	1965	1966
BAOR expenditure in West Germany	103	212	226	238	250
West German offset: Military procurement	100	143	28	90	50
Additional civilian procurement	2	27	28	34	70
Total	102	170	56	124	120
Net UK foreign exchange loss	81	42	170	134	130

West Germany in the 1950s and 1960s. For the United States, UK cooperation was indispensable to the resolution of its own “German problem”—that is, the aggregation of various points of contention among the United States, the Soviet Union, and European nations, with the most extreme point of contention being German unification. This was because in the event of France withdrawing from the Western Alliance, it would have been necessary to strengthen the relationship between the United Kingdom and West Germany in order to stabilize NATO. Moreover, the United Kingdom itself had considered withdrawing its army stationed in West Germany as it searched for a way to withdraw from East of Suez. Zimmermann researched the trilateral offset negotiations agreed among the United States, the United Kingdom, and West Germany in March 1967 from the viewpoint of “Money and Security” (Zimmermann, 2002). However, in this study, in line with this analytical viewpoint, the offset negotiations among the United States, the United Kingdom, and West Germany are examined in terms of stationing costs in West Germany. It also discusses the new US solution to the offset problem, in light of the new offset approach taken by the Bundesbank—namely, of holding US dollars that it would not convert to gold—in contrast to the old offset method of arms sales. This arrangement between the United States and West Germany was the origin of the “US Treasury bill standard” (Hudson, 1972), which allowed the United States much further defense spending and the accumulation of current-account deficits.

Both the United States and the United Kingdom stationed troops in West Germany, and the West German government entered into agreements with both countries to offset troop costs by making offset arms purchases. Nevertheless, while West Germany willingly purchased US military equipment, it was reluctant to purchase UK military equipment, as the former was generally considered superior to the latter. Fred Bergsten, an Assistant Secretary

<sup>24</sup>Effect on UK Balance of Payments of New UK–Germany Military Offset Agreement, Box 1, E5178, RG59, USNA.

for International Affairs at the US Department of the Treasury, analyzed the United Kingdom–West Germany offset problem, and pointed out that the West Germans were not interested in UK weapon systems.<sup>25</sup> In the 1950s and early 1960s, the Anglo–West German offset problem was one of the most serious conflicts in European defense matters, as the UK domestic opinion was inclined to withdraw the BAOR on account of dissatisfaction with West Germany's purchase of UK equipment, especially within the context of very large foreign currency outlays.

Above all, on the eve of the 1966 NATO Crisis, various bilateral agreements on military spending were concluded between the United States and West Germany, the United Kingdom and West Germany, and the United States and the United Kingdom. Central to the offset relations associated with this military spending was the point that West Germany would offset the costs of stationing US and UK troops within its territories by purchasing arms from these two countries. As this line of activity depended on the military budget set by the West German government, it was vulnerable, as it was subject to budget deliberations in the West German parliament. The Western Alliance was greatly shaken by the withdrawal of France from the NATO military organization, which meant the withdrawal of US forces from French territory, and also of French forces from West Germany. It also brought about, first, a reorganization of the balance and arrangement of military power in central Europe and the question of who would bear the military costs. Second, it brought about a crisis regarding the unity of the Western Alliance. These conditions inevitably resulted in a series of related crises in the form of a reduced BAOR and diminished military readiness among NATO nations.

As a means of resolving this problem, John McCloy, the US negotiator in offset negotiations, explained that the United States wanted a change of approach from the offset policy involving the purchase of arms (which had been adopted in the Erhard period) to a policy solution involving financial transactions using the Bundesbank, which would purchase US Treasury bills.<sup>26</sup> The pound crisis in July 1966 increased the urgency of finding solutions to the United Kingdom–West Germany offset and BAOR withdrawal problems. On July 20, 1966, UK Prime Minister Wilson pledged in the House of Commons to reduce his government's overseas spending by USD280 million; furthermore, he announced that if the West German government would not agree to cover more of the costs of stationing BAOR, the forces would be withdrawn. During a summit between LBJ and Wilson in Washington on July 28–29, 1966, Wilson

<sup>25</sup>Effect on UK Balance of Payments of New UK–Germany Military Offset Agreement, Box 1, E5178, RG59, USNA.

<sup>26</sup>*Foreign Relations of the United States, 1964–1968*, XIII, Western Europe Region Doc. 239, Rostow to LBJ, March 6, 1967. (<https://history.state.gov/historicaldocuments/frus1964-68v13/d239> [accessed May 15, 2015]).

explained the United Kingdom's balance-of-payments problem, and warned LBJ that among the possible solutions—that is, devaluing the pound, withdrawing its forces from East of Suez, and withdrawing BAOR—his government was considering neither of the first two of these. At this summit, LBJ promised to support the United Kingdom's balance of international payments through the purchase of United Kingdom-made Spey aero-engines worth USD100 million, for use as US Air Force fighter jets. This deal was the first large-scale fulfillment of the US military's commitment to purchase USD325 million worth of UK arms, as part of the F-111 offset agreement (Dockrill, 2002, pp. 188–189; Gavin, 2004, p. 162; Sakade, 2010, p. 284).<sup>27</sup>

Following the conclusion of the trilateral offset negotiations, Burk Trend, an advisor to the UK Cabinet, indicated to Prime Minister Wilson that the new US policy for offsetting its foreign currency spending with respect to stationing its troops (i.e., via the purchase of Treasury bills by the Bundesbank) had created a new situation in the United Kingdom. This new offset method signified that the former method for offsetting the total foreign currency spending of the United States for its stationed troops—namely, of West Germany purchasing US arms—had been abandoned; he stated that this could prove to be an opportunity for the United Kingdom in the long term. In the following five years, the West German army was scheduled to update its equipment, including its F-104 fighters, and Trend felt it was possible that in this update, the United Kingdom could take the place of the United States and become the West German Army's main equipment supplier. The problem the United Kingdom faced when selling arms to West Germany was whether its products met the needs of the West German army. On this point, Sir Frank Roberts, the UK Ambassador to West Germany, proposed a new policy for the United Kingdom–West German offset agreement of implementing joint development projects by western European nations in cutting-edge science and technology fields. The starting point for this joint development policy was the major United Kingdom–West German joint development project of the Tornado fighter in the 1970s<sup>28</sup> (Sakade, 2010, p. 288).

With the emergence of the Kiesinger coalition government, Ambassador Roberts submitted a report on the Anglo–West German offset arrangement with the UK government. The essence of the new approach was to build up Anglo–West German collaboration in advanced technology sectors, and in this way, bring about a situation in which West German payments to the United Kingdom would naturally occur. Under the new United States–West Germany offset arrangement, the West German government was released from its obligation to offset 100% of the costs of the United States' stationing of forces in

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<sup>27</sup>The USAF Rolls-Royce Contract, August 2, 1966, E(A)5603, RG59, USNA.

<sup>28</sup>Trend to Wilson, July 27, 1967, PREM13/1526, TNA; Sir Frank Roberts to Brown, July 13, 1967, PREM13/1526, TNA.

West Germany through purchases of US arms, and West Germany was free to procure arms at will (Sakade, 2010, pp. 292–293).<sup>29</sup>

The Anglo-West German Tornado fighter also signaled the United Kingdom's shift from France, and ultimately, its recovery through collaboration with West Germany. With the Kiesinger coalition government, the United Kingdom changed its offsetting policy regarding the stationing costs of BAOR from the West German purchase of UK military goods to the build-up of Anglo-West German collaboration in advanced technology sectors, with West Germany to pay the United Kingdom as a natural consequence. The Anglo-West German–Italian Tornado fighter was a test case of this new approach to the Anglo-West German offset problem; meanwhile, France proceeded with the development of the Mirage F-1 fighter in isolation. As a result, the United States prevented independent European fighter development that was based on Anglo-French collaboration, and isolated France in the Western Alliance.

The cancellation of the TSR-2 project and the purchase of US F-111s was the core arrangement between the Wilson and LBJ governments, even after the cancellation of the F-111s on account of Wilson's decision in 1967 to retreat from East of Suez. With the decision to purchase the F-111s, the UK aircraft industry entered the US military market, as well as the Middle Eastern military market, which had been previously dominated by the United States. With the decision to cancel the TSR-2 purchase in favor of USF-111s, the Wilson government entered into complex United States–United Kingdom–West Germany arms and financial negotiations, and kept a distance from France. Within this context, the Wilson government maintained its defense sector and international competitiveness through the development of the Tornado fighter.

As a result of the offset negotiations, the West German government was released from its obligation to offset, through purchases of US arms, 100% of the cost of stationing US forces there; this opened up opportunities for West German industries to develop and become the main equipment suppliers for the West German army. With this turn of events, West Germany started to become a security exporter. The Wilson government changed its position throughout the trilateral offset negotiations, from the withdrawal of BAOR, to maintaining BAOR and becoming a security exporter. As security exporters, the United Kingdom and West Germany were able to initiate collaboration on military equipment trade.

With the collapse of the Erhard government came a limit on the arms that could be used to offset burden-sharing. With these developments, the United States suggested a new means of offsetting—the purchase of US Treasury bills—and allowed West German arms procurement at will. The United Kingdom committed to troops in West Germany and proceeded to undertake the United Kingdom–West Germany co-development of aircraft (the Tornado

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<sup>29</sup>Sir Frank Roberts to Brown, July 3, 1967, PREM13/1526, TNA.

fighter). However, this United Kingdom–West Germany collaboration did not develop into an independent European project against the United States, nor did it include France. In 1967, the United Kingdom announced a retreat from East of Suez; the Wilson government kept troops in West Germany and abandoned the advanced aircraft project (TSR-2) and all East of Suez tasks. Throughout the 1960s, the United Kingdom lost the position of global security exporter and became a Europe-oriented security exporter.

#### **4 West German and Japanese Burden-sharing, from a Historical Perspective**

*Kissinger:*... what I'm wondering, is it possible for you... to hang tough 'cause the Europeans in the meantime have been bastards so that later on we can wrap up some concessions in the monetary field as part of more global negotiation? *Shultz:* That would be a pretty delicate proposition. K: I know. S: We have as much at stake as anybody in a monetary system that works.... K: But they have as much at stake as anybody in the security system that works and it doesn't seem to affect them.<sup>30</sup>

This excerpt from an August 1973 conversation between Henry Kissinger and Secretary of the Treasury George Shultz shows the close link between security policy and monetary policy in the North Atlantic Alliance during the Cold War. (This close link was discussed in previous sections of this paper.) The US military hegemony and the US dollar's role as the dominant global currency sustained each other, and they still do (Norrlöf, 2010). Nevertheless, these dual pillars of US global power not only confer enormous benefits to the United States, but also come with enormous costs, as we have seen. Deploying and sustaining large military forces abroad, waging military campaigns in foreign territories, bolstering weak allies and, until 1971, defending the external parity of the US dollar were tasks that even the United States found difficult to shoulder alone. Since many of these and other tasks involved the production of common goods from which US allies also profited—namely, military security, stabilizing troubled but important parts of the world, and providing monetary stability—the issue of burden-sharing became a perennial problem. The classic free-rider problem among all alliances turned out to be almost impossible to resolve: the appropriate level of burden to be assumed by the allies depended on many factors (Foucault and Merand, 2012). This problem was particularly difficult in US relations with West Germany and Japan, both of whom shared

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<sup>30</sup>Foreign Relations of the United States, 1973–76, XXXI, Foreign Economic Policy, Doc. 52. Transcript of Phone Conversation between Shultz and the President's Assistant for National Security Affairs, August 15, 1973 (<https://history.state.gov/historicaldocuments/frus1969-76v31/d52> [accessed May 15, 2015]).

a security alliance with the United States, were among the richest US allies, and had a very special history. Both countries played important roles in sustaining the US empire with regard to both military and monetary aspects. Their relations thus epitomize the close connection in world politics between money and security (Zimmermann, 2002).

What is the nature of this link as we enter the 21st century? This section summarizes the past dynamics of burden-sharing in the two alliances, and discusses what has changed. It then applies the lessons of the past to the current situation: is there a similar dynamic in the link between money and security, or have things changed?

#### **4.1 West German burden-sharing**

West German burden-sharing in the Atlantic Alliance consisted mainly of providing its own forces and equipment for common tasks after the country was allowed to rearm. However, it also took the form of specific support for the United States, which manifested as 1) direct contributions—such as stationing costs—particularly immediately after the war (see section 1), 2) military purchases, especially in the 1960s, and 3) monetary help from the 1960s onward (see section 3). This support was based on West Germany's perception of fundamental insecurity vis-à-vis the Soviet Union and the conviction that US troops were the fundamental expression of the US security guarantee (Junker and Maulucci, 2013). The more intense the conflict with the East—and the more strongly the West Germans expressed their quest for reunification—the more they came to rely on US protection. Of course, this also imposed serious constraints and limitations on West German sovereignty. As West Germany grew more self-confident, these issues became more problematic. To escape these constraints, two options were basically available. One option was to achieve self-sufficiency in defense matters, which was possible only with nuclear weapons. Due to limitations on its sovereignty, but also because of its self-conception as a civilian power, this option was never seriously pursued by any West German government (Berger, 1998). The second option was an alternative alliance in which West Germany would be more than just a junior partner. This was the European option which, despite many failures and slow progress, increasingly became a realistic alternative and reduced US leverage for burden-sharing.

This second option became especially attractive when, in the 1960s, the military and monetary bases of the alliance became ever more closely entwined. During these years, the United States became increasingly worried about the economic burden that its military commitments abroad were incurring. In a series of very controversial agreements, West Germany agreed to use its monetary strength to support the US dollar—which, according to the most popular US interpretation, was under pressure not because the United States had lost competitiveness vis-à-vis its European partners, but because of the foreign exchange cost of US

security commitments (Zimmermann, 2002). These offset agreements involved not only massive purchases of US arms, but also various measures for stabilizing the US dollar. The most important element was probably the so-called Blessing Letter, in which the then-President of the Bundesbank promised the United States that it would refrain from converting US dollars into gold; in this way, the Bundesbank threw the weight of the strong West Germany currency behind US efforts to preserve the US dollar's role as the global currency.<sup>31</sup> This pledge occurred within the framework of negotiations in 1966–67 concerning the foreign exchange cost of US troops (see section 2). Despite this and numerous subsequent interventions in currency markets by the West German government, the fixed exchange rate system of the Bretton Woods era collapsed in 1973, when West Germany decided to stop all interventions on behalf of the US dollar (Zimmermann, 2008a). West German burden-sharing after this period is still not very well researched. Nonetheless, it is known that the West Germans did continue to extend various privileges to US forces; they provided bases that allowed the United States to intervene effectively in various trouble spots in the Near and Middle East,<sup>32</sup> and they supported the general thrust of US economic policies. US demands for host nation support supplemented the previous offset agreements and were directed mainly at West Germany, which was seen as having a “locomotive function” as regards burden-sharing by the rest of Europe. The West German Foreign Ministry wrote that a West German refusal to put in place host nation support would run counter to the concept of burden-sharing embodied in the alliance.<sup>33</sup> It is clear that West Germany still saw no alternative to supporting the United States.

This situation started to change—and only slowly—after 1989, when the Berlin Wall came down and the Soviet Union thereafter disintegrated. It became obvious that the need to import security from the United States had all but vanished. The first Gulf War (1990–91) was a final manifestation of traditional transatlantic burden-sharing. Germany did not participate in the military campaign, but it did extend wide-ranging logistical support and substantial financial contributions. Although this still very much represented traditional burden-sharing, German security policy slowly began to change during these years (Zimmermann, 2008b). For example, the Germans assumed a central role in the Western effort to stabilize the former Warsaw Pact countries, especially through massive financial transfers. Former Defense Minister Volker Rühe

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<sup>31</sup>The Bundesbank archive has recently published the letter, along with comments and some additional documents. See [www.bundesbank.de/Redaktion/EN/Standardartikel/Topics/2013\\_01\\_18\\_blessing\\_letter.html](http://www.bundesbank.de/Redaktion/EN/Standardartikel/Topics/2013_01_18_blessing_letter.html) [accessed February 6, 2014].

<sup>32</sup>Akten zur Auswärtigen Politik der Bundesrepublik Deutschland (AAPD), 1980, Doc. 221, Memorandum by Political Director Blech: Usage of U.S. Bases in Germany, July 28, 1980, pp. 1167–1170.

<sup>33</sup>*Ibid.*, Doc. 370, Memorandum by Ministerialdirigent Dröge, December 18, 1980, p. 1917.

justified these actions in May 1994, when he said that “if we do not export stability now, we will be sooner or later seized by instabilities ourselves.”<sup>34</sup> This stability export was increasingly seen by many elites as involving not only civilian, but also military means. Of course, this argument flew in the face of the traditional norms of peaceful conflict resolution and the renunciation of German military out-of-area operations. The conflict was clearly exposed by the Bosnian wars in the early 1990s. After lengthy debates, Germany slowly stepped up its participation in military peace-keeping missions, culminating in the Kosovo operation in 1999. Germany also participated in United Nations missions in Cambodia, Somalia, and East Timor during these years. Very soon after the decision to participate in the Kosovo campaign, Chancellor Schröder stated at the Munich Security Conference of 1999 that Germany was now “without any hesitation ready to accept responsibility as a normal ally”; this role, he said, was not limited to the NATO area: “In this sense our foreign and security policy has to be a contribution to the global safeguarding of the future. Let’s call it what it is: an export of political stability” (Schröder, 1999). Today, Germany is among the largest providers of troops stationed abroad.<sup>35</sup> Recently, German officials such as Federal President Joachim Gauck, the new Foreign Minister Frank-Walter Steinmeier, and Defense Minister Ursula von der Leyen have called on Germans to accept this reality: “Since reunification, Germany has embarked on a new course. Step by step, our country has transformed itself from a beneficiary to a guarantor of international security and order” (Gauck, 2014).

What do these developments mean for burden-sharing, and for the link between money and security? The thrust behind Germany’s willingness to accept an asymmetric burden-sharing role in the Atlantic Alliance—that is, the importation of security from the United States—has disappeared. This marks a decisive change in the bilateral relationship: whereas a traditional burden-sharing role necessarily creates a hierarchy within the alliance, the new role of German security policy removes such a hierarchy. A similar development has occurred in the monetary realm: the creation of the euro has led to the establishment of an increasingly leaderless monetary system; the US dollar remains the dominant global currency, but the euro is a credible alternative, despite the recent crisis (Helleiner, 2013). Although for various reasons Europeans are not eager to shoulder the responsibility of managing a truly international currency, they have little or no stake in helping to maintain the US dollar hegemony (Zimmermann, 2013). Monetary burden-sharing is being replaced by *ad hoc* cooperation; as such, in both the military and economic realms, Germany has replaced the importation of US security with a strong focus on exporting

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<sup>34</sup>Rühe (1994), p. 424 [author’s translation].

<sup>35</sup>For current figures, see [www.bundeswehr.de/portal/a/bwde/!ut/p/c4/04\\_SB8K8xLLM9MSSzPy8xBz9CP3I5EyrpHK9pPKUVL3UzLzixNSSKiirpKoqMSMnNU-\\_IntREQD2RLYK/](http://www.bundeswehr.de/portal/a/bwde/!ut/p/c4/04_SB8K8xLLM9MSSzPy8xBz9CP3I5EyrpHK9pPKUVL3UzLzixNSSKiirpKoqMSMnNU-_IntREQD2RLYK/).

security to allies and to unstable territories that it perceives as actual or potential threats.

## 4.2 Japan as a security importer

Like West German post-war leaders, Japanese elites after 1945 renounced expansionism and were convinced that their security should rather be guaranteed by an external protector—the United States. As such, Japan became a security importer. The security treaty with the United States, concluded in the shadow of the Korean War, granted the United States the right to station troops on Japanese soil. Similar to the West German case, this created an endless debate on the mutual costs and benefits of this commitment. While Japan argued that the troops were primarily there because of US strategic needs and stationing rights represented enough of a contribution, the United States argued that they also protected Japan, and that there should be some compensation for this (Awanojara, 1990). The debate became particularly acrimonious after Japan's rise as an economic superpower.

The “logic of burden-sharing” (Katzenstein, 1996, p. 102)—something that came to characterize the United States–Japan alliance—was codified in the 1960s as the Treaty of Mutual Security and Cooperation. Allegedly representing the longest alliance since 1648 between two great powers (Packard, 2010), the treaty provided the US security guarantee and also gave to the United States the right to station troops in Japan, including various privileges. Like the West German army after committing in the 1960s to offset payments, Japanese forces became a mostly United States-equipped military, bolstered by the interoperability of materiel and joint training and exercises. Like West Germany, Japan signed offset agreements with the Kennedy administration. Under these agreements, Japan agreed to augment its purchases of US weapons.<sup>36</sup> Despite concluding a corresponding agreement in 1963, there was strong pressure in the United States throughout the 1960s to increase Japan's burden-sharing. LBJ reminded Japanese Prime Minister Hayato Ikeda—in a meeting three days after the Kennedy assassination—that since WWII, the United States had spent over USD100 billion in helping other nations stand on their own feet and regain productivity. However, at that point, the administration was facing increasing problems in Congress, not because of any lack of prosperity in the United States, but because the members of Congress felt strongly that others had to assume a larger share of the burden than had previously been the case.<sup>37</sup>

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<sup>36</sup> *Foreign Relations of the United States, 1961–1963*, XXII, Northeast Asia, Doc. 368, Memorandum From the Deputy Secretary of Defense (Gilpatrick) to President Kennedy, February 8, 1963.

<sup>37</sup> *Ibid.*, Doc. 385. Memorandum of Conversation, November 25, 1963.

The Vietnam War and its associated cost only intensified such feelings. The United States continued to aim for a more expansive role for Japan; increasingly, this meant not only support for the United States in the Japanese homeland, but also broader assistance for US global policies:

Our object should thus be to encourage Japan to concentrate her military efforts on air and sea defence of the home islands, plus the approaches there to, while playing a modest role in international peace keeping, and to urge also that Japan use her growing power along economic and political lines, bilaterally and in regional groupings, to assist the development and stability of countries of the area. (Department of State, 1968)

This pressure grew in the 1970s, once Japan's economic success became very obvious; Japan was hence forth compelled to step up its burden-sharing efforts. This resulted in the “Guidelines for US–Japanese Defense Cooperation” of 1978, a framework in which Tokyo and Washington intensified their military cooperation. They were taking a first step towards a geographic expansion of Japanese support by defining the scope of mutual cooperation so as to include the deterrence of an attack on Japan, common activities in the actual case of an attack, and general support of the United States in situations that also endangered Japan's security. As a consequence of these “Guidelines,” cooperation between the militaries of both countries increased enormously (Katzenstein, 1996, p. 133). Japan became a major market for US military exports, and also assumed most of the cost of US forces stationed in Japan.

To defuse strong criticism in the 1970s in the United States regarding Japanese free-riding on US security provisions—at a time when the trade balance between both countries heavily favored Japan—the Japanese government started to offer host nation support, known as *omoiyariyosan* (“sympathy budget”) (Yoda, 2006). These payments financed the cost of Japanese workers employed at US bases. Periodically renegotiated, the agreements reflect not only the security situation of their time, but also factors such as the appreciation of the yen, or changes to the balance of trade (Yoda, 2006, pp. 940–941). A detailed study of the recurrent negotiations can provide important insights into the money–security nexus of the United States–Japan alliance. Japan's contribution as of 2000 grew considerably, followed by a small attenuation (US Senate, 2013). Despite considerable public opposition to these payments, the agreement was extended in 2011 for another five years, amounting to an annual cost of JPY188.1 billion (*Japan Times*, 2011).

Since 1992, Japanese troops have also participated in peace-keeping missions. A core reason for this change was the US backlash against Japan's “check-book diplomacy” in the first Gulf War. Despite the provision of substantial financial sums, Japan remained vulnerable to US burden-sharing requests; US assessments after the war stated clearly that, “In pursuing our interests here, we have the opportunity to take advantage of Japan's defensiveness and fear

of isolation in the wake of the gulf crisis to gain greater GOJ [government of Japan] cooperation.”<sup>38</sup> The US ambassador to Japan wrote about a meeting with a Japanese official thus: “I welcomed...these indications of GOJ readiness to avoid a replay of last summer’s unfortunate struggles over burden-sharing. We underscored the importance of declaring Japan’s support promptly, moving additional funds to our troops in as swift and efficient a manner as possible....”<sup>39</sup>

The fulfillment of a longstanding objective of the United States became more realistic with Japan’s increasing participation in military engagements beyond its borders. The most spectacular example of this increased participation was Japan’s troop deployment in Iraq in 2003. Japan’s ambivalence about military engagements abroad had been trumped by the “alliance imperative of demonstrating support for the United States in Iraq to consolidate support for Japan” (Hughes, 2004, p. 47). In a press conference on the extension of the service of Japanese forces in Iraq in early 2005, Prime Minister Koizumi indicated that strengthening its alliance with the United States was the major reason behind the deployment: “Japan cannot secure its peace and independence alone.... Many people agree that the Japan–US Alliance and international coordination is the way to ensure Japan’s development and prosperity. My decision this time is to implement this in concrete terms. I have no doubts about my decision” (Koizumi, 2005).

Recent developments—particularly increasing tensions with North Korea and China regarding island disputes—have led to an increasing readiness on the part of Japan to reinterpret the limitations of collective self-defense. This has grown particularly pronounced since 2012, with the new government of Shinzō Abe (Gaens, 2014).

In any case, recent tensions in the South China Sea have only served to underscore the need for Japan to import security from the United States. For this reason, these policy reformulations should not be seen as mere expressions of nationalist tendencies; rather, they show the path-dependent nature of Japan’s position as a security importer, as seen in its implementation of policies that are long-standing requests by the United States. The United States–Japan alliance is still dominated by the logic of burden-sharing, and the dynamic of bilateral relations continues to follow the same blueprint, where “Japan [is] seeking both autonomy and a greater defence commitment and the United States [is] seeking greater burden-sharing” (Green, 2002, p. 29). The imperative of security importation continues to trump the norm of antimilitarism and the search for independence. Japan will continue to be confronted with US linkage strategies in bilateral economic relations.

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<sup>38</sup>U.S. Embassy in Tokyo to Department of State: The Gulf War – Impact on Japan and US–Japan Relations, March 14, 1991; Digital National Security Archive, Collection: Japan and the United States, 1977–1992.

<sup>39</sup>Ambassador’s Meeting with [Excised], United States Embassy. Secret Cable. January 17, 1991; Digital National Security Archive Collection: Japan and the United States, 1977–1992.

These developments are also indicative of a continued close link between money and security. Researchers have shown how, from the 1980s onward, Japan has played an increasingly important role in sustaining US dollar hegemony (Katada, 2008); nonetheless, while the security relationship has often been cited as a core factor, specific links have not yet been researched in detail. While it is likely that the link between money and security in United States–Japan relations has never taken on an expression as obvious as that seen in United States–West Germany offset agreements, further research on this issue would address many important questions regarding the development of this special relationship.

## 5 Conclusion

Security is expensive, and its provision must be supported by a sufficient economic base. The distribution of the cost of security is one of the most serious issues seen in international alliances. This cost can be borne by the hegemon, or by its allies through burden-sharing. Usually, the hegemon bears most of the cost, while the allies contribute a smaller share. However, such a burden-sharing relationship inevitably leads to an asymmetrical bilateral relationship. Countries accept this asymmetry as long as they are security importers that depend on a security exporter to combat the most fundamental security threats. This incurs serious political and economic burdens for the security importers.

After WWII, the United States provided security for its allies, as the hegemon in question. In particular, West Germany, the United Kingdom, and Japan all depended on the United States for security. Since the 1950s, the United States has asked that these countries share in the burden of these security costs. Both Germany and Japan have paid host nation support and supported the US dollar's key currency position in return for security imports; the United Kingdom, meanwhile, supported the United States in spite of its economic troubles. This pattern has since changed: both the United Kingdom and Germany have charted more independent courses, and have thus escaped the traditional burden-sharing relationship that comes with being a security importer. Japan, however, continues to import security from the United States and remains in an asymmetrical relationship with that country. As the three case studies outlined in this paper indicate, there are decisive links between burden-sharing and the “trading” of security. Further research is needed if we are to look at this issue more in-depth.

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