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NATO Expansion: Cost Issues

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ABSTRACT

In July 1997, when members of the North Atlantic Treaty Organization (NATO) announced that three former Warsaw Pact countries (Poland, the Czech Republic, and Hungary) would be invited to join, U.S. policymakers were greatly concerned over the potential cost of incorporating new members. At that time, three major U.S. studies — by the RAND Corporation, the Congressional Budget Office, and the Clinton Administration — had examined this question, and developed widely differing cost estimates. Subsequently, NATO staff published yet a fourth estimate, which, on the surface, appeared to be much lower than the others. This report, which will not be updated, examines the assumptions that the four organizations used to develop their estimates, and attempts to reconcile or account for the differences; it also raises additional questions that will likely need to be addressed as the alliance grows. For additional information, see CRS Report 98-239, *NATO Common Funds Burdensharing: Background and Current Issues* and CRS Issue Brief 95076, *NATO: Congress Addresses Expansion of the Alliance*.

NATO Expansion: Cost Issues

Summary

During their December 1997 summit in Brussels, members of the North Atlantic Treaty Organization (NATO) signed protocols that would add three countries — Poland, the Czech Republic and Hungary — to the alliance; the national legislatures of the current 16 current member countries must now approve the enlargement; one major question being considered is how much expansion might cost.

Early in 1997, the Clinton Administration sent to Congress a report detailing its rationale and cost estimates for NATO enlargement. The report noted that, with the collapse of the Soviet threat, NATO has reoriented itself from a static defense posture suitable during the Cold War to a more flexible and mobile set of capabilities to respond to different types of threats. The Administration maintains that this “new strategic concept” dovetails with the task of extending NATO membership to new entrants through measures that will permit them to defend themselves and integrate with NATO forces, and through enhancing the alliance’s ability to project ground and air power. The report estimated enlargement costs (between 1997 and 2009) at \$27-35 billion. Of this, the U.S. share is projected to be \$1.5-2.0 billion.

Two other U.S. organizations, RAND and the Congressional Budget Office (CBO), also estimated expansion costs, but used a wider range of threat assumptions and scenarios and came up with different results. The RAND cost estimates ranged from \$10-110 billion, while CBO costs were from \$21 billion to \$125 billion. Although the RAND authors present a series of increasingly ambitious deployments, their report highlights a \$42 billion, joint (air/ground) power projection program, similar to the type of defense posture outlined by the Clinton Administration. It appears that if the CBO had used the same reduced threat assumption for its comparable defense posture, its estimate would have been over \$60 billion. Part of the cost disparity may arise from different perceptions of what constitutes an “adequate” defense. Also, it would appear that more micro-level assumptions — those regarding specific types of weapon systems and equipment necessary — can have a major effect on aggregate costs.

In December 1997, NATO announced that its staff had estimated the 10-year cost of enlargement at \$1.5 billion. Unlike the other studies, this one did not include the aggregate deployment expenses of individual member countries, but focused strictly on increased costs for NATO’s common budget to fund programs for new members. The U.S. Department of Defense reportedly has concurred with the new NATO estimate.

As they debate expansion, policymakers may encounter some longer-term issues that will affect costs, including: the timing of expenditures associated with expansion; possible economic benefits for the United States; the ability of Russia to rebuild its armed forces; future rounds of NATO expansion; alliance burdensharing, and political pressures.

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NATO Expansion: Cost Issues

Introduction

At its July 1997 summit meeting in Madrid, the North Atlantic Treaty Organization (NATO) invited Poland, the Czech Republic, and Hungary to begin negotiations to enter the alliance.¹ Slovenia and Romania were also backed by several member states.² In December of 1997, after negotiations, alliance leaders signed protocols of accession for the three invitees; the current members most now follow their constitutional processes to ratify an amended North American Treaty to admit the candidates.

Created in 1949, NATO is a mutual defense pact; under Article V of the treaty, if one of the members is attacked, each member

will assist the Party or Parties so attacked by taking forthwith, individually and in concert with the other Parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic Area.³

For four decades after the treaty was signed, the most likely aggressor was considered to be the former Soviet Union. With the collapse of the Soviet Union and the Warsaw Pact, however, there is general agreement today that the threat has greatly diminished; accordingly, NATO's central mission has become less urgent.

Twelve countries in Central and Eastern Europe have indicated a desire to join NATO. They regard membership not only as an important security guarantee, but also as a sign of acceptance by, and means of political and economic integration with, the West. Most current NATO countries believe that enlargement will not only strengthen the alliance militarily, but also help promote democracy and stability in the region.

¹ See: U.S. Library of Congress. Congressional Research Service. *NATO: July 1997 Madrid Summit Outcome*. By Stanley R. Sloan. CRS Rpt. No. 97-443 F. Updated July 14, 1997.

² For additional background, see CRS Issue Brief 95076, *NATO: Congress Addresses Expansion of the Alliance*, by Paul Gallis.

³ Appendix VIII. The North Atlantic Treaty. Article 5. *NATO Handbook*. NATO Office of Information and Press. Brussels. October, 1995. p. 232.

The candidates for entry, however, are still grappling with the difficult transition from command economies to market-based systems.⁴ Their militaries use out-of-date equipment that is not interoperable with NATO's. To integrate with NATO, these countries, over time, will need to acquire and train with new weapons and equipment and conduct joint exercises with the alliance — all of which costs money. Current NATO members — including the United States — also face budgetary and political constraints and have been reducing their defense spending in recent years. Consequently, one major factor that policymakers are taking into account as they deliberate the pros and cons of enlargement is how much expansion may cost.

On February 24, 1997, the Clinton Administration sent to Congress a report detailing its rationale and cost estimates for NATO expansion.⁵ The document, which may be viewed as the President's statement of U.S. policy, outlines the defense posture the administration believes is necessary, presents the likely costs for its scenario, and estimates the share of costs that would be assumed by the United States, its allies, and new members. When the report was released, some Members of Congress took issue with the Administration's conclusions; they were particularly critical of the cost estimates, which, they asserted, were unrealistically modest. Members have also expressed concern that the United States might end up bearing a disproportionate share of the cost of expansion. Other Members, however, believe that the Administration's cost projections are reasonable, and that the price would be moderate, particularly in comparison to what the alliance and individual member countries were spending before the Berlin Wall fell.

This report describes the Administration's proposal, and presents the findings of three other studies that sought to estimate the costs of expansion, but which used a wider range of threat assumptions and came up with different results. It then discusses some of the major factors that likely will affect the cost of expansion, compares the assumptions of the three studies, and presents some longer-term issues that policymakers may encounter.

The Clinton Administration's Cost Estimates

At the outset of its report to Congress, the Administration points out that NATO has been undergoing a transformation from a defense posture suited to the Cold War, to one that is adaptable to a new strategic environment. The alliance has shifted from a static defense, mainly centered in former West Germany, to one that entails maintaining a continuous capacity to project power, both in the context of mutual

⁴ For additional background, see CRS Issue Brief 92051, *Poland, Czech Republic, Slovakia, and Hungary: Recent Developments*, by Julie Kim and: *Romania's New Government: Politics, Policies, and Relations with the United States*. By Carl Ek. 97-451 F. April 10, 1997.

⁵ U.S. Department of State. Bureau of European and Canadian Affairs. *Report to the Congress on the Enlargement of the North Atlantic Treaty Organization: Rationale, Benefits, Costs and Implications*. Washington, D.C. February 24, 1997. [http://www.state.gov/www/regions/eur/9702nato_report.html] Later, the Department of Defense amplified on the discussion of the cost estimates in a presentation entitled *The Military Implications and Costs of NATO Enlargement*.

defense commitments, as well as non-Article V missions. The Administration describes NATO's New Strategic Concept, adopted in 1991, as "[an] ability to respond rapidly and flexibly by reinforcing areas where forces are needed... ." ⁶ This new focus is reflected in Administration estimates of the costs of admitting new members.

The Administration contends that adding members to the alliance will confer several benefits, to the United States, to Europe at large and to the central/eastern region in particular. Enlargement, it is argued, will help foster political stability, consolidate democracy, improve intra-regional relations, strengthen collective defense, enhance burdensharing, and promote economic prosperity.

In developing its cost estimates, the Administration assumes that "enlargement will take place in a European security environment in which there is no current threat of large-scale conventional aggression and where any such threat would take years to develop." ⁷ With no significant threat on the horizon, NATO will extend Article V assurances to new members through improving its ability to send reinforcements if necessary, rather than through stationing substantial forces in the new territories. NATO's task, in this plan, is to enable new entrants "to be able to operate with NATO forces and for current NATO allies to be able to provide and support such reinforcements." ⁸

Throughout the period 1997-2009, the Administration envisions two phases to accommodate expanded membership under these terms. During the first phase, to be completed by 2001, NATO will aim at achieving an *initial capability* of ensuring that the alliance will continue to be able to meet Article V commitments. This phase would focus on high-priority actions that will provide some degree of interoperability and limited capabilities for new members to defend themselves with the help of the alliance. These measures are to be funded by NATO's common budget and by the new members. Beginning with accession, NATO would also seek to develop, over a 10 year period, a *mature capability*, which will further enhance interoperability through such steps as equipment replacement, and force modernization and restructuring; this process will involve expenditures by current and new members, as well as common NATO funding.

The Administration lists several priorities for attaining interoperability — new members will need to train and exercise with alliance forces to become familiar with NATO procedures; they also will need to integrate with NATO's command, control, communications and intelligence (C3I) network, be able to receive and support NATO troops, operate with the alliance's air defense system, and field combat and logistical support. The goal will be not only to ensure that these countries can help NATO defend their borders, but also to enable them to deploy their own forces to assist NATO in both mutual defense and non-Article V missions.

⁶ *Report to Congress on NATO Enlargement.* p. 8.

⁷ *Report to Congress on NATO Enlargement.* p. 10.

⁸ *Report to Congress on NATO Enlargement.* p. 12.

The Administration notes some further assumptions for its estimate: 1) it applies to “[a] small group of nonspecified Central European countries;”⁹ 2) it will be unnecessary for NATO permanently to station a large number of forces in the new countries; 3) standard burdensharing rules (members pay for their own forces and share the costs of infrastructure improvements and other common activities) would apply; and 4) some of the activities (e.g., language training and air traffic control upgrades) are already underway.

The Administration states that its estimates are based not on total defense spending, but on two types of measures that are associated with enlargement: the first, those that would take place whether new members are added or not, and the second, those that are tied directly to expansion. It breaks these measures down into three categories: 1) new members’ military restructuring; 2) NATO regional reinforcement capabilities; and 3) direct enlargement measures.

To *restructure and modernize* new members’ armed forces, the Administration estimates that, from 1997-2009, it would cost between \$800 million and \$1 billion annually, or a total of \$10-13 billion. This will include such measures as modernization of ground forces, including artillery, armor and ammunition; procurement by each country of surface-to-air missiles and one squadron of combat aircraft; and training. The cost of these steps would be borne by the new countries.¹⁰ The U.S. study reemphasizes the point that many of these measures would be undertaken with or without expansion.

For NATO *regional reinforcement capabilities*, the Administration estimates alliance costs of \$600-800 million per year, or \$8-10 billion total. This estimate is based on the stated goal of being able to deploy and sustain “a notional force of four divisions and six NATO fighter wings” to reinforce new members in the event of a threat. Because the United States is already fully prepared to deploy such forces, these costs would fall largely on current NATO allies, according to the Administration. Like restructuring and modernization, most of these steps, it is reasoned, would take place regardless of expansion plans, as they are applicable to NATO’s evolving strategy regarding non-Article V missions. They are based on earlier allied commitments to force goals implied by NATO’s 1991 New Strategic Concept.¹¹

⁹ *Report to Congress on NATO Enlargement*. p. 12. The identity of the countries was classified at the time by the Administration; after the Madrid summit, however, Administration spokespersons stated that four countries had been included in the estimate: Poland, the Czech Republic, Hungary and Slovakia.

¹⁰ However, the report does suggest that the United States might help out with “an undetermined portion of the cost of restructuring the militaries of new members, contingent on decisions by NATO, new member states, and the United States Congress.” See: *Report to Congress on NATO Enlargement*. p. 15.

¹¹ One analyst has noted that the costs for strengthening regional reinforcement capabilities are steep for the allies because they have been somewhat slow to implement the New Strategic Concept.

Direct enlargement costs, according to U.S. calculations, would average \$700-900 million per year, or a total of \$9-12 billion to attain “mature capability.” These costs consist of upgrading and/or ensuring interoperability of: command, control, communications and intelligence (C3I); air defense systems; logistics support; reinforcement reception; infrastructure; and exercise facilities and staging. The report estimates that about 40% of the costs for direct enlargement activities would be paid by individual member countries — both current and new — to improve their own forces, and the remaining 60% would be financed by NATO common funds for infrastructure. Divided in this manner, the new countries would pay about 35% (\$230-350 million per year, or \$3-4.5 billion total); current allies — other than the United States — would contribute 50% (\$350-425 million per year, or \$4.5-5.5 billion total); and the United States’ share would be 15% (\$150-200 million annually, or \$1.5-2.0 billion total). Because common funding of NATO activities would commence only after accession in 1999, the U.S. contribution is reckoned over the 10-year period 2000-2009.

Total costs for the Administration’s scenario consequently range from \$27 billion to \$35 billion, of which new members would pay \$13-17.5 billion, current allies \$12.5-15.5 billion, and the United States \$1.5-2.0 billion.

The Administration notes that its estimates exclude programs in support of relations with eastern and Central European countries, as well as U.S. funding for NATO’s Partnership for Peace program, since neither is directly related to NATO enlargement.¹²

The Administration also concedes that enlargement costs could increase or decrease considerably if one or more of its assumptions were off. For example, although it is not anticipated, a “direct territorial threat to NATO members” would prompt “substantial” response costs.¹³ In addition, if more — or fewer — countries were to join in the first enlargement tranche than assumed, costs would rise above or fall below the estimates.

Alternative Cost Estimates

Two other U.S. organizations, the Congressional Budget Office and the RAND Corporation, also attempted to assess the likely cost of expansion. Their estimates ran from a low of \$10 billion to a top figure of \$125 billion. This enormous range is due to differences in threat scenarios, as well as other fundamental assumptions. It should also be noted that two of the reports — those by the Administration and RAND — promote enlargement of NATO, while the Congressional Budget Office study is neutral on the question.

Most recently, NATO announced in November 1997 the results of a study that had been performed by its staff and subsequently approved by all member countries,

¹² For further information, see: U.S. Library of Congress. Congressional Research Service. *Partnership for Peace*. By Paul E. Gallis. CRS Rpt. No. 94-351 F. Updated Aug. 9, 1994.

¹³ *Report to Congress on NATO Enlargement*. p. 15.

including the United States. NATO's analysts estimated enlargement costs at \$1.5 billion over 10 years. It is important to bear in mind that the NATO estimate was limited *strictly* to expenditures from the alliance's common funds — unlike the three American studies, which tallied up costs of individual national defense budgets, as well as the common budget costs.

Congressional Budget Office

In March 1996, the Congressional Budget Office (CBO) published *The Costs of Expanding the NATO Alliance*,¹⁴ a study that estimates the amounts that would be necessary to fund several possible expansion scenarios. The report opens with a discussion of the pros and cons of a wide range of future options for NATO, from disbanding the alliance, to expanding it slowly or rapidly, to opening the door to admit Russia. The subsequent cost analyses focus on expanding the alliance to include the four countries considered most likely at the time the analysis was written: Poland, Hungary, the Czech Republic and Slovakia — often collectively referred to as the “Visegrad” countries, after the Hungarian town where their leaders first met in 1991 and agreed on measures for regional cooperation.

CBO states that, although the threat to the alliance has diminished drastically since 1989, NATO's Article V — its mutual defense provision — is still viewed as the core mission, and expansion would necessarily extend the security guarantee to new entrants. CBO assumes two levels of threat: regional dangers, which are more likely, and a much less likely threat from Russia — the only power with the potential to mount a significant threat to the alliance. The varying perceptions among defense analysts of these threats give rise to several possible defense postures. The CBO study presents five scenarios, with cumulative costs; that is, the cost of each is added to the previous ones. Costs are calculated for the period 1996-2010.

Option 1 — Strengthen Visegrad Defense Forces and Provide for NATO Reinforcement (\$60.6 billion). The most fundamental and least costly single scenario, option 1 envisions current NATO members assisting the four above-named countries in defending themselves against “a border skirmish with a neighbor or a limited war with a regional power.”¹⁵

CBO notes that most defense analysts agree that three steps should be considered key to enabling western NATO allies to assist and send reinforcements in the event of an attack on one of the new members. The first involves instruction in NATO military doctrine and procedures, as well as large-scale exercises with the alliance. The second consists of improvements in and interoperability of new members' C3I systems. Finally, the new countries would need to upgrade their air

¹⁴ U.S. Congressional Budget Office. CBO Papers. *The Costs of Expanding the NATO Alliance*. March, 1996. Washington, D.C.

¹⁵ *Costs of Expanding the NATO Alliance*. p. xv. Excluding current NATO and Visegrad countries, Poland has borders with Russia (Kaliningrad Oblast), Lithuania, Belarus, and Ukraine; Slovakia touches Ukraine and Austria; the Czech Republic shares a border with Austria; and Hungary has common frontiers with Ukraine, Romania, Serbia, Croatia, Slovenia, and Austria.

defenses to enable them, for example, to distinguish friendly from hostile aircraft. CBO estimates total costs for such steps at \$21.2 billion.

Given CBO's assumptions, various improvements in military capability are presumed necessary under option 1. Nearly one-third (\$19.2 billion) of the cost of this option is dedicated to upgrading equipment (of new members and current allies) and acquiring new stocks, including such items as fighter aircraft and anti-tank weaponry. In addition, CBO also includes \$5 billion for tanker aircraft for in-flight refueling of NATO tactical fighters en route to assist a besieged new member, and nearly \$7 billion for improving Poland's army and navy.

In order for the new members to receive supplies and reinforcements from NATO, the alliance would also likely need to upgrade infrastructure in the new member states, which would consist of making improvements in transportation and fueling systems, including roads, ports, airfields, railways, and pipelines. CBO budgets \$3 billion for such work. CBO also factors in \$4.7 billion for the construction of training facilities, and \$0.6 billion for purchase of fuel and ammunition stocks.

CBO estimates the total cost of option 1 at \$60.6 billion over 15 years, of which the United States would contribute \$4.8 billion, the new members \$42.0 billion, and other members \$13.8 billion. The report acknowledges that it might be politically infeasible for some NATO members — old and new — to increase their defense spending drastically, and that “[w]ith the current low levels of threat to this region, ... this lower-cost approach might be adequate.”¹⁶ However, the study adds that, if NATO chose simply to provide for a *minimum* defense capability by employing the first three initiatives (C3I, air defense, and training), the estimated cost of expansion would fall to \$21.2 billion, of which the U.S. share would be \$1.9 billion.

Option 2 — Project NATO Air Power East to Defend the Visegrad States (\$79.2 billion). According to CBO, options 2-5 “would attempt to provide an Article V defense against an aggressive and militarily potent Russia.”¹⁷ Under CBO's second scenario, NATO would project air power eastward by creating prepared or co-located operating bases (COBs). This would permit NATO aircraft from western states to fly into and operate from new member states in time of crisis. Allowing NATO aircraft to operate directly out of the eastern territories would obviate the need for purchasing tankers cited in the first option. Creating NATO-standard COBs — which would include staging exercises and providing fuel and ammunition storage — would add \$18.6 billion to the first option, \$4.6 billion of which would be paid by the United States.

Option 3 — Project Power Eastward With Ground Forces Based in Germany (\$109.3 billion). Option 3 adds ground forces to air power by enabling nearly all of NATO's 11 divisions to move from Germany to the Visegrad states in the event of an attack. This option would not require a troop buildup, but would entail more funding for: additional combat support (e.g., helicopters, artillery, and air defenses);

¹⁶ *Costs of Expanding the NATO Alliance.* p. xv.

¹⁷ *Costs of Expanding the NATO Alliance.* p. 41.

reception facilities in the new member states; storage of ammunition and fuel; and large-scale training exercises. Choosing this option would add about \$30 billion to the above two options, with the U.S. share being \$3.6 billion.

Option 4 — Move Stocks of Prepositioned Equipment East (\$110.5 billion). This option envisions storing equipment sufficient for 5 brigades of U.S. troops, who would fly in directly from the United States in the event of an emergency. Existing stocks of equipment would be moved from their current west European locations to newly built storage facilities in the Visegrad countries at an additional cost of \$1.2 billion, with \$290 million of it funded by the United States.

Option 5 — Station a Limited Number of Forces Forward (\$124.7 billion). The last option entails moving nearly three divisions of U.S. and allied ground forces and two air wings from Germany to renovated bases in the new member states, where they would be permanently stationed. This option by itself would cost approximately \$14 billion, with \$5.5 billion paid by the United States.

To review, the cumulative totals for the CBO scenarios are: Option 1—\$60.6 billion; option 2—\$79.2 billion; option 3—\$109.3 billion; option 4—\$110.5 billion; and option 5—\$124.7 billion.

RAND

In the Autumn 1996 issue of *Survival*, three analysts at RAND, a non-governmental research organization, published another study of the possible costs of NATO expansion.¹⁸ They observe that some critics of enlargement have been arguing that the costs of adding new members would be prohibitive, and counter that expanding the alliance “is not just a financial calculation, but also a political and strategic one.”¹⁹ They also note that some of the costs of enlargement may be offset by savings in some areas, and that the alternative of *not* adding new members might result in higher costs for individual member countries.

Like CBO, the RAND authors posit a series of enlargement options. Rather than assigning a single cost estimate to each option, however, RAND provides funding ranges for each, based on different policy choices. RAND also assumes the Visegrad four to be the most likely new members, though acknowledging that Slovakia’s chances had “clearly diminished.”²⁰

The RAND study develops cost estimates based on a menu of policy choices regarding the path to enlargement chosen by NATO, the military strategy selected, and the accompanying defense posture. The RAND authors discuss analytical frameworks for different defense postures; political rationales and military requirements; and the political and military tradeoffs and cost distribution.

¹⁸ What Will NATO Enlargement Cost? By Ronald D. Asmus, Richard L. Kugler, and F. Stephen Larrabee. *Survival*. Vol. 38, No. 3. Autumn, 1996. pp. 5-26.

¹⁹ *What Will NATO Enlargement Cost?* p. 5.

²⁰ *What Will NATO Enlargement Cost?* p. 5.

In general, the RAND analysts contend that the cost of NATO expansion would be relatively moderate. They do not envision the need for a buildup of forces in the foreseeable future. In addition, some of the expansion measures can be made to fit in with changes that NATO aspirant states likely will be making, regardless of whether they soon become members of the alliance. Given the reduced threat environment, these countries will continue to downsize and streamline their armed forces. Importantly, as they restructure and modernize, they can do so in consultation with the alliance so that any changes will ensure eventual interoperability.

RAND attempts to place expansion costs in perspective by making several points. First, the report argues, it costs less for a country to act in concert with an alliance than for it to rely solely on its own resources for defense. Secondly, the cost of expansion is small relative to the total amount that the alliance's wealthy member states already devote each year — approximately \$160 billion by the Europeans — to their national defense budgets. Finally, the types of changes needed to accommodate the Visegrad nations would dovetail with NATO's changing strategy, which now aims at being able to project mobile forces over distance, both within — and perhaps beyond — the European continent.

RAND believes that four tasks will define what needs to be done to accommodate NATO's old and new missions under expansion. First of all, the new entrants' armed forces must be prepared for merging with NATO; this will involve modernizing aging equipment and purchasing new weapon systems, as well as taking other steps that will ensure that the new members' forces are compatible with NATO's. Second, the infrastructure in the new territories must be upgraded and configured for NATO needs. Third, provisions must be made so that NATO forces — limited to command staff and support troops — may be based in the new countries. And fourth, NATO's current forces must be reconfigured to project power toward the new countries.

The RAND study then posits four alternative defense postures, somewhat similar to those constructed by CBO. RAND also develops increasingly ambitious scenarios, but provides additional flexibility within each option; for example, in the first option, two types of surface-to-air missiles are considered, and under option 2, costs vary according to the number of fighter wings employed.

Option 1. The “self-defense support” option assumes that new member states will be responsible for defending their own borders, and that western NATO member assistance might be limited to aiding in such key areas as C3I and logistics; however, the alliance might provide other forms of aid, such as assisting new members develop better air defenses, infrastructure, munitions reserves, and helping them improve their readiness. Option 1 costs range from \$10-20 billion.

Option 2. As in the CBO study, RAND's second option adds air power, through such steps as the upgrading of European air wings and the construction of co-located operating bases with munitions storage facilities in the new member territories. Once more, the cost of this option would depend on the extent of the forces used. If 5 fighter wings were readied for eastward deployment in the event of a crisis, costs would go up to \$20 billion; if 10 fighter wings were equipped, costs would rise to \$30 billion.

Option 3. The third option combines land forces with air power. Current NATO member forces would remain where they are presently based, but would be prepared to “commit armored and mechanized forces to perform a broad spectrum of missions in Eastern Europe, ranging from border defense to peacekeeping and crisis management.”²¹ RAND estimated that costs for this option would range from \$30-52 billion; the higher estimate would combine 10 NATO divisions with 10 fighter wings. A middle option with a \$42 billion price tag is discussed in some detail.

Option 4. Under the fourth and final option, set up to address a “worst case scenario,” NATO would move significant forces — both land and air — eastward. Estimated costs for this option range from \$55 billion to \$110 billion; the latter estimate arises from forward deployment of the 10 divisions and air wings of option 3. RAND points out, however, that because there is no imminent threat, “[s]uch a posture is clearly not needed today.”²²

The RAND authors argue that the defense posture NATO ultimately adopts will depend upon the interaction of the political and strategic approaches chosen by the alliance. RAND identifies three political approaches to enlargement: an evolutionary path that assumes no imminent security threat in the area; a “promote stability” track that sees NATO membership playing a key role in fostering democracy and security in the region; and a “strategic response” that would be appropriate only if Russia were to emerge as a threat. In accordance with these political considerations, policymakers must decide which military threat to prepare for: low-intensity local conflicts; regional dangers, which might be comprised of a coalition of medium-size powers; or a theater threat, which could be presented by Russia, allied with the Commonwealth of Independent States. The RAND analysts believe that an assessment of the political and military situation, as presented by these six conditions, will help determine which defense posture would be most consistent and effective.

RAND argues that if expansion is to proceed, it would be preferable for NATO to make a decision early, so that the alliance and those whom it invites to begin negotiations over membership would have more preparation time; corollary to this, earlier membership would mean that total enlargement costs would be spread over a longer time period, thereby reducing the size of annual payments.

On the topic of burdensharing, the authors note that member states currently are responsible for funding their own forces, and pay a share of the NATO common infrastructure costs. The amount that any given country will contribute to expansion will depend upon how large its share is of the common infrastructure budget and upon how extensively its forces will be used. Thus, under the first option (self-defense support), a larger share of the burden would be borne by the new members, while projecting air and/or ground forces would entail greater expenses by current members. Under RAND’s above-mentioned \$42 billion “middle” scenario, for example, current members would contribute approximately \$25.6 billion (61%), new

²¹ *What Will NATO Enlargement Cost?*. p. 15.

²² *What Will NATO Enlargement Cost?*. p. 16.

members would pay \$8.0 billion (19%), and the remaining \$8.4 billion would come from the NATO infrastructure funds. Of this amount, the U.S. share of the total package could range from \$420 million to \$1.4 billion — an estimate that appears to assume a redistribution of contributions.

NATO

In November 1997, NATO announced the results of its staff's assessment on the costs of enlargement.²³ The NATO analysts' "initial assessment" set direct enlargement costs at \$1.5 billion over 10 years, \$1.3 billion of which would be funded by the Security Investment Program.²⁴ The report was approved by all member countries, including the United States; the U.S. Department of Defense has concurred with the NATO cost appraisal.²⁵ Unlike the other three, the NATO study estimated only "costs which would be eligible for common funding;" the U.S. share of which is approximately 25%. Details of the study remain classified.

Factors Affecting the Cost of Expansion

The four studies on the costs of expanding NATO provide different — and quite disparate — cost ranges. To recapitulate: the Clinton Administration estimates the price of expansion at between \$27 billion and \$35 billion, the Congressional Budget Office puts it at \$21-126 billion, RAND suggests \$10-110 billion, while NATO claims \$1.5 billion will suffice. Why are there such enormous differences?

Part of the answer is that two fundamentally dissimilar approaches were used: the CBO and RAND studies sketch several different types of possible threat environment. They posit what they believe would be the necessary steps to counter the various threats, and then calculate the approximate costs for each step. On the other hand, the Clinton Administration and, in all likelihood, NATO, more narrowly define the threat (based on intelligence projections and political judgments) and the implied defense posture, leading to a much narrower range of estimated costs.

Another part of the answer lies in what the studies have counted and what they left out. For example, an August 1997 General Accounting Office (GAO) report stated that "[o]ur analysis of DoD's cost estimate to enlarge NATO indicates that its key assumptions were generally reasonable and were largely consistent with the views of U.S., NATO and foreign government officials."²⁶ However, the report faulted the Defense Department for including expenditures, such as those needed for allies' force modernization, that would have been made regardless of enlargement,

²³ NATO Enlargement Costs. Reuters. November 27, 1997.

²⁴ Final Communiqué. Meeting of the North Atlantic Council in Defence Ministers Session Held in Brussels on 2nd December 1997. Press Release M-NAC-D-2(97)149. December 2, 1997. See: [<http://www.nato.int/docu/pr/1997/p97-1493.htm>]

²⁵ Report to the Congress on the Military Requirements and Costs of NATO Enlargement. Department of Defense. Washington, D.C. Feb. 1998.

²⁶ U.S. General Accounting Office. NATO Enlargement: Cost Estimates Developed to Date are Notional. GAO/NSIAD-97-209. August, 1997. p.

and for *not* including such things as support for the Partnership for Peace program and U.S. military assistance to potential future NATO members.

The NATO study constitutes another example of analysts' counting certain costs while omitting others. NATO staff appear to have agreed with the Administration's assessment of a low security threat, and their analysts estimated *common* costs accordingly. However, the \$1.5 billion NATO estimate should not be compared to the Administration's overall estimate of \$27-35 billion, but rather to just that part which was devoted to direct enlargement costs eligible for common funding. As noted earlier, that amount was estimated at 60% of \$9-12 billion, which equals \$5.4-7.2 billion. Also, U.S. Defense Secretary Cohen told Congress in October 1997 that the upcoming NATO cost assessment likely would be lower than the Clinton Administration's because the latter's had included Slovakia, which did not make the final cut. Secretary Cohen added that the three invitees also had made progress on interoperability.²⁷

Numerous factors will affect any study of the cost of enlarging NATO. An understanding of the underlying assumptions is key, since the alliance as a whole is still addressing a large number of issues that will guide funding needs.

Threat

The type of deployment NATO deems appropriate will be shaped by the evolving perceptions of current and future threats to the alliance: is a resurgent Russia the major power to be guarded against? If so, then would an attack originate in the Kola Peninsula, where a large share of the former Warsaw pact forces and equipment were relocated, and then sweep down across the plains of Poland? What kind of troops and armaments would the Russians be able to muster if they launched an invasion; would NATO face an endless wave of modern tanks, supported by state-of-the-art fighter aircraft? If such a threat is not imminent, when might Russia, which, according to many analysts, is too weak to pose a serious threat today, be able to rebuild its military?²⁸ Should the alliance be looking instead to its south?²⁹ Which are the more likely scenarios — border clashes, or civil ethnic strife, as in the former Yugoslavia? The greater and more geographically dispersed the perceived threat, the more extensive the likely deployment, and the steeper the cost.

None of the studies specifies that Russia — or any other country — will pose a significant threat to any members of the alliance in the next few years. The

²⁷ However, the picture in the candidate countries may still be somewhat clouded. Although the Administration stated that the infrastructures of the invitees is in better condition than was originally believed to be the case, in recent weeks there have been reports of a leaked NATO document that purportedly finds the contrary.

²⁸ See: Russia's Dilapidated Army. *The Economist*. Vol. 343, No. 8019. May 31, 1997. p. 49. U.S. Library of Congress. Congressional Research Service. Russian Conventional Armed Forces: On the Verge of Collapse? By Stuart D. Goldman. CRS Rept. No. 97-820 F. September 4, 1997.

²⁹ See, for example: Instability to the South Worries U.S. Forces in Europe. By William Drozdiak. *Washington Post*. May 19, 1997. p. A1.

Administration assumes an environment devoid of a significant conventional threat for the foreseeable future; it notes that if a serious threat to European security were to emerge, the alliance would have sufficient time to prepare an appropriate response. Moreover, the Administration implies that expanding NATO will help avert a threat from developing in the future. In a speech to graduating cadets at West Point, President Clinton contended that “there is no powerful threat in part because NATO is there. And enlargement will help make it stronger.”³⁰

The CBO authors declare that their defense plans assume “an uncertain threat;”³¹ as noted earlier, the longest chapter in the CBO report is devoted to the first option, which would prepare the alliance’s new members to defend against “a border skirmish with a neighbor or a limited war with a regional power”; in options 2 through 5, CBO analysts set up a “resurgent Russia” as a potential threat, which substantially raises costs. They add, however, that Russia’s military has suffered from deep troop cutbacks, low morale, obsolescent and ill-maintained equipment, and reductions in training.

The authors of the RAND study maintain that the CBO work is aimed mainly at defending against Russia, whereas their approach “is not threat- but rather goal- and capability-based[,] ... anchored in the premise of avoiding confrontation with Russia, not preparing for a new Russian threat.”³² The RAND cost estimates, not surprisingly, are lower than CBO’s. As noted, RAND’s escalated defense postures are designed to cope with: low-intensity local conflicts; regional dangers — comprised of a group of medium-size powers; and a theater threat, composed of Russia in league with allies.

Deployment

Perhaps the major immediate factor driving costs is the potential deployment of forces: what kind of military support will be offered by current members to the new countries, and what will be expected of them in return? Does NATO intend simply to transport reinforcements to any of the new members if they are attacked? At the opposite end of the spectrum, would NATO, in a changed security environment, envision stationing a significant number of troops and aircraft in the new territory? The more troops and equipment involved in defending the new entrants, the more expensive the expansion.

Because the CBO and RAND studies offer a menu of choices for threat scenarios, they also provide a variety of different possible deployments. There is an apparent consensus on two matters: 1) at a minimum, the alliance should help the new members prepare to defend themselves, with NATO reinforcements if necessary; and 2) the first steps to be taken should include ensuring interoperability through providing C3I, air defense, and training.

³⁰ NATO plan Draws Some Salutes at West Point. By Peter Baker. *The Washington Post*. June 1, 1997. p. A9.

³¹ *Costs of Expanding the NATO Alliance*. p. 13.

³² *What Will NATO Enlargement Cost?*. p. 7.

CBO admits at the outset that “[i]t is difficult to determine what NATO would need to do to provide an adequate defense for the Visegrad nations.”³³ If NATO policymakers agree that the threat is — and will remain — low, then the first option — strengthening Visegrad defense forces and providing for NATO reinforcement — might be considered sufficient; the \$21 billion subset of this option, however, would “only marginally improve the defenses” of the Visegrad countries.³⁴ CBO’s four additional options are geared toward an increasingly formidable threat; the addition of first air power and then ground forces, of prepositioning equipment, and of stationing troops, each boosts costs considerably.

Although the RAND authors also present a series of increasingly ambitious deployments, their report highlights a \$42 billion, joint (air/ground) power projection program, similar to the type of defense posture outlined by the Clinton Administration (estimated to cost \$27-35 billion).

This points up an important difference among the studies: the CBO study’s roughly comparable joint power projection scenario (the third option, assessed at \$109 billion), would still likely cost significantly more than the “self-defense support” option, set at about \$61 billion, even if similar threat assumptions were used. Why are there such large differences for a similar defense posture? Part of the cost disparity may arise from different perceptions among defense analysts of what constitutes an “adequate” defense.³⁵ It would appear that more micro-level assumptions — those regarding the specific types of weapon systems and equipment that would be necessary — can have a major effect on aggregate costs. For example, CBO assumes that, for an appropriate air defense, new members would need to acquire modern Patriot surface-to-air missiles, whereas the Administration assumes the use of older — and cheaper — I-HAWK type missiles. The RAND study contrasts the costs of Patriots versus a far less expensive Russian air defense system.

New Members

Other factors affecting cost include the *number* of new states to be added, *who* will join, *where* they are located, how *large* they are, and *when* they will become members. Generally speaking, the more countries that are added, the higher the initial cost of providing mutual security. Also, it would cost less to add a country if it is in closer proximity to existing NATO members, is smaller in size, has a stronger economy and a better trained and equipped military, and, arguably, joins sooner rather than later — financing direct enlargement measures over a longer period would mean smaller annual payments.³⁶

³³ *The Costs of Expanding the NATO Alliance*. p. xii.

³⁴ *The Costs of Expanding the NATO Alliance*. p. xvi.

³⁵ Amos Perlmutter and Ted Galen Carpenter, for example, argue that “[t]he RAND and Pentagon figures are little more than wishful thinking based on Pollyanaish security scenarios.” *Nato’s Expensive Trip East: The Folly of Enlargement*. *Foreign Affairs*. January/February 1998. p. 2.

³⁶ However, some analysts note that this argument ignores the economic concept of the time (continued...)

Concerning the new states to be added, CBO and RAND assume that Poland, the Czech Republic, Slovakia and Hungary will be the new members, while the Pentagon simply states that it assumes a “small group of ... countries.” According to one defense budget analyst, removing Slovakia from the equation would not change the numbers “significantly;” the RAND report notes that “[t]he marginal cost of including Slovakia ... would be small[.]”³⁷

Burdensharing

A particularly thorny issue is the distribution of costs among members. Nearly all of the current member states have been paring back their defense spending since the end of the Cold War. And the prospective members are busy repairing the economic damage wrought by four decades of communism, and will be hard-pressed to undertake large increases in their defense budgets. If a member state perceives that it is bearing a disproportionate share of the burden, its legislature may be less likely to ratify the agreement.

In general, all three studies (and, according to CBO, NATO staff as well) assume that the incoming countries will bear a large share of the costs of enlargement, that infrastructure improvements will be paid for, in part, out of one of NATO’s common funds — the Security Investment Program (SIP), and that current member countries will be responsible for financing the use of their own forces. There are some differences, however, among the three U.S. reports on the distribution of costs.

The Clinton Administration, as noted above, assumes that “[s]tandard NATO cost-sharing rules would be applied for new defense arrangements — i.e., individual NATO nations pay for ... their own ... forces while costs for infrastructure are shared where they qualify for common funding.”³⁸ The executive branch report concedes that “[t]hese costs would, of course, increase if there were a dramatic increase in the threat or a decision by the United States to bear a larger share of the costs than would otherwise fall on our current allies or the new members.”³⁹ The Administration assumes that, for total enlargement costs, new nations would pay approximately 50%, current non-U.S. allies roughly 44%, and the United States about 6%.

CBO notes that Central European defense budgets have been declining, and cites Western defense officials who state that “key allied nations are reluctant to increase their contributions to the SIP.”⁴⁰ These factors, CBO analysts believe, raise serious questions about both the ability of new members and the willingness of

³⁶(...continued)

value of money, while others maintain NATO actually might pay *less* for a later entrant, which presumably would have been developing economically and modernizing its military unilaterally.

³⁷ *What Will NATO Enlargement Cost?* p. 18.

³⁸ *Report to Congress on NATO Enlargement*. p. 13.

³⁹ *Report to Congress on NATO Enlargement*. p. 9.

⁴⁰ *The Costs of Expanding the NATO Alliance*. p. 21.

current members to meet the necessary expenses of expansion. CBO therefore assumed that, since the United States and Germany have been the most ardent proponents of expansion, the two countries would shoulder a larger portion of the burden. Accordingly, CBO projects that the new states would pay for 70% of their infrastructure improvements, and that the remaining 30% would be divided into 10% increments, paid equally by the United States, Germany, and the SIP. CBO also makes the “somewhat arbitrary” assumption that the United States and Germany would pay 20% of the cost of upgrading and training the Visegrad nations’ forces. The study concludes that the U.S. share of SIP would fall from 28% to 22%, as some current members increase their shares and new members begin to add to the fund. For total expansion costs — using, for purposes of illustration, the \$60.6 billion option 1 — the new members would pay 69%, non-U.S. allies 23%, and the United States 8%.

The RAND study reasons that shares will be determined in part by the defense posture that NATO adopts. For purposes of illustration, they break down cost shares for their \$42 billion, joint (air/ground) power projection posture; their calculations yielded 19% of the costs accruing to new members, 20% to the common fund (which would have to increase considerably in size), and 61% to current members. RAND notes further that “the burden on the US can be reduced if the number of participating countries extends beyond the core group of the US, the UK, France and Germany.”⁴¹ RAND concludes that “the US annual share could range from \$420m to \$1.4bn, depending on how ... decisions are made.”⁴²

NATO’s New Missions

The engagement of NATO forces in the former Yugoslavia marks a change in the role of NATO, and the alliance may continue to undertake new missions. Traditionally, the alliance has had the treaty’s Article V (an attack on one is regarded as an attack on all) as its defining mission. With the dissolution of the Soviet Union and the Warsaw Pact, however, increasing emphasis has been placed on what Danish Foreign Minister Niels Helveg Peterssen has termed the “soft instruments of security” — peacekeeping and peace enforcement, search and rescue, drug interdiction, anti-terrorist activities, and humanitarian assistance.⁴³ Unanticipated contingencies such as the Bosnia deployment may be expensive for participating nations. A more proactive NATO could be a more costly NATO.⁴⁴

⁴¹ *What Will NATO Enlargement Cost?* p. 24.

⁴² *What Will NATO Enlargement Cost?* p. 26.

⁴³ See: U.S. Library of Congress. Congressional Research Service. *NATO Adapts for New Missions: The Berlin Accord and Combined joint Task Forces*. By Stanley R. Sloan. CRS Report No. 96-561 F. June 19, 1996. Also see: U.S. Library of Congress. Congressional Research Service. *NATO’s Future: Beyond Collective Defense*. By Stanley R. Sloan. CRS Report No. 95-979 S. Sept. 15, 1995.

⁴⁴ Other analysts, however, argue that using NATO to support such missions could promote more effective burdensharing than if missions were conducted unilaterally or on an ad hoc basis.

According to RAND, the self-defense option alone “does not provide for ... NATO combat forces to carry out new Article 5 commitments.”⁴⁵ Both RAND and the Administration believe that a deployment involving a combination of self-defense and air/ground power projection would mesh well, not only with NATO’s task of extending its security guarantee to the new states, but also with whatever new, non-Article V missions that NATO may undertake. Power projection would be suitable both for confronting a conventional attack, as well as for crisis management, both within and, if necessary, beyond the European continent.

Some have cautioned that if expansion proceeds without a carefully articulated mission and a roster of requirements, member states will be essentially giving NATO a blank check that current allies must fill in. Others maintain that costs will emerge through subsequent negotiations — and decisions — over the types of missions and defense posture the alliance will adopt. As the RAND authors argue, the defense posture — and implied deployment and budget — that NATO ultimately adopts will depend upon the interaction of the political and strategic approaches chosen.

Additional Considerations

A number of other issues may be raised as policymakers assess the likely future costs of NATO expansion:

Timing

When will the bills come due — will they be spread out fairly evenly over the transition period to “mature capability,” or will they be heavily front loaded? Member countries, it has been argued, may spend less on their own armed forces because they are members of NATO. Once the alliance has expanded and been made interoperable, national defense spending by individual countries may not need to be as high as would be the case if they were not a part of NATO, because missions and responsibilities are rationalized through specialization. Is it possible that alliance costs could actually fall off in the out years, as the new nations’ militaries modernize and become interoperable and their economies grow stronger? Or might the introduction of more sophisticated — and costlier — defense technology increase funding needs?

Savings

Will there be any offsetting savings for the United States or other members states? It is likely that a portion of the costs of joining NATO paid by the new entrants would flow back into the U.S. economy. For example, as they upgrade their air defenses, new members will need to buy electronic systems, surface-to-air missiles and fighter aircraft. Some of these will likely be procured from American manufacturers, which would indirectly offset the economic impact of increased U.S. defense expenditures. Also, as the economies of the new entrants continue to grow, their private sectors are expected to contribute to the development of national

⁴⁵ *What Will NATO Enlargement Cost?* p. 13.

transportation and communications systems, which should augment the alliance's defense capability.

Russia

Seeing NATO expand to include former Soviet allies, how likely is it that Russia would want to or be able to institute a substantial program to build up its armed forces?⁴⁶ Because Russia's economy is in worse condition than the economies of most central and eastern European countries, and because Russia would have to rearm without foreign assistance, a military buildup and modernization program would involve great economic and social sacrifice.

Alternative Views

The first three studies discussed in this report reflect primarily a U.S. view on NATO enlargement. Do current NATO allies and prospective new members share these assessments — particularly the Administration's — of reduced threat and the consequent defense posture and costs? For the most part, it appears that they do not. For example, shortly after the Madrid Summit, French President Chirac stated that “We have adopted a very simple solution: Enlargement must not cost anything in net terms.”⁴⁷ That same week, German Foreign Minister Klaus Kinkel stated that “the costs of NATO's expansion have been exaggerated ... by American institutes.”⁴⁸ In addition, some European allies have objected to the U.S. Administration's \$8-10 billion estimate of expenses needed for current non-U.S. allies to enhance their “regional reinforcement capabilities.” The Europeans argue that, in so doing, the Administration has been using its cost estimates to dictate the national spending priorities of its allies.

Cost Perspectives

Some analysts have argued that, although all of the estimates of funding requirements for enlargement exceed \$1 billion — a substantial amount of money — this number needs to be put in perspective. For example, the Administration estimate, which put the maximum, total, 10-year U.S. cost of expansion at \$2 billion, is approximately one-half of one percent of annual U.S. defense spending. In addition, a National Defense University publication notes that “[f]or the West

⁴⁶ See: U.S. Library of Congress. Congressional Research Service. *NATO Enlargement and Russia*. By Steven Woehrel. CRS Rpt. No. 97-477 F. Updated May 28, 1997.

⁴⁷ Document provided by the French Embassy. Cited in: *NATO: Congress Addresses Expansion of the Alliance*.

⁴⁸ Germany: Kinkel Wants Reduction of EU Contributions. FBIS/West Europe. July 15, 1997. See also: Netherlands: Defense Minister Opposes US Estimate on NATO Costs. FBIS/West Europe. October 3, 1997. Belgium: Officials Question US Cost Estimates for NATO Enlargement. FBIS/West Europe. October 17, 1997.

European members of NATO, [the U.S. Administration's estimate] will cost only about 1% of the \$2 trillion that they will be spending on defense.⁴⁹

Further Expansion

NATO has expanded four times since the alliance was formed.⁵⁰ Regarding the current accessions, the Administration has declared repeatedly that “the first shall not be the last.” When might NATO next add new members? Would the next entrants come in on a another “wave,” or would individual countries be let through the turnstile one by one? Who might the next members be — Slovenia and Romania? If so, the cost estimates might need to be revised upward. On the other hand, if one of the former neutral countries, such as Austria, Finland, or Sweden were to join, per-country costs might actually decline.⁵¹

Burdensharing

How will the costs be shared; will standard burdensharing rules continue to apply, or will members seek to renegotiate their shares? Will the entire NATO common fund need to grow in size? How realistic are the U.S. studies' burdensharing assumptions? CBO assumed that, since the United States and Germany are the most avid proponents of expansion, they will take on a larger part of the burden, but some analysts question whether either country would be willing to contribute a disproportionate amount. Also, must contributions be made as costs are incurred (for example, as large weapons systems are purchased) or might they be financed and redistributed over time, so that new entrants' shares would rise as their

⁴⁹ Costs of NATO Enlargement: Moderate and Affordable. By Richard L. Kugler. *Strategic Forum*. National Defense University. Institute for National Strategic Studies. Number 128. October, 1997. p. 2. See also: NATO Enlargement: Putting the Costs in Perspective. By David C. Gompert. *Strategic Forum*. National Defense University. Institute for National Strategic Studies. Number 129. October, 1997.

⁵⁰ NATO added members on four previous occasions. Because these earlier expansions all occurred during the Cold War, when the threat environment was drastically different, defense budget analysts believe that comparing the cost of past expansions would not be useful for policymakers today. Greece and Turkey were added in 1952, when Stalin was still head of the Soviet Union, which had recently detonated its first atomic weapon. In 1955, West Germany, still under allied occupation, was permitted to create armed forces and join NATO. Much of the weaponry and equipment it subsequently acquired were American; in addition, as troops were added to the *Bundeswehr*, it is possible that fewer American soldiers had to be stationed in Europe. Spain, which joined in 1982, was, in the words of one analyst, “a geostrategic bargain”—NATO gained control of the western entry to the Mediterranean, air and naval bases, and fallback territory. Finally, in 1990 former East Germany became a part of NATO; the costs were absorbed by the united Germany. Until the fall of the Berlin Wall, NATO allies were constantly attempting to strengthen the alliance's defense capability. See: U.S. Library of Congress. Congressional Research Service. *Senate Consideration of the North Atlantic Treaty and Subsequent Accessions: Historical Overview*. By Stanley Sloan. CRS Report No. 97-1041 F. December 8, 1997.

⁵¹ See: U.S. Library of Congress. Congressional Research Service. *NATO Enlargement and the Former European Neutrals*. By Stanley R. Sloan. CRS Report No. 97-249F. Updated November 5, 1997.

economies developed, perhaps by pegging their share to growth of GDP? On the other hand, if the economic performance of one or more of the new states began to falter, would other NATO members be willing to pick up the slack, either through bilateral lending or grants, or more extensive use of NATO's Security Investment Program?⁵² Could costs instead be stretched into the future?

Political Pressures

National office holders in the United States and Canada are under considerable political pressure to cut spending, while most of the European members of NATO are also attempting to reduce their budget deficits in order to meet the rigorous fiscal qualifications for entry into the European Monetary Union. At the same time, many Central and Eastern European countries are facing budgetary constraints under the International Monetary Fund's economic reform programs. In addition, once they have been accepted into NATO, the new entrants will likely set their sights on — and adjust their budget priorities for — joining the European Union. In short, most members of the enlarged NATO will find it difficult to increase defense spending, although all three candidates have promised to do so even with the limits they face.

Finally, officials of both NATO and the Clinton Administration have admitted privately that their respective estimates were held low to keep them acceptable to the U.S. Congress.⁵³ What are the likely future interactions between budget and policy — will the former come to drive the latter? The CBO report notes that “[i]f the parliaments of the 16 member nations actually voted to expand NATO, the current low-threat environment would probably allow those legislative bodies to spend as much or as little as they chose to carry out the expansion.”⁵⁴

⁵² See: U.S. Library of Congress. Congressional Research Service. *NATO: Alliance Expansion, Partnership for Peace, and U.S. Security Assistance*. By Richard F. Grimmett, Paul E. Gallis, and Larry Nowels. CRS Rpt. No. 97-531 F. May 9, 1997.

⁵³ A War of Numbers Emerges Over Cost of Enlarging NATO. By Steven Erlanger. *The New York Times*. October 13, 1997. p. A10.

⁵⁴ *The Costs of Expanding the NATO Alliance*. p. 41.