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SPECIAL REPORT

OFFICE OF CURRENT INTELLIGENCE

THE SITUATION IN WEST BERLIN

CENTRAL INTELLIGENCE AGENCY

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THE SITUATION IN WEST BERLIN

By almost every political and economic yardstick, the situation now existing in West Berlin is a healthy one. Soviet pressure has been relaxed, morale is excellent, and the economy is operating at a high level. Mayor Brandt and the Senat, however, would like a Soviet-Western interim agreement to improve the security of the city and alleviate the dislocations created by the Wall. They also are trying to facilitate economic expansion, which is handicapped by a shortage of labor and investment capital.

Mayor Brandt's Views

As recently as 5 June, Brandt was saying that the Soviets appear to realize that the Western presence in Berlin is a fact they cannot change by bullying tactics. On the other hand, neither he nor Berliners at large are willing to give up the hope that some sort of arrangement can be worked out for eventual all-German reunification.

As a practical politician, Brandt recognizes that no final Berlin settlement is possible outside the framework of a solution to the German problem as a whole. He is hopeful that the efforts to bring about an improvement in the East German economy might pave the way for political conditions more favorable to a rapprochement between the two parts of Germany, but admits that he does not see unification occurring any time soon.

The main question now, in Brandt's opinion, is whether a tolerable interim solution can be reached. Such a solution, he insists, must contain several essential elements. In his view, these include a guarantee of a continuing presence of Allied troops in the city; maintenance and expansion of vital ties with West Germany; improved security of land access; elimination of vestigial East German authority over certain installations in West Berlin; and provisions for visits by West Berliners to friends and relatives in East Berlin.

In the meantime, Brandt believes that the city ought not merely to mark time. He feels that it is mandatory that Berlin push forward on all fronts to maintain its political and economic viability. In addition, he is eager to promote the idea that Berlin stands on its own feet internationally as a cultural and scientific center.

This year may see some progress on the Senat's slow-starting development program to include projects and institutions designed to make Berlin a center of free world activity. The plan, unveiled a year ago, calls for a variety of projects, such as expansion of the Free and Technical universities and creation of an American Institute, an international pedagogical center, and an international documents center. The planners also set considerable store by

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the proposal to organize an Institute for Automation and a training school in economics, technology, and education for young people from developing countries. The Senat is hopeful that not only the Federal Republic, but also the US, UK, and France will aid in the financing of the plan, estimated to cost around $70 million.

Brandt's Tactics

To facilitate the conclusion of the kind of interim agreement he wants, Brandt is willing to make a certain number of concessions to the East German regime which do not involve recognition. To secure guaranteed access, for example, he favors an international authority with East German participation. To arrange intersector crossing for West Berliners, he is prepared to permit de facto contacts with the East German authorities.

However, Brandt is adamantly opposed to allowing the Communists to exert any direct influence over West Berlin. He has been pressing the Allies to end East German control of the railways and elevated line (S-Bahn) that enter West Berlin. He strongly believes, moreover, that the West should not allow the Communists to stipulate whether activities such as Bundestag meetings can take place in West Berlin. In his judgment, it is less important for the Western powers to insist on their legal rights throughout Berlin than to exercise authority in the three Western sectors.

The importance to Brandt of Bundestag sessions in Berlin is that they are a powerful reminder that the city is Germany's rightful capital, possessing indissoluble links with the Federal Republic. In contrast to the Allied view that West Berlin is an Allied occupation zone having a special relation with Bonn, both the Berlin and Bonn governments regard it as a state of West Germany. Brandt's tenacity in refusing to sacrifice this principle is seen in his insistence that Berlin be included in West German treaties with other powers.

Brandt's policies were firmly endorsed by West Berliners in last February's elections. His Social Democratic Party captured 62 percent of the vote, a net gain of 9 percent, while the Christian Democratic Union (CDU) lost a like percentage. By mutual agreement, the CDU dropped out of the coalition that had governed Berlin since 1955 and was replaced by the Free Democrats.

Generally conceded to have been a large factor in the electoral results was Brandt's willingness to meet Khrushchev in East Berlin the month before the election. It was vetoed by the Berlin CDU, and thereby disappointed popular hopes that such a meeting might have led to a relaxation of the barriers between East and West Berlin.

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Morale

All outward signs indicate that Berliners are confident of their city's security and its long-run prospects. The large-scale exodus that was feared would develop after the Wall went up in August 1961 simply did not come off. In fact, population movements during the first four months of this year produced a net gain of 5,000. Morale, in short, is at its post-Wall peak, and will probably go even higher following President Kennedy's visit.

The political reasons for this high morale are twofold: One is the Soviet backdown in Cuba; the other is the prolonged relaxation of Soviet pressure on the city.

The Wall is a constant affront, and recurrent actions against it are to be anticipated. However, many West Berliners regard such activities as futile and foolish, and Brandt, after some ambivalence, seems to agree. West Berliners have by no means reconciled themselves to the Wall, but they do not see what can be done about it in the absence of Four-Power agreement on an interim status for the city.

Economic Conditions

Another reason for good morale is West Berlin's thriving economy. Although subsidized by the Bonn government to the extent of about $700 million a year, the city's industry and commerce not only have held up since Khrushchev initiated the Berlin crisis in 1958, but have expanded considerably. In fact, the striking achievement of the West Berlin economy has been its ability to keep pace with the boom in West Germany. The gross product over this period rose from $2.4 billion to $3.7 billion, and production increased by about one half in terms of value. Industrial production for the past two years has hovered at around 170 percent of the 1936 figure, personal savings are at an all-time high, unemployment is less than two percent, and the backlog of orders has stabilized following a short-lived post-Wall slump.

In the more important branches of the capital-goods industry, enough orders are on hand to keep the factories busy for the next seven to nine months. Since mid-1961, the balance of trade with West Germany has been roughly equal, and has been maintained without cutting back imports.

Despite the economic progress achieved to date, a further expansion is handicapped by a shortage of labor and investment capital. This is reflected in the fact that the economic growth rate last year was below that of 1961.

The labor shortage is due, in part, to an unusually high incidence of older people; the percentage of persons under 15 is half that of West Germany's. To correct this imbalance, the

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Berlin government is trying to attract new people to the city. As the result of a recruitment program undertaken shortly after the Wall went up, 22,000 West Germans have gone to take jobs in West Berlin. Foreign workers have also been hired--mainly for the construction industry--and more will be, but the size of this program will be limited by the opposition of the trade unions.

The big problem, however, is the attraction of young people willing to stay. All too many who come are young single men, motivated by a desire to postpone service in the West German Army and who may not remain for long. The Berlin government is therefore especially interested in young married couples who will make their home in Berlin. To get them to come, the Senat has authorized a number of inducements, including low-cost housing and financial assistance.

Brandt and the Senat realize that Berlin needs a large-scale injection of long-term capital, both to provide the facilities demanded by newcomers and to enlarge the industrial base. Commercial long-term credit, however, is not readily available, and Brandt has been unsuccessful so far in his attempt to persuade the Bonn government to increase long-term credits. The major source of capital for Berlin continues to lie chiefly in the Federal Republic, but some West German businessmen remain reluctant to make new investments in the city.

Outlook

While the outlook for West Berlin is promising, the city, nonetheless, faces an uncertain future. Much depends on whether the abatement of Soviet pressures will continue. A lengthened period of calm will give the Berliner time to fortify himself economically--as well as spiritually--against future pressures.

The changeover anticipated this October in Bonn from Adenauer's to Erhard's leadership is an added and as yet unassessable factor. Berliners themselves, however, may well hope that Erhard will concern himself more with the welfare of their city than did the old chancellor. (SECRET)

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