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SPECIAL
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NUMBER 23-63

West Germany Under Erhard

DIRECTOR OF SPECIAL INTELLIGENCE
UNITED STATES INTELLIGENCE BOARD

As indicated overleaf
18 DECEMBER 1963

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WEST GERMANY UNDER ERHARD*

THE PROBLEM

To estimate the immediate outlook for West Germany under the leadership of Ludwig Erhard, with particular reference to West Germany's role within the Western Alliance and its relations with the Soviet Bloc for the period up to the West German parliamentary elections in September 1965.

CONCLUSIONS

A. Erhard has taken over leadership in West Germany with a firm hand and will in all probability be his party's candidate in the September 1965 national election. His foreign and defense policies will almost certainly continue to stress close relations with the US. He is by temperament more pragmatic and flexible than Adenauer. (*Paras. 1, 6, 7, 13*)

B. Erhard, like most West Germans, would like to "do something" about the division of his country and the plight of the East Germans. To make progress in this direction, he may be willing to offer economic inducements to the USSR. (*Paras. 8, 11*)

C. Germany considers NATO and the US presence vital to its security. In discussions of NATO strategy, Bonn will remain convinced that troops defending West Germany must have immediate access to tactical nuclear weapons if NATO's "forward strategy" is to succeed. Germany desires to join the MLF, seeing it as the most politically feasible way of gaining admittance to

* This estimate supplements and brings up to date NIE 23-62 "The Outlook for West Germany," published 25 July 1962. Many of the basic judgments contained in NIE 23-62 are still valid.

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the nuclear club and hence more influence in the alliance.
(*Paras. 14-17*)

D. Erhard favors close European cooperation in the economic field, including British association with the EEC. He is considerably less enthusiastic about expanding the authority of the EEC's institutions. On agriculture, Erhard will go some distance to get agreement both within the EEC and with the US; for domestic political reasons he is unlikely to be able to satisfy either France or the US. (*Paras. 19-21*)

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DISCUSSION

I. ERHARD AND THE PROBLEM OF LEADERSHIP

1. The Adenauer period in West Germany has ended under circumstances which appear to augur well for the future. The transfer of power to the 66-year-old Erhard has proceeded smoothly. In the face of Adenauer's persistent allegations that his heir-apparent lacked political acumen and decisiveness, Erhard has moved vigorously and effectively to assert his leadership since taking office in mid-October. As the most potent vote-getter in the Christian Democratic Christian Social Party (CDU CSU), he will lead his party in the coming campaign for the next national parliamentary election in September 1965. Other leaders, such as Foreign Minister Schroeder or Defense Minister von Hassel, whatever their ambitions to succeed Erhard, almost certainly recognize the necessity of postponing their hopes beyond 1965. Adenauer, though he still holds the potentially important role of CDU chairman, has lost greatly in power and influence with his departure from the Chancellorship.

2. Nevertheless, Erhard will have to contend with a complicated tangle of divisions and rivalries which will almost certainly continue to exist beneath the surface in the CDU CSU. These challenges are made more difficult by the knotty problems which West Germany—and indeed the Alliance as a whole—must face in the next year or two in the fields of economic cooperation and defense policy. They are especially magnified by the recent increase in German attention to the complex questions of reunification and relations with Eastern Europe and the Soviet Union. Differences concerning foreign policy issues confronting West Germany have tended to deepen and exacerbate existing personal and political rivalries within the ruling CDU CSU.

3. Erhard will also be progressively more concerned with political campaigning as the 1965 election draws nearer. He will have to face a Social Democratic Party (SPD) which for the first time in the history of the Bonn Republic feels within striking distance of a national victory. He may also be under increasing pressure to cater to and compromise with his coalition partner, the Free Democratic Party (FDP), on certain issues. The FDP, as the only small party which remains on the national political scene, holds disproportionate power, since neither of the two major parties has an absolute majority in the Bundestag. The possibility should not be excluded that tension between the coalition partners could bring down the government even before the 1965 election. This could result in the formation of a grand coalition of the CDU CSU and SPD.

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II. ECONOMIC POLICIES

4. Erhard's reputation as the architect of Germany's economic recovery is already secure. Nevertheless, accelerated inflation and the reappearance of a surplus in Germany's international payments may force him to consider modifying existing monetary and fiscal policies. Erhard's approach to the problem of inflation is centered on budgetary restraint and appeals to management and labor for moderation in price and wage policies. This policy will be somewhat undercut by his promise of tax reductions in 1964. The payments surplus, expected to reach a billion dollars this year, in contrast to a small deficit recorded in 1962, arises from a strengthened trade position and a renewed inflow of private capital.

5. Aside from these problems, which appear manageable, the German economy continues to show underlying strength and a capacity for sustained growth beyond the extraordinary boom of the 1950s. The estimated GNP growth of 3.5 percent in real terms for the current year is expected to be exceeded in 1964, stimulated by a strong upswing in export orders and a rise in both production and orders for capital goods.

III. PROBABLE ATTITUDES ON MAIN ISSUES OF FOREIGN POLICY

6. In foreign affairs, Erhard's role will be to continue the policies of the previous administration, without appearing either inflexible or lacking in enterprise. He will have to defend himself against the criticism of such men as former Foreign Minister von Brentano, former Defense Minister Strauss, and Adenauer himself—all of whom resent their loss of power and doubt that the new cabinet can be trusted to maintain the old policies. However, his keen personal interest in asserting himself, and thus giving the lie to Adenauer's frequent aspersions on his political judgment and leadership, will be an important force for innovation in foreign policy. So too, will be the greater power of Foreign Minister Schroeder, who even under Adenauer was willing to risk the old Chancellor's censure on the test ban issue and to make clear his interest in achieving greater diplomatic flexibility for Germany.

7. There is, moreover, a general feeling in West Germany that foreign policy should be re-evaluated in the light of the Federal Republic's increasing strength and importance, the competition between Paris and Washington for German favor, and a belief—or hope—that the USSR's economic problems and the Sino-Soviet split may improve the climate for fruitful negotiations between Moscow and the West. Erhard's approach to foreign policy will reflect his awareness of these factors and the fact that he is by temperament more pragmatic and flexible than Adenauer. Erhard will show himself more willing to entertain new lines of action and will almost certainly not react to US moves with the suspicion characteristic of Adenauer's later years. He almost certainly

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recognizes, however, that his real freedom of maneuver, with West Germany situated as it is at the very center of the East-West confrontation, is extremely limited. He is unlikely to make any approach to the Soviets without first consulting the US and possibly also Bonn's other major allies.

A. Reunification, Berlin, and Relations with the Soviet Bloc

8. In his public and private statements since becoming Chancellor, Erhard has consistently supported present US policy toward the Soviet Union and on Berlin and the German problem. Differences in approach to these issues may arise in the future, however, since in West German eyes they are inextricably bound up with the subject of reunification. As West Germany's strength has increased in recent years, so also has its frustration at not being able to achieve any progress toward reunification, or any improvement in the lot of Germans living in the Eastern Zone. Sentiment in favor of "doing something" about this has grown substantially throughout West Germany since the Berlin Wall was erected in August 1961.

9. Interest in the possibility of a more active Eastern policy has also coincided with German industry's widening search for markets, with the expectations of possible movement in Soviet policy stimulated by the signing of the nuclear test ban treaty in mid-1963, and with the atmosphere of political speculation and discussion which developed as Adenauer's term of office drew to a close.* All parties and all politicians, generally speaking, recognize that reunification on acceptable terms is unattainable for the foreseeable future, and virtually all German leaders insist that there can be no movement toward accommodation with the Soviet Union which is not linked to concessions on the German problem. However, there is considerable variation as to how this principle should be applied in practice.

10. Adenauer has argued that the Soviet leadership is in deep trouble over economic conditions and its quarrels with the Chinese and that, if the West remains firm, the USSR can be made to pay a significant political price for Western economic help. Certain SPD leaders have

* In the past year, Bonn has already made small moves toward improving relations with the East European countries. Facts permitting the exchange of resident trade missions (with semi-diplomatic status) have been concluded with Poland, Hungary, and Rumania, and actual trade agreements have been signed with the first two. Negotiations are now underway for similar arrangements with Czechoslovakia and Bulgaria. In these negotiations the West Germans successfully insisted that West Berlin be automatically included as part of the "Deutsche Mark area," and they will presumably be able to do so with the other satellites. The Satellite negotiators had originally refused this concession on the basis of the long-held Bloc thesis that the Federal Republic has no authority or responsibilities in West Berlin.

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put forth proposals for more flexible Eastern policies; Berlin Mayor Willy Brandt in particular has placed primary emphasis on trying to induce the Communists to ease restrictions on the East German population. Businessmen such as Berthold Beitz, general manager of Krupp, and like-minded elements in the FDP are interested in restoring historic German economic pre-eminence in Eastern Europe, arguing that increasing Satellite contact with a dynamic West Germany will tend to isolate the East German regime and perhaps bring other political benefits as well. Beitz has also expressed interest in a major economic deal with the USSR itself. He does not necessarily represent, however, the prevailing sentiment of industry. Equally influential spokesmen, such as Fritz Berg of the Federation of German Industry, doubt that increased trade with the East is feasible.

11. Erhard himself has suggested that he would be willing to offer substantial "sacrifices" by West Germany—perhaps in the form of economic aid—in return for Soviet concessions on reunification. He undoubtedly realizes that an offer of large-scale or long-term aid to the Soviet Bloc would raise a host of problems within the Western Alliance. In any event, whether or not Erhard puts forward new initiatives of his own in coming months, he will make every effort to assure that the West tries to extract concessions on the German problem in any negotiations with the Soviet Union.

12. Another possibility is that the Soviets themselves may seek to capitalize on German hopes of progress toward a settlement of the Federal Republic's outstanding problems with the East. On the whole, we find it difficult to imagine the Soviets offering the kind of political concessions which would justify, in West German eyes, the extension of economic aid or long-term credits. In the uneasy West German political atmosphere, however, even the hint that political concessions were in the offing could be enough to stir up intensive political debate in which the unity of the government coalition and perhaps interallied relations might be considerably bruised.

B. West German Defense Policy, NATO, and the MLF

13. Dependence on the US and active participation in NATO will almost certainly continue to be the basis of West German defense policy. Erhard and his colleagues recognize that US military and diplomatic support is essential to German security; they give no heed to those elements of the party right wing which question the reliability of US guarantees and seek to play up the French connection. For this reason West Germany is likely to remain more cooperative than other NATO allies on many military matters, as well as in making military purchases to offset the foreign exchange costs of maintaining US garrisons on German soil. As a result of its continuing military buildup, the Federal

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Republic plays a steadily larger role in NATO defenses. West Germany plans a significant increase in the combat readiness of its 12 army divisions by 1966, with parallel improvements in both naval and air forces.

14. Nevertheless, the West Germans, with their special circumstances and fears, will probably continue to pose some problems as well. They will remain convinced that effective maintenance of German territorial integrity in the face of attack, under NATO's "forward strategy," will depend on the defending troops' having immediate access to tactical nuclear as well as conventional weapons. As a result the Germans will remain hard to convince that the flexible response advocated by US military planners will either deter attack or defend German soil effectively.

15. The extreme West German sensitivity to any reduction of US military strength in Germany will almost certainly remain a recurrent source of uneasiness in US-German relations. Erhard is probably less suspicious on this score than was Adenauer, but will nevertheless examine closely any US plans to alter US troop dispositions in West Germany. He is well aware of the pressures on the US to cut down on overseas expenses and will be concerned lest balance of payments considerations color US military judgments. Moreover, he will have to give attention to the West German press, which will continue to react emotionally to even the most limited and circumscribed US efforts to eliminate installations or redeploy units.

16. The Federal Republic has been concerned to keep military expenditures under control, and is likely to be even more so under Erhard. The new Chancellor has already manifested an interest in stabilizing the tax burden and minimizing inflationary pressures by limiting the growth of federal expenditures to the rate of growth in GNP. Should he apply this principle directly to the military budget, the West German military buildup will, as it has in the past, lag behind schedule to some extent.

17. West German participation is of key importance to the proposed NATO multilateral nuclear force. We believe that the Germans' decision to endorse this US proposal was motivated not by a desire to move toward acquisition of a national nuclear capability, but rather by a series of political considerations. They believe that the multilateral approach is the most politically feasible method of gaining admittance to the nuclear club and hence of moving toward parity with their major European allies in Western councils. They see the MLF as preferable to either an independent German effort or some sort of bilateral arrangement with France. They also do not want the MLF to degenerate into a two-country program involving only the US and West Germany. They probably also reason that West Germany's willingness to make a sizable investment in the MLF is essential to insure its participation in any future nuclear sharing. Some German supporters of the MLF.

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especially Defense Minister von Hassel, expect that it will ultimately develop into a force governed by majority vote. The Germans probably are also inclined to cooperate with what they believe to be a strong US wish to establish the MLF. In addition, some Germans consider that the creation of the MLF would help assure continued US involvement in the defense of Europe. No significant shift in this generally pro-MLF attitude is likely to be initiated by the Erhard administration.

C. Relations with France and European Integration

18. Erhard has so far been cautious and noncommittal about relations with France. His relations with de Gaulle will clearly not be as close as were those of Adenauer. He has nonetheless expressed approval of the French-German pact of January 1963, and has said that he intends to improve cooperation between the two countries. The atmosphere of his two-day meeting with de Gaulle in November 1963 was cordial.

19. For the immediate future, German relations with France will continue to center on Common Market developments. Erhard's attitude toward the EEC has for some years conspicuously differed from those of both Adenauer and de Gaulle. The new Chancellor until recently has shown little interest in the political objectives of the European integration movement. Instead, he has been preoccupied with commercial and economic considerations and with promoting European-wide free trade. As Economics Minister he supported formation of an all-European Free Trade Area to include Britain and other states as well as the EEC. He also favored measures to bridge the gap between the EEC and the seven-nation EFTA, after the latter organization was formed by the British as a counterweight to the EEC. Later, he strongly supported Britain's application for admission to the EEC. Since becoming Chancellor, he has emphasized that the EEC must not degenerate into a self-sufficient market, that the integration of only six European countries cannot be considered "the ultimate goal," and that efforts to intensify "internal European ties with Great Britain" must be an essential part of Germany's policy.

20. As a liberal economist, Erhard opposes the central direction and economic planning (*dirigisme*) implicit in the EEC, and has never been enthusiastic about giving up national powers to supranational institutions such as the EEC Commission. Erhard's dislike of supranationality and of European "technocrats" recalls that of de Gaulle. The possibility cannot be excluded, therefore, that Erhard might react sympathetically should de Gaulle revive his plan for a so-called "political union" of the Six along essentially intergovernmental lines. The German Chancellor would probably insist, however, that any such plan leave open an opportunity for Britain's participation.

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21. Within the EEC, the major difficulty facing Erhard is the complex problem of agriculture. This is in particular a continuing source of tension in relations with France. On the crucial issue of EEC grain support prices, Erhard has indicated that he may be receptive to a compromise based on the Mansholt proposal which was put forward by the EEC Commission, and which would reduce significantly the present high German price level. Regulations affecting other agricultural commodities must also be worked out. Because the EEC has chosen to link agricultural decisions with adoption of its position for next year's Kennedy Round negotiations, the prospects for significant reductions in tariff and non-tariff barriers will depend to a large extent on the EEC's success in solving its agricultural problems. In all these matters, Erhard must reckon with the fact that a substantial segment of the CDU CSU voters are farmers, and accordingly we believe that Erhard will be unwilling to go further in lowering the German price level than called for by the EEC Commission proposal.

22. On many key problems affecting US-West European economic relations, Erhard is a strong supporter of present US positions. His government—and most West German industries as well—favor substantial reductions of trade barriers in the Kennedy Round. Erhard will attempt to influence the Common Market to pursue liberal policies and, as already indicated, to keep open the possibility of closer British association with the EEC.

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