



DEPARTMENT OF STATE INSTRUCTION

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File Erhard
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ORIGIN: **82-8522 April 1, 1958**

SUBJECT: Summary of Erhard Washington Discussions, March 24 - 26, 1958

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Erhard
Minister ~~Erhard~~ left Washington on March 27 for New York where he is scheduled to remain until April 2. Both German and United States sides were pleased with the Washington program of discussions which went smoothly in an atmosphere marked by friendliness and frankness. Memoranda of conversation covering the exchange of views between Erhard and United States officials will be forwarded when cleared. (No repeat no negotiations took place at these meetings.) Highlights of the Washington meetings follow:

1. Erhard's 40 minute meeting with the President on the morning of March 24 received good press coverage with emphasis on Erhard's view that the United States was worrying and talking too much about recession; he did not think the United States' economy was in serious trouble.

2. The luncheon meeting with the Secretary was devoted principally to discussions of the political problems of European economic integration. Erhard expressed concern about the French economic and financial situation and indicated constitutional reforms were needed in order that remedial actions could be taken by the French. It was pointed out to Erhard that the American business community had accepted the Common Market because the latter was viewed as a step in the direction of political unity and the integration of Europe. Problems would arise with American business if the process of complementing the Common Market with a free trade area led to a protectionist system, limiting imports from the Western Hemisphere, Australia and New Zealand.

3. At the first business meeting Monday afternoon with Mr. Dillon, the Deputy Under Secretary for Economic Affairs, discussions centered on commercial and trade policies, Common Market and free trade area problems and on economic assistance programs. Erhard urged Germany and the United States to defend their free trade policies. If, because of talk about recession, the United States took one backward step on

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trade

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GER-Mr. Lisl
(in draft)

[ERHARD (w-5)]

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Trade policy, European countries would take two or three such steps. Maintenance of liberal trade policies was important in the context of the forthcoming negotiations involving the Common Market and a free trade area. In the absence of more effective coordination of employment, budgetary and monetary policies by the member countries, Erhard felt divergent speeds of inflation coupled with the rigid exchange rates would create a serious problem of disequilibrium for the Common Market and the free trade area. On the subject of the remaining German quantitative restrictions, Erhard said it was unlikely that the Federal Republic would abolish or liberalize them. The Federal Republic did not wish to apply for a GATT waiver because it was difficult to foresee at this time what agricultural policies would be developed by the Common Market and by the proposed free trade area. GATT should be prepared to modify its provisions regarding agricultural trade and to harmonize them with those to be developed by the Six Common Market countries. A separate message is in preparation which will outline more fully Erhard's views on the proposed European free trade area.

4. Re economic assistance to underdeveloped countries, Dillon indicated the importance which the United States attached to this matter, outlined the magnitude of United States efforts and stressed that the Administration and the Congress believed other countries in the position to do so should devote more of their resources to foreign assistance. Erhard, in response to Mr. Dillon, gently chided the United States for being overly generous in the furnishing of economic assistance to other countries. He said the United States should not exaggerate USSR capabilities to furnish economic assistance. The United States should exact stricter terms for its aid in order to help maintain standards which would encourage the international movement of private venture capital. Dillon replied by pointing out that practically our only grant economic aid now being furnished was to help support relatively large and essential defense burdens, as in Turkey and Korea. The United States felt as a creditor nation and the world's greatest trader, it could not take a straight banking point of view toward certain problems of the less developed countries. Countries, which sometimes needed the help most, were the ones which offered less secure financial risks. The United States was convinced that the USSR could deliver the goods thus far promised in its aid agreements. Dillon urged Germany to increase its loans and credits and also its contributions to the United Nations technical assistance programs. Erhard gave no encouragement regarding increased German economic assistance, saying the credit insurance program relying on the private German money market would remain the basis of the German approach and that government-to-government loans were not contemplated. Erhard suggested that creditor countries might coordinate more carefully their economic aid programs, particularly in determining which creditor country had most good will and should get in the forefront of assistance activities in a particular country. No new institutions were needed for such coordination and none should be established.

5. Tuesday morning March 25 meeting at the Treasury, chaired by Secretary Anderson, was devoted entirely to the United States and German business situations, with Anderson, Hauge and Sculnier making statements for the United States. Representation of other agencies included Dillon, Wagh, Smith of Commerce, and Wood of FRB. The main points of the United States presentation were: (a) Inventory adjustment and slowing of capital formation following unusually high investment

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levels 1956-57; (b) Result is spotty situation with decline in some sectors, notably in automobiles and steel but continuing strength in others; (c) Same growth present as in the past and the essential problem is to maintain confidence and continuity of decision making on the part of millions of private individuals deciding things in a free economy; (d) Policy stress has been on prudent measures that will not create future inflationary problems.

6. The current United States economic situation was characterized as "mild downturn". Issues mentioned as requiring further study included: (a) The long range effects of full employment psychology; (b) Inadequate downward flexibility cost-price system; (c) Flexible monetary policies; their recent success does not obviate need for more comprehensive study of the nation's monetary structure; (d) Revival of under-consumption theories in certain quarters, although the real need is probably primarily for forward planning and investment by business; (e) Impetus of the situation revives protectionist sentiment, although 4 1/2 million workers are dependent on foreign trade and new trade barriers might depress rather than stimulate.

7. Erhard discounted any present or likely effect of the United States economic adjustment on German business activity which was still expanding, though less rapidly than before. He said, however, he was puzzled at the degree of concern and of the business pessimism here which he believed was not justified by the economic statistics. He was also puzzled at the continuing rise price levels under present circumstances. He related the German interest in developments here to the importance of having a stable United States dollar as a reference point for other currencies and the German fear that inflation here would adversely affect the international situation by giving rise to a further round of divergent upward price movements and consequent exchange rate discrepancies.

8. The United States participation in the final meeting Wednesday afternoon at the Treasury consisted of Secretary Anderson and Mr. Dillon and Mr. Weir Brown of the Embassy Bonn. After brief further discussion of the United States business situation, the United States representative alluded to the problem of financing economic development of the less developed countries, indicating that the United States, Germany and Canada were the three "bright spots" with really strong economies. The United States representatives again expressed the conviction that each strong country must examine its capabilities and find means of providing hope and assistance to the less fortunate areas and that each must bilaterally give attention and make contribution toward a solution of this problem, in addition to consultation and participation in the financing provided by international financial institutions. In connection with this problem, the United States representatives also made reference to the importance of recipient countries maintaining sound internal policies and advisability that all our actions and discussions avoid anything likely to create uncertainty and speculation about currency values.

9. Erhard referred to his repeated acknowledgment that a moral obligation existed for strong, developed countries to assist countries which were serious-minded about economic development, but he stressed the limitations on German capacity to contribute. He said Germany was giving attention to this problem and tentatively

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was considering the possible use for this purpose of about DM 200 million per year of requirements received on ERP counterpart loans.

10. Ehardt said Germany was desirous of shifting EPU from a partial to a full gold and dollar settlement with credits to be made on an ad hoc rather than an automatic basis and made vague references to the desirability of the United States being associated with the Union in this connection. The United States representative indicated recognition of the advantages of greater convertibility of currencies, but stressed some conditions required for stabilizing of reserves and others requested in general stabilization measures before they could feasibly take this step. Also mentioned that the United States was presently examining whether the IMF framework might perhaps provide some possibility for establishing additional financial facilities for the less developed areas.

11. In the course of the March 26 conversation, Ehardt briefly mentioned the German interest in the question of the return of vested German assets and the United States aid indicated my interest in obtaining "German contributions" toward the support costs of United States forces in Germany.

Mr. Dillon also headed to Minister von Kessel a note setting forth the United States position on the German formal proposal of February 27, 1958 that, as a means of facilitating German assistance to India, the United States Government or some friendly third party advance the funds for a development equivalent to 20 percent of the price of Indian purchases in Germany (enclosures 1 and 2).

WILLIAM

Enclosures:

1. Note from the German Embassy dated February 24, 1958. (Copy).
2. Note to the German Embassy dated March 26, 1958. (Copy).

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Exposure 1.

Ambassador Bress requested in a meeting with Chancellor Adenauer on January 30, 1958, that both the US Government and the German Government should consult each other through their respective Ambassadors in all matters concerning future aid to India.

Ambassador Bress informed Chancellor Adenauer that US aid to India alone would not be sufficient. Chancellor Adenauer declared that German aid to India up to this date has grown in form of credit guarantees up to the amount of DM 1.4 Billion (about \$190 Million). The Federal Republic of Germany negotiates at the time being with an Indian delegation the postponement of payment in the amount of DM 600 Mio for the ROBERTA steel plants to the effect that India has not to make payments for this plant until Spring 1961 as requested by India.

India desires now credits of about 1 Billion DM for a period of 4-5 years for additional essential projects of the second 5-Share-Plan. This creates the following problem for the Federal Republic of Germany:

- a) The German Government is not able to meet the Indian requests as government credits are not granted and also the necessary private capital is not available.
- b) The German Government must insist that at least a strong part of 20% will be made if credit guarantees are to be issued, as "credits" can only guarantee such credits in which developments are agreed upon.

In a second part of these official talks the German Government is willing to increase the amount of payments to be postponed from DM 600 to DM 650 Mio., provided that those DM 50 Mio. would be used by India as a downpayment for new projects. In this way additional essential projects in the total amount of about DM 200-300 Mio. could be financed by private sources for the period of about 4-5 years. Although this might be considered the utmost German offer, it meets only partially the requirements of the Indian Government and impedes in part the fulfillment of the second 5-Share-Plan.

The German Government is as well as President Menon and Mr. Datta interested in the success of the second 5-Share-Plan of India and would therefore appreciate closer cooperation between Germany and the US Government for this purpose, i.e., a cooperation beyond only exchange of information.

The German Government sees one way of cooperation in the following: The US Government and the German Government agree amongst them on further additional essential projects for India. The US Government would make available additional credits (for instance from the Development Loan Fund) on a stand-by basis to finance developments of German supplies; the Federal Republic of Germany undertakes to finance the balance of such new orders. These funds would come from payments of India for previous orders as well as from a newly authorized credit package of about DM 250 Mio. The German Government believes that the coordination between the US Government and the German Government in the aforementioned way or also in some other concrete form for the purpose of aid to India would further the development of India and

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Should have also very good political effects. However, as this proposal is not yet known in India, it is suggested to consider it as highly confidential. Information to India should be given by both governments simultaneously.

In this connection may be mentioned that Minister Frenn of the US Embassy in Bonn has previously suggested to Under Secretary of State Suberspanberg, it should be decided on what basis the Development Loan Fund could work closely together with the Federal Republic of Germany on certain development projects, particularly concerning projects in India.

February 27, 1978

Washington, D. C.

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OOITOFFICIAL USE ONLY
(Security Classification)Enclosure 2.

The Department of State has received the Note of the Embassy of the Federal Republic of Germany dated February 27, 1958 and together with the other interested agencies of the Government of the United States has carefully considered the proposal of the Federal Republic of Germany to increase the economic assistance to India under certain conditions, including the provision that the United States Government or some third party advance the funds to make the payments in German currency, equivalent to 80 percent of the price of Indian purchases in Germany. Funds would be borrowed in the private German money market on a four to five year term basis to finance 80 percent of the purchase contract price. This proposal was presented in the form of a Note which Minister von Kessel, Chargé d'Affaires of the German Embassy, on February 27, 1958 handed to Mr. Dillon, Deputy Under Secretary of State for Economic Affairs. The German proposal was made in response to the suggestion of Ambassador Bressé to Chancellor Adenauer that the United States and Germany consult with each other regarding their respective efforts to furnish urgently needed economic assistance to India.

The United States welcomes the information that the Federal Republic of Germany has agreed to postpone for about three years the payments schedule in the amount of about 100 million for the Borussia steel plants and, in addition, is prepared to apply certain limited amounts of Indian payments on marketing credit obligations as arrangements for new Indian purchase contracts in Germany. Utilization of a portion of Indian payments as arrangements on new orders for which the Federal Republic will issue credit payments will facilitate Indian access to the German money market.

The United States hopes, however, that the Federal Republic, in view of the strong economic and financial position and the political interests in strengthening the free world, will further increase the amounts and very substantially lengthen the underlying dates of German lending not only to India, but also to other less-developed countries. In the United States view, present circumstances make it necessary that Germany should, like the United States and other major industrial countries, find methods and techniques for financing long-term investment requirements of the less-developed countries.

In the United States, as in Germany, the resources of the private capital market are limited relative to the needs, and private investors generally prefer to invest at home or in selected foreign countries where the opportunities are profitable but the need countries less critical than in the less-developed countries. As a consequence of this situation, the United States has found it necessary, despite budgetary deficits in some years and sometimes sizeable inflationary pressures, to supplement private financing in the foreign field both through annual budgetary appropriations and through special credit institutions (such as the Export-Import Bank) whose capital is authorized by the Congress to be supplied from public funds.

The United States is confident -- particularly in the light of the successful and ingenuous manner in which the Federal Republic solved the economic financing problem in the reconstruction period after 1945 -- that sufficient ingenuity as well as sufficient resources to solve the technical financial problem involved in providing such financing to less-developed countries do exist in Germany.

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With regard to the German Note of February 29, 1958, the United States cannot consider the specific proposals presented therein as embodying any serious advance in the nature of German participation in such financing or as being of a magnitude in any way commensurate with the problem. The Indian need is for external lending on such longer terms. The United States is already undertaking an increase in the aid to India. The United States does not regard it as either feasible or proper for this Government to utilize any portion of its aid resources for participation in such a program of short-term credits tied to the financing of German exports to India.

On similar grounds, the United States is doubtful whether any other source of financing outside of Germany could be substituted in, or combined of the propriety of, participating in such a program. The United States understands, however, that an organization of European export credits operates with headquarters in Bonn, Netherlands, will discuss with the management of the International Bank for Reconstruction and Development in April 1958 proposals for export financing similar to the one outlined in the German Note. It seems that Germany will be represented in or will actively follow these discussions with the International Bank for Reconstruction and Development.

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