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FOREIGN SERVICE DESPATCH

FROM : Amconsul STUTTGART

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TO : THE DEPARTMENT OF STATE, WASHINGTON

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ACTION
EMR-4
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Subject: Economics Minister Speech in Stuttgart

On the occasion of the two day plenary meeting of the Deutsche Industrie- und Handelstag (all Chambers of Commerce and Industry in West Germany) in Stuttgart, Minister of Economics, Professor Dr. Erhard, delivered an economic speech, on April 24 to a large and distinguished audience, which was carried over the local radio network.

There follows a brief resume of the highlights of Dr. Erhard's talks, supplementing a brief report on the same subject telegraphed to the American Embassy in Bonn.

Summary

1. Dr. Erhard began his speech by complimenting the Deutsche Industrie- und Handelstag. He reminded the audience of the speech he made ten years ago to the Economic Council in Frankfurt in which he elaborated an economic program for West Germany. This program, he claimed, was still valid, having withstood many vicissitudes and the test of time.

2. Dr. Erhard referred to a statement of the previous speaker (Muschmeyer, the newly elected president of the Deutsche Industrie- und Handelstag) who reiterated the DIHT's support of a market economy. He viewed the current internal economic situation even more optimistically than the previous speaker, making in particular the point that the Germans should not lose confidence in the economic power of their country. In pointing to the fact that the current weakness in the raw material markets can be overcome, the Minister said that only certain sectors of the economy have been jeopardized by this weakening trend. Many things still remain to be accomplished in the economic sector of the Federal Republic. Only the lack of good ideas and the reluctance of entrepreneurs to undertake risk could paralyze the economy. Obstacles to further economic development of the country cannot be removed by pursuing a dirigistic and protectionist policy but by initiative and liberalism. But more than in the past, Germany has to work on improving its technology in order in the future to withstand keener competition in foreign markets.

3. He was of the opinion that the United States recession would not affect the European economy, pointing to a similar situation in the United States in

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.../54 which had no effect at all on Europe. Minister Erhard stated that he was convinced that the current recession in the United States could not be attributed to economic but primarily to psychological factors. Uncertainties have arisen which are primarily attributable to the Russian sputnik and to defense problems. But this internal consciousness in the United States could also have a healthy effect. He believed the situation would improve once the American people feel that the government is taking every necessary measure to overcome the slump.

4. Dr. Erhard indicated that the Federal Republic's coal stockpile totaled the equivalent of ten days' output, whereas Belgian and French stockpiles amount to a 25 day output. It is a good thing, he said, that trade in coal is subject to the competitive process. West German coal production is not adequate to meet the country's needs. A reduction in imports of United States coal was not justified, but he noted that Germany cannot disregard current coal agreements with other countries. If West Germany halted coal imports from the United States, he claimed that such a step might tend to revive increased American protectionism. A step in this direction by the United States might set off an even greater intensification of protectionism and trade restrictions by numerous European states. Rather than isolate themselves, the national economies should, during the period of the current economic stagnation, maintain free international trade.

5. The textile industry cannot be aided by state subsidies. This industry could not be helped even if world competition ceased to exist. Protection against foreign competition could not be extended to this industry because it has increased wages beyond the rise in productivity.

6. Professor Erhard indicated that the Germans should be happy that savings were revived and are on the increase. There is only sense in saving if one has confidence in the future. Germany would only be menaced by an eventual crisis if it should result itself to a decrease in production. Dr. Erhard stressed that the German economic situation has not deteriorated. Only last year Germany was concerned over the effect of the economic boom that the economy was undergoing. Professor Erhard indicated, however, that he was concerned about the slight but continuing internal inflationary developments. The reason for this development is that the German people are laying large claims against the economy. The question arises whether such claims on the economy are necessary. Financial policy has become of late somewhat ineffectual because the liquidity position of German enterprises is unstable and weak. The establishment of a committee of scientific experts independent of the government, might serve a useful purpose in promoting the growth of the German national economy. Some German entrepreneurs, following practices of their colleagues in the United States, have developed the idea of a certain set profit margin; this is not in agreement with the principles of a market economy (soziale Marktwirtschaft). There is one healthy approach to guard against a downward trend in business and economic activity and that is to switch from a set margin of profit and to concentrate on mass production. Furthermore, at the time of a downswing in the economic situation, it is the proper time for entrepreneurs

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neither to relax and slow down, nor to be affected by pessimism and resignation. In such a situation policies aimed at shortening the work week are not good. In recent years the increased per capita productivity has to a great extent been offset by reducing the work week.

7. Compared with the national product (Sozialprodukt), the outlays for armaments are now lower than were occupation costs in 1950. If the outlays for armaments serve their purpose, the German people can go about doing their work in peace and these expenditures are, therefore, to be considered highly productive. Only a few days ago the Federal Republic declared that armaments should not be financed by dubious means.

8. Professor Erhard noted that the recent negotiation in London tended to strengthen friendship between the United Kingdom and the Federal Republic; also a better understanding of the conditions for the establishment of the Free Trade Area has been reached between these two countries. There is a way to promote European economic integration, and that is for the EEC countries to maintain stable exchange rates that would prepare the ground for the eventual convertibility of the currencies of these countries. The Minister concluded his speech with the statement that he welcomes the moment when the European Common Market is supplemented by the Free Trade Area, which he said, however, would not liberate Germany from its responsibility for the German economy.

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