

AIR FOUR

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FOREIGN SERVICE DESPATCH

FROM : Ambassador, Bonn

375

TO : THE DEPARTMENT OF STATE, WASHINGTON.

September 10, 1959

REF

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	REC'D	OTHER

SUBJECT: Ludwig ERHARD -- A Profile

Erhard is a jovial-looking man with a florid complexion and graying, wavy hair. He smiles easily and is quite friendly. He tends on occasions to give the impression of being shy, but on further examination this turns out to be a boyish quality which adds to his attractiveness as a man. One always feels he is direct, honest and sincere, presenting himself naturally. At times his very open qualities give him the appearance of ingenuousness. He is respectful of authority and position. In the presence of such persons as the American Ambassador or the Chancellor or President Bismarck, he gives the pleasant impression of one spontaneously recognizing the position, merits and good qualities of the person he is with. Above all, he is a friendly person who warmly receives his visitors, always offers cigars and cigarettes, and in the late afternoon, with selected guests, will offer drinks and delights in pronouncing on economic problems at great length over a drink in his office.

Erhard has reached a pinnacle of economic achievement as an economic minister in the free world. He has become a legend, and is considered by some as the leading spokesman of the alternative economic system to Communism. In 1957, Henry Luce invited him to provide the keynote of the world conference of businessmen in San Francisco attended by some 600 top businessmen from 30 countries. The statement was read aloud by President Luce at the opening of the conference.

In the Federal Republic he has become the symbol of prosperity after the lean war and post-war years of chaos and privation. He is a great vote-getter whose popularity with all classes of the population including the laboring class and even socialist voters is remarkable. He has been aided greatly by his outstanding ability as a public speaker, great energy, and a clever public relations campaign (witness his letters to housewives, regularly published during the election campaign of 1957). This extraordinary combination of both economic prophet and politician have given wide circulation and status to his doctrines. His political success reflects the explosion of prosperity which accompanied the Social Market economy during the ten years following the currency reform. The Federal Republic has been recently described in a letter from Khrushchev to Adenauer, dated August 18, as the "greatest economic power among the West European capitalist states".

Subsequent to the transfer of Franz Bismarck to the High Authority of the EC after the elections in 1957, Erhard became Vice Chancellor. After the

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stunning victory of the CDU/CSU in the 1957 national elections and his major role in that campaign, Erhard's popularity was such that he quickly came to be regarded as a certainty to succeed Chancellor Adenauer. In April 1959, when the Chancellor finally announced his candidacy for the Presidency of the Republic, he became an active candidate for succession and apparently - although by no means with certainty - the choice of the majority of the CDU/CSU parliamentary delegation. Subsequent events appear to have diminished Erhard's chances of becoming Chancellor. If Adenauer survives through the 1961 elections, it may be unlikely that Erhard will ever achieve this post.

At this point a word of caution about giving Erhard all credit for the economic recovery of Germany is necessary. In the authorized biography of Adenauer, it is related that Adenauer sought out Erhard in 1949 and presented him to CDU/CSU party leaders because he came closest to the party's thinking on economic questions.* Finance Minister Franz Etzel, in a conversation at the reporting officer's home, also related how the broad lines of economic policy for the CDU/CSU had already taken form as early as 1946 in party circles, (e.g. Ahlener Program of February 1947). Moreover, Erhard was able to formulate and implement his policies only under the umbrella of the towering political strength of Adenauer.

The particular sources of friction between Chancellor Adenauer and Erhard may be more numerous than meet the eye. In the first instance, Adenauer tends to reject Erhard on personal grounds. In Adenauer's view, Erhard lacks devotion to and faith in the Christian ideal and the dedication to the concept of a unified Christian community which Adenauer regards as prerequisites for anyone aspiring to political leadership in Germany. One of the most highly publicized differences has revolved about the charge that Erhard is not a "good European", and further lacks the necessary political insight to assume leadership over the foreign policy of his country. This report discusses certain aspects of the economic principles and policies of Erhard against the background of the Adenauer-Erhard controversy. It is intended particularly to shed some light on aspects of the problem of particular interest to the United States.

Erhard is a liberal economist who devoutly believes in the supreme efficacy of market competition and private enterprise, on the one hand, and consumer sovereignty on the other as the determining economic forces in a society. For a German, these views are remarkable as the liberal economic tradition in Germany has always been weak compared with other countries. Germany is the homeland of Friedrich List, one of the fathers of modern

* Adenauer saw in Erhard the man who possessed the theoretical and practical capacities to put into action the economic program of the CDU. He invited him to present his views to a Local Committee meeting on February 21, 1949 in Koenigsplatz. (Kourad Adenauer, "Die Autorisierte Biographie", Paul Meyner, 1955, p. 361.

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protectionism. More remarkable is the fact that one of the world's leading spokesmen for private enterprise and competition should be a German in a period immediately succeeding the era of the Nazi-planned economy, one of the most intricately controlled economies the world has ever seen.

It is against the background of a firm exponent of the market economy, private enterprise, competition and consumer sovereignty that Erhard crystallizes his thoughts on economic foreign policy. His political assumption of national sovereign states leads him to support a one-world economic system based upon relatively free trade and convertible currencies, as the ideal goal of economic policy. He is against economic regionalism in principle, since there is, in his view, no logic to geographic limitations to areas of free trading. In this picture the creation of new institutions to achieve economic objectives can at best be only tolerable and at worst thoroughly objectionable. Erhard has told the reporting officer, the form of economic integration achieved prior to World War I conformed outstandingly to these principles. If the ideal of pre-World War I economic integration cannot be immediately achieved, it is nevertheless his goal.

He is basically an optimist -- if all governments would adopt sound policies in the economic, financial and budgetary fields and lower or remove trade barriers, there would be the best integration possible. Resources, including manpower, would then be combined by private enterprise in the most economically effective manner possible. In effect, he assumes the solution of the political friction and problems involved in any rational use of national resources. It is no accident that he has also said in the presence of the reporting officer that if he had to choose between monetary and financial instability and unemployment, he would seek the latter.

In the volume of economic essays in honor of Ludwig Erhard, "Wirtschaftsfragen der Freien Welt", published in 1957 on the occasion of his sixtieth birthday, it is stated that in principle all integration schemes should be judged as to whether they are based upon the Kern (core) or the Black (black) principle, the former being regional schemes forming a transition to wider world economic systems and disappearing upon the ultimate achievement of a world-wide system. Erhard judges a regional economic system including the Common Market on the basis of whether it meets criterion of the Kern principle.

He has stressed the foregoing views on numerous occasions, in his writings, to the reporting officer and to visitors. Most recently, he stated to Governor W. A. Harriman, during the latter's visit to Bonn that modern technology made the world too small for economic regionalism. His views on the Common Market and the Free Trade Area, the Outer Seven, etc. demonstrate this point convincingly.

With the foregoing background in mind, Erhard's position on the Common Market can be readily understood. Since the beginning he has always considered that agreement on a Common Market should be based not really upon the creation of institutions but upon actual dissection or process of removing trade barriers and establishing sufficient financial stability to enable economic expansion

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to occur in an atmosphere of classical trade liberalism. As the Common Market negotiations developed, Erhard became increasingly concerned about not only the establishment of various institutions, which also the Federal Republic's Foreign Office desired for political objectives, but also various forms of safeguards to take into account French fears of the impact of foreign competition on the French economic interests. He was particularly dismayed with the exceptions France requested. Erhard was also impressed with the exceptions set forth for Italy. At one stage he expressed these fears to the reporting officer, stating that the Common Market appeared to provide obligations for Germany and advantages, escape clauses and important exceptions for the other members.

It was for this reason that Erhard insisted even more vehemently on a Free Trade Area. A Free Trade Area was not only in keeping with his philosophy but also appeared to provide the possibility of removing some of the more objectionable features of the Common Market. His view has been, as a result, that a Common Market without an FTA was undesirable and could lead to a protected high-cost area for Germany which could price it out of world markets. This was particularly true of the institutional features, i.e., harmonizations which Erhard found difficult to accept. Even more important he feared association with countries, which at that time were in difficult financial straits behind a high protectionist wall, might make difficult the maintenance of German economic policies which, in his view, had been so successful.

On the other hand, the Foreign Ministry in von Brentano, Hallstein, as well as the Chancellor, continued to be strongly in favor of the Common Market and European federation particularly as a means of conciliating relations with France. When Staal was withdrawn from the High Authority of the CMC to succeed Finance Minister Schaeffer, it was commonly said that Adenauer had brought him back to have a good "European" in the Cabinet. In fact, Staal stated as much to the reporting officer shortly after assuming office as Finance Minister in 1957, and frankly described Erhard's attitude toward the Committee of Six as tepid.

Prior to the ratification of the Common Market it was clear that Erhard was completely dissatisfied and in fact, whether intentional or not, had planned to leave for the United States on a visit during the final stages of the Bundestag debate on the Common Market treaties. Adenauer requested Erhard to cancel his visit and also to defend the Common Market before the Bundestag, which Erhard reluctantly did. It was clear in his defense, however, that he was strongly of the view that the Common Market treaty had to be complemented by the Free Trade Area. Although never explicitly stated, it can be maintained that Erhard's concept of a free trade area always implied in some fashion revision in fact or in substance of the Common Market treaties.

As was indicated earlier, Erhard takes for granted existing political institutions. The same is true of foreign policy and he is not sensitive in fact to the relationship between trade and foreign policy. This statement is not altered by the fact that in recent weeks, subsequent to his open conflict

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with the Chancellor, Erhard has begun to give public recognition to the relationship between economic integration and political unification. However, the general context of Erhard's remarks has been one of rebuttal of the arguments in favor of the Common Market by adopting the position that the latter only makes sense if accompanied by progress towards political unity which in the presence of a De Gaulle France seems unlikely (Muenchner Merkur, Aug. 2/9, 1959). He then refers (Frankfurt Fall Fair opening speech, Aug. 20, 1959) to the political disaster which would follow if the creation of the Outer Seven were to divide Western Europe into two trading blocs. Taken together these statements appear really as a strong supporting argument for his position against economic regionalism and for subjecting foreign policy to his economic philosophy.

In all of Erhard's statements on the Common Market and Free Trade Area, it is difficult to find any reference to the underlying political objectives of the drive toward political federation of Western Europe. There is no mention of the Soviet threat and the need for Europe to unite its forces for defense against Soviet pressures; nor is there any reference to the Community of the Six as a means of developing and cementing Franco-German friendship; nor is recognition given of the importance of German integration into the West to future political developments in Germany and as an approach to the problem of European security. He has recently stated in an interview published in the Muenchner Merkur (August 2/9, 1959) that the Zollverein followed the political drive for union in Germany and was not the cause, e.g. Bismarck was the power behind the drive for the unification of Germany, not the Zollverein. However, he overlooks the present position of Western Europe face to face with the Soviet might and threats which, combined with the economic, political and military history of this century, easily provide a Bismarck-equivalent force toward unification.

Erhard's views as expressed above are the views of a man who does not believe institutions are required to remove trade barriers... What is needed are sound market practices, free market competition, private enterprise and low trade barriers. To Erhard, supra-nationality or political union to obtain the economic goal of a customs or economic union seem really outside his terms of reference. As indicated earlier, Erhard assumes the existence of national states with individual sovereignty. His approach, therefore, is completely economic and functional.

The ascent of de Gaulle to power followed by the far-reaching stabilization of the franc and non-resident convertibility of the major currencies of the Western world created a new situation. French financial instability and strong protectionism had led not only to some of the clauses in the Rome treaties, objectionable to the Federal Republic, but had also appeared as a major obstacle to the realization of a Free Trade Area. Prior to this, the Common Market had gone into effect, and the January 1, 1958 tariff concessions were made on a bilateral basis. With the stabilization of the franc and non-resident convertibility, Erhard believed that a new page had been turned to make possible or more feasible the FTA.

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Here he underestimated resistance in France. He also appeared to underestimate the far-reaching nature of the steps France had already taken in joining the Common Market, including the adoption of extensive economic and financial stabilization measures, as well as the French need for a period of consolidation. In one fell swoop, the French began the stabilization of their finances, devalued their currency, took the first liberalizations of the Common Market and began GEM-wide liberalization. Erhard promptly made an attempt, unsuccessfully, to persuade Pinoy during his visit to Bonn in July, 1959, to revise his position regarding the Free Trade Area. However, he failed. According to Harbert, Chief of economic affairs in the Foreign Office, Pinoy was adamant and reported to have said the "British have their Commonwealth and we have our Common Market".

Erhard's reaction has, of course, been one of frustration, as on one hand he is opposed to the Seven and on the other hand he is unable to obtain agreement of France to some association with the Seven and other members of the OEEC. At the same time, Franco-German friendship consecrated in the Common Market represents a major pillar of German foreign policy.

Recent developments toward an agreement among the Seven has increased pressure in the Federal Republic in general for some further attempts to reach an accommodation between the Six and the Seven. Erhard's Ministry is again assuming the lead role here. It circulated, for example, a memorandum, which then appeared in the September 2 press, pointing to the great trade importance of the Seven to the Six, noting that the Federal Republic exported more to the Seven than the Six. At the opening of the Frankfurt Fall Fair on August 30, Erhard stressed the political catastrophe a successful launching of the Seven would have for western Europe.

At the same time, the Chancellor, the Foreign Minister and other officials such as Karl Carstens, Chief of the Western European Political Affairs Division of the Foreign Office, appear to take either a more relaxed view or a view that the first consideration is friendship with France as the backbone of the Six and that further progress toward a solution of the Free Trade Area must depend upon progress with France. In any case, there is no inclination to weaken participation in the Common Market to facilitate better relations between the Federal Republic and Great Britain.

Erhard's support for a Free Trade Area has been underwritten by large financial and banking interests in Germany who fear on the one side the controls and interferences inherent in economic unification among the Community of Six and, on the other hand, the loss of market which may result from the creation of a smaller FTA excluding the Six, i.e., the Outer Seven. It is logical, therefore, that Erhard should oppose the Outer Seven because it may make difficult his desire to break out of the Six or to merge the Six and Seven as well as other remaining members of the OEEC. In addition, he is subjected to pressures on the part of the business interests, part interests of Hamburg and Bremen, etc., who fear losing markets and finally, he is supported by those who feel the Seven and Six represent two concepts splitting

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Europe with the British unfortunately becoming more estranged from the Continent of Europe and the six.

The FIA to achieve some opening up of the Common Market to the outer world and a means of ensuring its liberal economic character. However, it also means the possibility of perhaps including the institutional controls which are implicit in the Common Market approach to integration. He has been called from time to time a "bad European" (probably above all by the Chancellor). This rests upon his attitude towards the Common Market, and the FIA has been a means of salvaging his reputation. He is extremely sensitive to being called "a bad European". However, if he were able, Eriard would prefer even wider arrangements than a FIA. In this, he has been strongly supported by the Bundesverband der Deutschen Industrie (BDI). To the BDI, the FIA is a means of escaping the rigid controls of the Common Market, with perhaps a lesser possibility of really opening up Western Europe to trade and guaranteed competition.

Toward the coal and steel community, Eriard has been hostile in principle. This is to be understood from the standpoint of an economist steeped in 19th century liberal economic principles. In economic terms alone, it appears difficult to Eriard to justify a supra-national, sector approach to integration, unless significant steps are forthcoming to widen and deepen the area of integration. Eriard's attitude has been reinforced by outright hostility of Ruhr steel and coal interests to the High Authority of the ECSC. Eriard is particularly opposed to those aspects of the Treaty which provide for direct intervention of the High Authority and National Government in the areas of pricing, production, marketing controls, etc. It is the market which should bring about the adjustments, not governments and supra-national bodies. The strong resistance of the Federal Government to the High Authority's desire to declare a "crisis" within the meaning of the ECSC Treaty and the sharp conflict which resulted last Spring is illustrative of this point.

Eriard's primary economic approach is also shown in his attitude toward other economic problems. In his many statements last Spring, printed widely in many newspapers, he stressed the importance of raising the standard of living in the Soviet Union and implied that the raising of the standard of living would remove the more objectionable elements of Soviet foreign policy. He appears to believe a rising standard of living combined with internal political pressures for an even higher standard of living would put such pressure on available Soviet resources that the Soviet Government would be forced to make internal and external political concessions in order to reduce armament expenditures. During Governor Harrison's conversation with him, Eriard suggested that the raising of the standard of living was so important to the Soviet Union that they might be prepared to grant political concessions if trade between the Soviet Union and the Free World were facilitated through credits and other means. He even suggested the possibility of a Summit Conference whose agenda would center about this possibility. It is believed that Eriard's attitude toward Soviet credits would be governed by such the secret sort of consideration.

On the other hand, the calibre of the man can be shown by the fact that once understanding the strong U.S. position on Soviet credits, he strongly supported U.S. policy in 1957 against credits to the Soviet Union. This

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position should be read in context of the fact that when the reporting officer first spoke to him about the danger of Soviet credits he immediately replied in terms of the importance of improving the standard of living in the Soviet Union. He suggested that in the event no satisfactory solution came out of the Geneva meetings, trade should be restricted to the maximum degree possible. Apparently he was impressed by statements made to him by Embassy officials and Governor Harrison on the significance of credits in terms of the substantial contribution such credits would make to the Seven Year Plan, aid by the Soviets to underdeveloped areas, and the military buildup in the Soviet Union.

Erhard has been strongly in favor of aid to underdeveloped areas. But he believes such aid should be in the form of expert financing for self-liquidating projects. In addition, he considers such projects should generally be of such a nature as to avoid large capital expenditures for producer goods industries except where evidence is clear such projects make business sense -- i.e., are competitive. During his trip to the Far East in the Fall of 1958 he made this point rather forcefully, such to the dismay of representatives of the host governments. He could not understand development of industries to satisfy the practically irrational but real desire of underdeveloped areas to impress people with their rapid march towards industrialization and independence through the development of large industrial projects.

He believes aid-giving countries should coordinate their aid giving and seek ways and means to get such aid into a concrete plan. Erhard considers that the multilateral approach gives creditors a better bargaining position in exacting performance, prevents competitive aid-giving, and also provides better guarantees of repayment. He will propose at the next Fund and Bank meeting that the Bank undertake a clearing function. His trip through India and the Far East particularly impressed him of the need for the West to give aid to underdeveloped areas if the Soviet threat to such areas is to be met effectively.

What does the foregoing mean in terms of Erhard's attachment to the West? There is no question about Erhard's deep pro-Western orientation and his devotion to the principles of freedom, democracy and objectives of strengthening the free world in its resistance to the Communist threat. To underline this point, he recently stated in an interview in the Massachusetts Herald, August 2/9, 1959, that an integrated defense of the West was urgently necessary. Again his stress on the urgency of aid to underdeveloped countries to meet the threat of the Soviet economic offensive points in the same direction. Finally, his economic philosophy is as such one of economic interdependence as are the institutional approaches, since trade liberalization, currency convertibility, private enterprise and competition are incompatible with aggressive and hostile relationships.

He is quite friendly to the U. S. and highly susceptible to advice and influence from America. His approach to the economic foreign policy problem is primarily functional and not institutional, but, it should be remembered

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that this approach is not original but represents a very solid and impressive line of thought in economic doctrine in the Free World which has developed over the past 150 years. In fact, it can be said to represent the essence of the classical concept of private enterprise and competition and consumer sovereignty as the main determinants of economic activity which have been the underpinnings of Western economic development in the last century or more. Ehard takes for granted his political institutions, and his economic thought does not provide for the creation of institutions as a means of influencing foreign policy or economic development. In this sense, he is a modern version of a laissez-faire economist with strong roots in the 19th century French concept of a just natural order.

His weaknesses stem from his lack of appreciation of the importance of institutions and the possibility of governments being able to influence developments through creation of institutions. On the basis of his economic philosophy, there would never have been a European Payments Union with the result that the currency transferability which made possible the great expansion in production and trade in Western Europe would probably have not been realized. The same comments hold with respect to the excellent work of the OEEC, an institution created to speed up recovery in Western Europe with the aid of the Marshall Plan. Finally, the EPU, the OEEC, the CSC, etc. were of enormous value in restoring Germany to the Western Community of Nations and subsequently making possible its membership in NATO and a vital contribution to Western defense.

He also suffers from a certain optimism which unfriendly elements might call naive. His foreign policy thinking in purely political terms is so underdeveloped on the one hand and his eagerness to achieve foreign policy objectives on key issues so deep that he could be an easy prey to obscure interests and political factions wishing to use him for purposes basically inconsistent with his philosophy. An example of this is the support by the Ruhr of his economic policies. Fritz Berg, President of the ECU, and the ECU membership have been concerned ever a long period of time with Ehard's support of a low-tariff policy as well as his strong anti-cartel views. Although Ehard appears to the ECU as an exponent of low tariffs and an opponent of cartels, his support of the Free Trade Area has made him attractive to the ECU because of their preference for a FTA as an alternative to the Common Market. This is because of the likelihood that tariff reductions might be less far-reaching and, above all, no supra-national European institutions with real extra-national powers would be involved. The FTA would be particularly attractive to industry if the impact of its gradual entry into effect could be frustrated by the absence of restrictions against cartels.

These considerations tend to make him more attractive to the ECU than Ehard. The latter had formerly been the favorite of the ECU, because it believed he would be more favorable to business on tax questions than former Finance Minister Schaeffer. Berg stated as much to the reporting officer on several occasions and even told Mr. Gabriel Nunge, former Economic Adviser

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to President Eisenhower during his visit to the Federal Republic in 1950, that Stoei was the outstanding candidate for the Chancellorship. However, the BDI did not hesitate to support Erhard for the Chancellorship when Adenauer announced his decision to run for President. The BDI also opposed the initial effort to remove Erhard from active politics to the presidency. There is no indication it aided the Chancellor to secure the approval of Stoei as his successor.

Further, such interests as Krupp, who wish to expand trade with the East and who feel perhaps the Federal Republic's foreign policy toward the Soviet Bloc and Eastern Europe to be too rigid, believe Erhard as Chancellor would lead to more flexible foreign policies, particularly policies leading to a notable expansion of trade with the Sino-Soviet Bloc. Some German industrialists still remember the profitable economic relations with the U.S.S.R. which followed Rapallo. This assumption is supported by the fact that Gerstenmaier, a strong proponent of flexibility in foreign policy, is one strong supporter of Erhard's candidacy. In addition, those who favor less close ties with France or who believe in a national approach to the German problem of reunification would also look upon Erhard more favorably as Chancellor for their purposes than Adenauer, or someone picked by Adenauer, because Adenauer is strongly pro-French and believes Germany's future rests in the most iron-clad associations with France and Western countries.

A last word on Erhard's personality. He is extremely affable and friendly, but not given to carrying on social types of conversation. He is reputed by observers to be a poor presiding officer. He has a habit of speaking for a position and expecting agreements sandwiched between his major enunciations of policy. However, he is professional rather than dictatorial. The reporting officer has been told on several occasions by persons present that at Cabinet meetings he generally sets forth his position and then refrains from any further discussion. In such instances, it has usually been Stoei who picks up the problem and endeavors to bring about Cabinet agreement. As an example, a high ranking member of the Government told the reporting officer that during the coal debate at the Cabinet meeting of August 26, Erhard made a brilliant presentation of the problem, then under searching questions posed by the Chancellor, shut up as tightly as a clam.

Again in June 1948 during the visit of Mr. Gabriel Range to Chancellor Adenauer, after a statement by Erhard that there was no need for concern regarding the coal situation, Chancellor Adenauer sharply criticized Erhard for his alleged failure to understand the political exigencies in the Ruhr coal mining areas. Erhard kept quiet.

It is said Erhard is a poor administrator. The reporting officer has not seen any evidence of this. However, it is unquestionably true that

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State Secretary Luger Westrick, one of the ablest State Secretaries in the Federal Government, really manages the policy problems of the Ministry. There is the widest delegation of power to Westrick and perhaps, if a charge can be made, it is that Erhard does not take on enough of the major negotiations regarding policies with leading business and economic elements of the country. However, it is likely Erhard has no taste for the tedious negotiations needed in such cases and prefers to leave such tasks to Westrick.

Generally, he does not give the impression of sophistication when dealing with problems of mixed economic and political character. He is at his best when preaching an economic doctrine clothed in optimism.

On occasion he can be blunt, as was the case during his trip to the Far East last year when he informed countries to avoid big industry; if they insisted on big industrial projects he would advise Germans not to invest in such endeavors. Another example, in the U.S. visit in 1958, in a discussion of the role of business decisions in the business cycle, he informed Martin, Anderson and Hauge, in his view, governments should tell business what to think in these matters (see enclosure). A further example of his political judgment is indicated by his rapidly shifting attitude on Soviet credits during the last few months.

On the basis of our experience with Erhard, if he became Chancellor we could count on his deep personal friendliness to the U. S., his loyalty to NATO, and his loyalty to Western Europe. However, in practice, he might be lead in the direction of policies and practices affecting the cohesiveness of the West in its defense against Soviet threats, not because of any desire to move away from the West but to seek further underpinnings to his economic philosophy which is the starting and ending point of all his thinking. In fact, the greatest danger to U.S. interests with Erhard as Chancellor would be those political elements who might attempt to use him as a rallying point and exploit his naivete and personal popularity as a means of making major changes in the Federal Republic's foreign policy.

Much would, of course, depend upon the political judgment he exercised in selecting his collaborators -- above all his Cabinet. Even here there would be dangers as was illustrated by his clash with the Chancellor. One possible solution to the problem of succession might have been Erhard Chancellor with Stroi, Vice Chancellor and Minister of Economics. However, Erhard rhetorically questioned the reporting officer asking "Can you imagine Erhard as Chancellor not having his own Minister of Economics?" At this point, Westrick indicated to this officer he was being considered as a candidate for the post. In view of Adenauer's sharp conflict with Erhard's views on economic integration and his suspicions of Erhard's intentions

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found the Committee of Six, some might argue it would have been politically wiser for Richard to give Adenauer some assurances that what was in question was a transition to the period after Adenauer, not a liquidation of Adenauer. Richard's position in this matter, had he become Chancellor, could have set in motion a trend away from certain basic foreign policies which the Federal Republic has zealously pursued to date.

FOR THE CHIEF DELEGATION ad interim

Henry D. Tasa
Henry D. Tasa
Minister for Economic Affairs

Enclosures:

1. Biographic and Career Data on Richard
2. Press Summary statements of Richard from August 2025 to July 1959

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Doun, Sept. 20, 1959

Ludwig BUNARD
Biographic and Career Data

Personal Data:

Born February 4, 1907, in Fuerth, Bavaria. Protestant, married. Education: University of Frankfurt 1922-1924, Doctorate of Political Science.

Career Data

1913 - 1916	Business trainee
1916 - 1920	Business employee and researcher
1920 - 1942	Associated with Institute for Economic Observation (Institut fuer Wirtschaftsbeobachtung), Nuremberg, first as a scientific assistant, then as division chief, and finally (1933-42) as director
1940 - 1943	Adviser on the Lorraine glass industry to the Governor of Westmark (Saarland)
1942 - 1943	Independent economic expert and head of Institute for Industrial Research (Institut fuer Industrieerforschung), October 1942 - September 30, 1943.
1944	Commissioned (Reich Ministry for Economic Affairs) to engage in research in field of consumer goods
1945	Reorganized Nuremberg-Fuerth industry at the request of American Military Government
1945 - 1946	Bavarian State Minister of Economics, October 1945 - December 1946
1947	Honoraryprofessor of Economics, University of Munich

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1947 - 1948	Director, Special Office "Money and Credit", Bissonal Economics Administration (preparation of currency reform), October 1947 - March 1948
1948 - 1949	Director, Administration for Economics, Bissonal Economic Council (succeeding Johannes Senler), March 2, 1948 - September 1949.
1948 - 1949	Director, Kreditanstalt fuer Wiederaufbau (Credit Bank for Reconstruction)
1949 - date	CDU member of Bundestag (Electoral District 8, Uln, Württemberg-Baden), elected August 14, 1949). Federal Minister of Economic Affairs, appointed September 20, 1949
1952	Appointed German Governor of the World Bank
1957	Named Vice Chancellor

Political Affiliations:

Pre-1933: voted Socialist in 1932 and 1933 elections.
Post-1933: Member of NSD (National Socialist People's Welfare), no other Nazi memberships. Placed by denazification panel in Category V, "not Affected." Since 1949 a member of the CDU.

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Public statements of Richard on European integration -

U.S.A. and Free Trade Area

August 6, 1955 - "Who is a Good European? - There is not only one way and one method toward Europe" (Article by Federal Economic Director Richard published in the Bulletin of the Federal Government).

... "I have made it clear in discussions and public statements that it is necessary to distinguish between progressive integration centering on institutional aspects and integration centering on functional aspect. Other people raise the same problem, when talking of horizontal and vertical integration. Since I have expressed criticism and doubts whether a new Europe - from an economic as well as political point of view - can be created through expanding partial integration to additional economic sectors (e.g. Proposals for integrating electric power and oil in addition to coal and steel being under discussion at the time) to be brought under supranational administrative control, I have apparently been suspected of not being a European or of being only a bad European. This is surprising, especially since I have endeavored - perhaps more than anybody else - with much enthusiasm and devotion to overcome protectionism and false nationalism in European countries, to promote the free exchange of goods, to eliminate trade barriers and discriminatory practices, and to honest clearing methods, such as free convertibility.

West German economic policy has demonstrated this goodwill before the whole world and has thus consciously and purposely created a favorable basis for any kind of European integration and of worldwide economic order. However, all that I have done does not seem to be recognized by some integration politicians as testimony. These politicians have developed suspicion close to a degree of infallibility, and whoever refuses to accept it becomes, in their opinion, a sinner and loses his qualification as a European. I strongly oppose this intolerance, all the more so since I have always appreciated the value and usefulness of the Coal and Steel Community. In addition, I have developed concrete proposals aimed at genuine, effective, and comprehensive integration.

Whoever wants Europe, must consequently remember the merits of other institutions, such as O.E.C., I.P.U., G.A.I., and U.N. Without being limited to the area of the European Plan countries, the activity of these

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institutions has had beneficial effects on a broad scale and achieved substantial success with regard to (European) functional integration. If the six European countries ready for integration aim in their mutual intercourse at still greater freedom of movement, stricter rules of trade, increased liberalization of payments, and the establishment of an institution to realize these objectives, I shall be the most fervent supporter of such an idea; however, I doubt whether such good Europeans may be found everywhere.

It should not be forgotten that all the advantages expected as a result of the planned common market of the six countries can be realized only, if this common market has access to other markets and if throughout the free world the same rules of trade policy are applied. It is not true - as it has been asserted - that the above mentioned functional institutions failed to have success because they did not have executive power. It would be more correct to say that the methods applied by these institutions morally obliged the participating countries to such an extent that nevertheless a uniform behavior could be achieved. The Coal and Steel Community in its present or future shape as well as any possible further institution of this kind has every reason to recognize with gratitude those efforts towards remaining liberalization, because these efforts have created the basis for integration in a narrower sense.

It is not the right question to ask who is a good or bad European. Personally, I am not willing to have my European-mindedness and my faith denied, because I put the question in a different way and invited all parties concerned to examine whether there is only one way and one method leading toward Europe or whether there are not other ways which might lead faster and more effectively to this goal. I should like to state clearly that I desire not less, but more Europe than provided for in the proposals for partial integration in additional fields. It is my concern for Europe which makes me fear that by addition or accumulation of integration in individual fields neither the economic nor the political goal can be attained. I am not opposed to European ties, but I want to create the prerequisites for such ties by advocating that first of all internal economic order must be insured under national responsibility, unless integration were to lead toward supra-national direction.

I feel so wholeheartedly positive vis-a-vis any kind of genuine and effective European integration, and I have been pushing so strongly

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in this direction, that by being suspected as an opponent can be ascribed only to a gross misunderstanding. Europe cannot be built with petty means and patchwork, but must be understood as a complex economic and political function. The authorities and personalities responsible for economic development have the duty to create in their fields the prerequisites for political decisions and to prepare the material basis therefor as fast as possible. I consider unrealistic and incompatible with scientific economic theories the conception that progressively individual economic sectors should be withdrawn from national sovereignty and transferred to supranational administration on the assumption that from a certain point the weight of supranational influence would automatically lead toward supplanting national competency entirely. There could be the risk that in the course of this development the governments would gradually be deprived of their power and, hence, become incapable of carrying the responsibility for the national economy, while the policy of supranational institutions is not yet able to fill the vacuum.

We have probably no other choice than to aim fast at more comprehensive freedom with respect to all matters related to the exchange of goods and services, to tariff policy and the free movement of persons, and to renounce government manipulations incompatible with these objectives. If institutional bodies are necessary to realize these objectives, I, too, shall support them. In my opinion, a really good European is one who wants to have this community of action and behavior raised to an obligation for the participating countries. The conception is incompatible with practical experience and theoretical knowledge of international division of labor that a common market were to require equal competitive conditions in the sense of equal burdens, equal wages, equal working time, and equality of other cost factors, making necessary a system of equalization funds. Hoover believes one can come nearer the point by individual solutions, from case to case, remain entangled in technical questions far removed from the center of the problem. I am afraid that this way of the smallest resistance does not lead toward Europe, but away from Europe.

It may be easy for a country to renounce administrative authority for some individual economic branch or other. However, true European-mindedness can be demonstrated only by a policy and a behavior which create the basis for a common market and political federation."

March 22, 1956 - Bundesta debate on European integration proposals. According to the papers, the Bundesta requested the Federal Government to take measures aimed at the establishment of a European

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common market providing for the elimination of import tariffs among member countries. FRANKFURTER ALLGEMEINE ZEITUNG pointed out that Federal Economics Minister Erhard, on behalf of the Federal Government, emphatically stressed the necessity of creating a European common market.

February 14, 1957 - (W.D. STUTTGART TELEGRAMS) At a meeting of the EEC Council of Ministers in Paris, Economics Minister Erhard, on behalf of the German Government, pleaded for the realization of a European Free Trade Area. Free Trade Area and EEC should be viewed as one whole. The Free Trade Area might help to effect the start-up of economic integration inherent in a customs union and (also possibly arising) difficulties in international trade.

Second half of February 1957 - (Final agreement on EEC and EFTA treaties was reached in Paris.)

Early in March 1957 - According to FRANKFURTER ALLGEMEINE ZEITUNG, Erhard pointed out positive and negative aspects of the EEC Treaty at a conference of German and French Economics Ministers. He frankly admitted that political considerations have been predominant, but he reportedly agreed with the necessity of subordinating economic to political aspects.

March 15, 1957 - At a press conference in Bonn (FRANKFURTER ALLGEMEINE ZEITUNG, DEUTSCHE PRESSENKORRESPONDENZ) Federal Economics Minister Erhard stated that he considered the Common Market in this form politically necessary, but "precarious from an economic point of view". "I cannot for a moment entertain doubts about this Treaty, although supporting it in principle, he said, since I must object to certain methods, especially the many escape clauses." Erhard added that he would vote for the Treaty even in a secret vote, since he shared the opinion of the Federal Chancellor that the Common Market could stimulate European political integration.

Erhard's criticism of the Treaty from an economic point of view referred primarily to 1) the customs barriers vis-a-vis non-member countries, 2) the absence of arrangements for the mutual adjustment of exchange rates (Erhard stressed, in particular, problems arising from the "unrealistic" exchange rate of the French franc), 3) the danger of "European economic incertitude" as a result of Treaty efforts to have the Common Market be an instrument of protectionism.

Lined with a Free Trade Area, he concluded, the EEC might be "less precarious". However, also a Free Trade Area is not the ultimate solution. All countries of the free world should return to economic order.

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and free trade. The restoration of monetary order was the most urgent task.

According to a subsequent USA report from Paris, (CONFIDENTIAL SOURCE, SOURCE IN FRANCE), French government circles were "extremely surprised" about Lohard's statements regarding the unsatisfactory treatment of monetary policy problems in the ECU treaty and his criticism of French exchange rate policy and protectionist tendencies toward tariff barriers vis-a-vis countries outside the ECU. A French government spokesman declared that Lohard apparently had not expressed the official opinion of the Federal Government, but only his personal view. The spokesman asserted that Lohard's statement differed from the opinions expressed by Federal Chancellor Adenauer and other German ministers and from the attitude of the German delegation in the Brussels negotiations on the Common Market Treaty. Lohard's proposals for clarifying exchange rate problems in the ECU were "unrealistic", he said.

April 25, 1957 - (The ECU and ECU Treaty were signed in Rome.)

November 11, 1957 - (Bulletin of Federal Government No. 210/57, EPA, miscellaneous press reports) In a speech delivered before the Parliament of the European Coal and Steel Community at its meeting in Luxembourg, Economic Minister Lohard stressed the difficulty of coordinating European economic and cyclical policies, if integration efforts are limited to individual fields - coal and steel in the case of the ECU. Integration efforts which are to be successful must comprise the entire national economy, he said. It is satisfactory that, in contrast, the Treaty on the European Economic Community covers the national economy of the individual member countries as a whole. "Naturally, the implementation of the ECU Treaty will also have effects on coal and steel."

The problem which have arisen in the coordination of the specific policy of the ECU High Authority with the general economic and cyclical policies conducted by the national governments of member countries, clearly reveal the difficulties resulting from partial integration, Lohard said. Therefore, he advised against strengthening the influence of the High Authority, as had been frequently suggested by members of the ECU Parliament. He repeated that the restoration of sound relations among the exchange rates of national currencies was the most urgent prerequisite for European integration. The introduction of free convertibility would be desirable not for the functioning of the common market, he added, but it was uncertain whether this goal could be realized soon.

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Stard pointed out that the implementation of article 3 (including provisions that investment policy and price policy for coal and steel is subject to the institutions of the Community) of the Coal and Steel Treaty involves problems. He explained that coal and steel investments in an individual country cannot be isolated from overall developments of the national economy. Neither would it be possible, in his opinion, to prevent by special arrangements the coal and steel markets in a country from being affected by measures adopted by the national government to slow down economic activity. If the High Authority exercises its functions under article 3, section c (competency for coal and steel prices), Stard said, it is in a dilemma, since it has no power to determine the overall cyclical, price, and monetary policies of the national governments, although coal and steel prices are influenced by those factors. In this connection, Stard justified his intervention in national German coal and steel price issues (for which he had been criticized by the E.C. High Authority and members of the E.C. Parliament).

In order to implement the Common Plan in the best possible manner, Stard suggested that neither the High Authority nor the national governments should insist on their competencies. They should, instead, be understanding of each other and closely cooperate in the solution of all problems.

Stard concluded that the governments of the six countries were well advised when they decided to intensify economic cooperation by integrating their national economies as a whole into a common market, instead of continuing partial integration. Had the latter way been chosen, the danger would have arisen that neither the national governments nor the High Authority would have been capable of bearing the responsibility for the national economy, and the individual integrated sectors respectively. "This vacuum would have been most dangerous."

Stard insisted that any institution of European integration must aim at economic order based on freedom. Without freedom, order might result in dirigisme. In this connection he mentioned, in particular, the European Free Trade Area to be created in addition to the European Common Market. "As I had to note," he said, "that all countries here represented have repeatedly expressed their readiness to support this conception of economic cooperation on a broader scale."

According to U.S. News & World Report, Sunday, March 11, 1956, and other papers, Stard's unqualified criticism of partial integration before a European audience provoked concern among the members of the E.C. Parliament. Many deputies, including French representatives, were

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abroad, in particular, by his critical remarks on article 5 of the Coal and Steel Treaty. These deputies misinterpreted Lard's statement as an indication of Lard's withdrawal from the ECSC, the papers said, so that Lard hastened to make reassuring explanations to clarify this misunderstanding. The socialist representatives at the meeting reportedly blamed Lard for giving priority to monetary stability over full employment.

March 20, 1958 - According to a V.I. report, Federal Economics Minister Lard informed the ECSC High Authority that the Federal Government has doubts whether it is possible and desirable to harmonize the working conditions in the coal and steel industry of ECSC countries, which reflect natural and historical differences in economic and social conditions. Moreover, the Federal Government believes that harmonization in individual industrial branches can be considered only in connection with overall economic and social conditions and the general economic background. If harmonization problems were to be discussed at all, it should be done in the framework of the EEC. Nevertheless, the Federal Economics Ministry agreed to participate in forthcoming discussions on harmonization problems.

April 26th, 1958 - (ALL 1114) Economics Minister Lard, accompanying Chancellor Adenauer, stated at the end of a three-day visit in London that the British and German delegations are now convinced that the Free Trade Area or at least the interim solution of a 10-percent general tariff cut, the so-called Hallstein Plan, will be implemented by January 1, 1959. Lard pointed out that negotiations with France on a compromise on the Free Trade Area had been well underway, when the resignation of French Premier Gaillard made it impossible to conclude them. Lard's speech, the ECSC Bulletin, and other papers were highly appreciative of Lard's efforts aimed at reconciling British and French views in the interest of European integration.

May 20, 1958 - During a European integration goodwill trip to Denmark and Norway in May 1958, Economics Minister Lard stated in Copenhagen (press service of Economics Ministry): "The creation of a large European market is not only a demand of economic reason, but also a prerequisite for maintaining the freedom of European countries in alliance with their friends, especially the U.S. A division of Western Europe into so-called economic areas will cause serious damage."

May 21, 1958 - Lecture delivered by Economics Minister Lard in Oslo (LVA/AF) stressing the necessity of a Free Trade Area in addition to the European Economic Community, Lard emphasized that no

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country, within its own boundaries conduct a policy of economic or political isolation. However, no country should be discriminated against, if it was not yet ready to join the European Economic Community. Economic cooperation could gradually result in close integration of Europe and might lead one day toward a European federation.

October 2, 1958 - (Bulletin of Federal Government .o. 184/58) Federal Economic Minister Lohndorf reported to the Bundestag on the Federal Government efforts aimed at realizing a European Free Trade Area. Summarizing the development of the negotiations, he concluded that the signing of a treaty on a European Free Trade Area could not be expected by the end of 1958 (before the first EEC tariff reduction and liberalization measures went into effect on January 1, 1959). The question arises, he said, what will be the reaction of the remaining EEC countries, if they cannot participate in the trade privileges which the six EC countries grant each other after January 1, 1959. In order to avoid trade discrimination among EEC countries, the Federal Government strongly advocated a temporary arrangement providing for a 10 percent tariff reduction and perhaps also an increase in quotas of EEC countries vis-a-vis all EEC countries. The Federal Government will make every effort to speed up the realization of a Free Trade Area.

November 15, 1958 - (The EEC Council of Ministers decided to suspend the negotiations on a European Free Trade Area).

November 20, 1958 - Statement by Economic Ministry in Bulletin of Federal Government: Federal Economic Minister Lohndorf will make every effort to see that European economic cooperation is not endangered. In his opinion, the cooperation of the six countries united in the EEC must be maintained, but free trade among all EEC countries must not be impaired. Therefore, he advocates (multilateral) European association in a Free Trade Area.

January 20, 1959 - Bulletin of Federal Government on the meeting of the European Parliament in Strasbourg during its session from January 7 to 15: Economic Minister Lohndorf pointed out that the introduction of convertibility in most European countries on January 1, 1959 has created a new kind of community (in the sense of functional integration) of EEC and non-EEC countries. "Thus, convertibility has built a bridge not only between the EC and the remaining EEC countries, but also toward the community of the free world. (He explained that Europe is not an absolute end ultimate value.) If we look at integration in this manner, we may realize that EEC and Free Trade Area do not exclude each other as an alternative. The EEC is something in itself, but the Free Trade Area, too, is defined as something new.

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The EC has not only economic but also political elements (reflected, for example, in the European Investment Fund, the fund for social policy purposes, and standby arrangements). Therefore, several European countries may be prevented by political reasons from joining the EC, although they may wish to cooperate in the economic field. We must do everything to provide an opportunity for merely economic cooperation with these countries. West Germany is ready to support this goal. All political parties, when voting for the EC Treaty, urged the Federal Government to aim at the establishment of a Free Trade Area in addition to the EC.

It would not prejudice our warm feelings for the EC and our contractual obligations, if we were to look for certain additional solutions designed to eliminate or reduce foreign resentment against the EC. This is important for political reasons.

Finally, it should be examined whether certain EC conceptions of harmonization of trade and tariff policy and coordination of economic policy appear under new aspects after the introduction of convertibility.

March 2, 1959 - According to the Bulletin of the Federal Government, Federal Economic Minister Staudt made the following statement in an interview with a Dutch information service: "The difficulties with respect to the European Free Trade Area can be overcome, if there is goodwill on all sides. And we should seriously doubt the existence of this goodwill if anybody can have an interest in or take the responsibility for European economic disintegration in view of the political consequences involved."

There have also been several events which actually facilitate the solution of European integration problems, for example, the introduction of foreigners' convertibility by most European countries, the restoration of French monetary stability as a result of the devaluation of the French franc, and the expansion of French import liberalization. - In view of these achievements, it should be possible to find a solution which meets two requirements: 1) the desire of the EC countries to maintain their small community intact, and 2) the desire of the other EC countries that the EC should not impair their trade interests.

April 23, 1959 - (NSA report) Economic Minister Staudt expressed at a press conference in Strasbourg: "The Federal Government firmly adheres to the goal and goal treaty and does not intend to initiate a revision of the treaty."

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stand sanctioned too are irreparable under current circumstances.
1) After a year finally the original conception of a Free Trade Area of the 17 EC countries with the EC countries constituting a zone along within this organization, EC in a system which providing for a liaison between the EC (six countries) and the "small free trade area" (four countries). - He emphasized that the European development committee is to be an advisory and working should not be left outside, pointing out that European integration must ultimately comprise the countries of EC countries.

Arthur insisted that a correct attitude European cooperation would not require the EC. He also then asked, the EC countries (except the European Investment Fund, the Fund for social policy purposes, and stand-by arrangements) might be continued working and undisturbed. However, a way should be found to prevent any kind of discrimination between trade relations, particularly with respect to tariffs and import quotas.

Referring to his recent conversation in Bonn with French Ministers Indurain, Arthur recalled that the French reservations vis-a-vis the Free Trade Area apparently still exist. He described three reservations to the fact that foreign trade interests of various different zones of the Federal Republic (not German body, equally interested in trade with the EC and the remaining EC countries). According to Arthur, Pöhl's visit had an "clearly positive result". "Mr. Pöhl agreed at least that a correction of bias in Europe should be prevented under all circumstances." "We are very much obliged to him for this statement," he added.

Finally, Arthur repeated that even a complete abolition of European integration is not an ultimate goal in itself. Any European solution must be equally liberal respecting countries within and outside Europe, he said. He advocated cooperation in the fields of political, economic, and trade policies with the EC, Canada, and with "all friends outside Europe". Stressing the necessity of worldwide consultations to the developing countries, he pleaded, in particular, for a worldwide political policy aimed at the stabilization of raw materials, markets and prices. "These problems cannot be solved by Europe alone, he concluded, and he believes the knowledge is needed that any preferential system and the formation of blocs within the free world are precluded."

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