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Office Memorandum

TO : Secretary Anderson

FROM : Frank A. Southard, Jr. *FAS*

SUBJECT : German Comment on the U.S. Talks

DATE: December 8, 1960

As I suspected would happen, my German colleague came to me at once on his return to talk about your conferences in Germany. I am summarizing the main points herein but I am not sending this memorandum to anyone else. As you know, this man is very close to Erhard and was a guest in his home during the entire period and for some days after your departure.

1. The Germans did know that the question of military expenditures would be on the agenda and no responsible German official would deny this. However, Erhard was puzzled to know why you and Dillon did not give more stress to military expenditures at the talks in September during the Annual Meeting if they were the main item in your mind.

2. The Germans have tried to find an explanation for apparent U.S. disinterest in the package of immediate assistance and U.S. emphasis on the need for systematic action on the military item. The answer which they have obtained was apparently chiefly from Wallich, who told them that U.S. officials were convinced that there was a basic and longer-run balance of payments problem and that therefore immediate stopgaps were not very attractive. I said that, without arguing against this, I believed you would make two other points. The first was that there were flaws in the German package. The chief flaw was that the offer to accelerate debt payments was tied to the question of German assets. The other flaws were that there was no clear-cut German explanation of the possibility of picking up some projects out of those being considered by the United States with respect to underdeveloped countries, and the German estimates of what the United States might gain from German aid to underdeveloped countries seemed high. My informant on the whole conceded that the last two of these flaws had merit but argued that, as to the first, the Germans did not mean to tie the debt payment to German assets. My comment was that in this event it would appear that they had failed adequately to make this clear to U.S. officials during the talks. The second comment that I made was that it was unrealistic for German officials to expect that the U.S. group would acquiesce in German rejection of the main proposal and accept a miscellaneous package since, at the least, further discussion would be needed on both points.

3. My informant said that he deplored the way in which German officials had conducted the discussions, apparently meaning by this that he felt that inevitable rejection of the main proposal on military costs could have been handled differently and in a more agreeable way. However, he said that his complaints of this sort to German officials were brushed aside. He took some personal credit for winning Erhard's interest in the possibility of a NATO fund to which Germany might make a very big contribution and out of which the United States could obtain substantial reimbursement for military expenditures and he wondered why this had not won more U.S. sympathy. I said that my impression was that this opened up questions of timing and difficult negotiation but that I did not have the impression that it had been rejected as a possibility.

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By MMK NLDDE Date 8/31/16

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4. As to revaluation, Erhard triumphantly told my informant that he had separately talked to you and Mr. Dillon and that you had both told him you would welcome revaluation of the mark. He said Mr. Dillon went further and said that if there had been a revaluation all of the current talks would have been unnecessary. I said I had no knowledge of Mr. Dillon's views. As to your views I said I understood that you had principally aimed at three points. First, to dissipate any German idea that U.S. officials were opposed to revaluation; and I said you had been told that there was such an impression. Second, you wished to make clear that this was a German decision. Third, you refused to express any judgment as to what kind of adjustment should take place, if there was any adjustment; but you recommended that the adjustment be decisive. On learning of an idea of plus or minus 5 per cent, you expressed doubt that this would be decisive. My informant believes that there is no likelihood of revaluation before the German elections. But he does not rule it out thereafter and again suggests that (following discussions I had with him earlier) ways should be found in that event to work out some international agreement.

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