

# RESTRICTED

GRS 380

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FM BONN 241635Z APR 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 402 OF 24 APRIL

INFO ROUTINE WASHINGTON, PARIS, OTTAWA, ROME, TOKYO, UKREP BRUSSELS

## BONN ECONOMIC SUMMIT: FRG VIEWS

### SUMMARY

1. PUBLIC GERMAN REJECTION OF A LOCOMOTIVE ROLE FOR THEMSELVES AT THE BONN ECONOMIC SUMMIT. KOHL SAYS THAT HE WILL SPEAK UP FOR THE THIRD WORLD.

### DETAIL

2. IN AN INTERVIEW PUBLISHED ON 23 APRIL CHANCELLOR KOHL FIRMLY REJECTED ANY REPEAT LOCOMOTIVE ROLE FOR THE FRG AT THE BONN ECONOMIC SUMMIT. HIS REASONS WERE THE FAILURE OF THE SIMILAR EXPERIMENT AT THE 1978 BONN SUMMIT WHERE THE EXPANSIONARY POLICIES GERMANY HAD INTRODUCED HAD INTERRUPTED THE POLICY OF BUGETARY STRINGENCY WHICH HAD BEGUN IN 1976. MOREOVER, PUBLIC EXPENDITURE PROGRAMMES WERE NOT APPROPRIATE TO COMBAT UNEMPLOYMENT WHICH WAS OVERWHELMINGLY A STRUCTURAL PROBLEM AND NOT TO BE OVERCOME BY THE ARTIFICIAL CREATION OF ADDITIONAL DEMAND. WHAT WAS REQUIRED WAS JOINT EFFORTS BY ALL SUMMIT PARTICIPANTS DIRECTED TOWARDS COMMON GOALS.

3. THE PRESIDENT OF THE BUNDESBANK, POEHL, ALSO DECISIVELY REJECTED LOCOMOTIVE THEORIES AT A SPEECH ON 23 APRIL IN BOCHUM. AMERICAN EXPERIENCE SHOWED HOW DIFFICULT IT WAS TO OVERCOME DEFICITS RESULTING FROM AN EXPANSIVE FISCAL POLICY. FURTHERMORE, THE US TRADE DEFICIT AND INCREASING FOREIGN DEBT REPRESENTED A GROWING DANGER FOR THE STABILITY OF THE INTERNATIONAL MONETARY SYSTEM.

4. THE WEEKEND PRESS REPORTED A SPEECH BY CHANCELLOR KOHL IN WHICH HE SAID HE WOULD SPEAK UP FOR THE THIRD WORLD AT THE SUMMIT. NEWSPAPER COMMENT WAS SCEPTICAL ABOUT HIS COMMITMENT.

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5. THE AUSWAERTIGES AMT SAY THAT KOHL'S REMARKS ON NORTH-SOUTH QUESTIONS WERE NOT INTENDED AS A SIGNAL FOR OTHER SUMMIT PARTICIPANTS. THE CHANCELLOR HAD BEEN ADDRESSING A CDU PARTY GATHERING (JOINTLY WITH THE CHURCHES) AND HAD THE DOMESTIC AID LOBBY IN MIND. THE KOHL AND POEHL ATTACK ON THE LOCOMOTIVE THEORY MAY ALSO BE DESIGNED TO REASSURE DOMESTIC OPINION ABOUT THE FEDERAL GOVERNMENT'S RESOLVE TO STICK TO ITS PRESENT FISCAL AND ECONOMIC POLICIES. ACCORDING TO THE FEDERAL CHANCELLERY, THE GERMANS HAVE NOT BEEN PUT UNDER ANY FOREIGN PRESSURE (E.G. FROM THE AMERICANS OR THE FRENCH) TO EASE THE CURRENT POLICY STANCE. IN THE VARIOUS DISCUSSIONS GERMAN MINISTERS AND OFFICIALS HAD AT LAST WEEK'S FUND/BANK MEETINGS NO ATTEMPT WAS MADE TO PUT PRESSURE ON THEM. THE ONLY THING REMOTELY RESEMBLING PRESSURE WAS VOLCKER'S PUBLIC SUGGESTION THAT THE PROPOSED TWO STAGE INCOME TAX REFORM SHOULD BE CARRIED OUT IN ONE STEP IN 1986. THERE IS NO LIKELIHOOD OF THIS CALL BEING HEEDED.

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