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FRG ECONOMIC POLICY

SUMMARY

1. FOLLOWING PUBLICISED PROPOSALS BY THE FEDERAL ECONOMICS MINISTER, KOHL CONVENED A MEETING OF MINISTERS AND CENTRAL BANK OFFICIALS TO DISCUSS THE INTERNATIONAL FINANCIAL SITUATION. NO DECISIONS TAKEN, BUT SUBJECTS DISCUSSED INCLUDED THE POSSIBILITY OF BRINGING FORWARD TAX CUTS PLANNED FOR 1990. THERE IS ROOM FOR MANOEUVRE AND THE GERMANS MAY BE PREPARED TO TAKE ACTION AS PART OF A BASKET OF MEASURES TO STABILISE THE FOREIGN EXCHANGES.

DETAIL

2. CHANCELLOR KOHL CONVENED A MEETING ON 12 NOVEMBER TO DISCUSS THE DOLLAR'S RECENT FALLS ON THE FOREIGN EXCHANGES. INCLUDED IN THE DISCUSSIONS WERE THE FEDERAL MINISTERS OF FINANCE, STOLTENBERG, AND ECONOMICS, BANGEMANN, TOGETHER WITH THE BUNDESBANK PRESIDENT, POEHL, AND HIS DEPUTY, SCHLESINGER. THE MEETING TOOK PLACE THE DAY AFTER BANGEMANN WAS REPORTED TO HAVE WRITTEN TO STOLTENBERG SUGGESTING WAYS TO STIMULATE THE DOMESTIC ECONOMY.

3. DETAILS OF BANGEMANN'S LETTER WERE WIDELY LEAKED TO THE PRESS. HE DID NOT CALL FOR THE TAX CUTS PLANNED FOR 1990 TO BE BROUGHT FORWARD A YEAR, AS HIS FDP COLLEAGUE AND PARTY ECONOMIC SPOKESMAN, LAMBSDORF, HAD DONE THE PREVIOUS DAY. HE SUGGESTED INSTEAD THAT DISCUSSIONS SHOULD BEGIN ON A NEW INTERNATIONAL AGREEMENT TO STABILISE EXCHANGE RATES. HE PROPOSED FOUR ELEMENTS FOR A GERMAN CONTRIBUTION TO SUCH AN AGREEMENT:

(A) THE PARLIAMENTARY DEBATE ON THE OPTIONS TO FINANCE THE TAX CUTS SHOULD TAKE PLACE AS SOON AS POSSIBLE TO REMOVE UNCERTAINTY ABOUT THE GOVERNMENT'S INTENTIONS - THE GOVERNMENT HAD PREVIOUSLY INDICATED ONLY THAT THE DEBATE WOULD HAPPEN BEFORE THE 1988 SUMMER RECESS:

(B) THE REPEAL OF THE MUCH CRITICISED STOCK EXCHANGE TURNOVER TAX AND THE COMPANY TAX (A TAX ON CAPITAL ISSUES):

(C) ABANDONING PLANNED INCREASES IN SOME CONSUMER TAXES NEXT YEAR (EG PETROLEUM AND TOBACCO TAXES), REDUCING SUBSIDIES INSTEAD:

(D) WHILE PUBLIC SECTOR SPENDING SHOULD NOT BE ALLOWED TO GROW UNCONTROLLABLY, HIGHER DEFICITS SHOULD BE TOLERATED IF NECESSARY.

4. DETAILS OF KOHL'S MEETING ARE SPARSE, ESPECIALLY AS MINISTERS LEFT IMMEDIATELY AFTERWARDS FOR THE FRANCO-GERMAN SUMMIT IN KARLSRUHE WHICH ENDED TODAY. THE GOVERNMENT SPOKESMAN SAID THAT NO ACTION WOULD BE TAKEN AS A RESULT OF THE MEETING. WE HAVE HEARD SEPARATELY THAT THE POSSIBILITY OF BRINGING FORWARD THE TAX CUTS WAS DISCUSSED. THE CANADIAN EMBASSY HAVE TOLD US THAT STOLTENBERG INDICATED TO THEIR FINANCE MINISTER, WHO WAS IN BONN ON 11 AND 12 NOVEMBER BEFORE GOING ON TO LONDON, THAT HE WAS NOT ENTIRELY OPPOSED TO SEEING THEM BROUGHT FORWARD. THE CDU ECONOMIC SPOKESMAN HAD ALREADY TOLD US THAT THIS COULD BE A POSSIBILITY.

COMMENT

5. THE GERMANS HAVE MORE LEEWAY IN THE TAX REDUCTION PROGRAMME THAN THEY LIKE TO ADMIT. THERE ARE NO TECHNICAL REASONS WHY THE CUTS SHOULD NOT BE IMPLEMENTED A YEAR EARLIER, IE JANUARY 1989. THE MAJOR HURDLE REMAINS THE PARLIAMENTARY DEBATE, BUT THAT WOULD BE DIFFICULT WHATEVER THE TIMING - HENCE BANGEMANN'S PROPOSALS AT (B) AND (C). THE DECISION REALLY RESTS ON WHETHER THE GOVERNMENT HAS THE POLITICAL WILL. SKILLFULLY APPLIED INTERNATIONAL PRESSURE MAY EVENTUALLY PERSUADE THEM TO TAKE THIS ACTION, BUT THEY WILL EMPHASISE THE DOMESTIC DIFFICULTIES ALONG THE WAY TO WREST FROM ANY CONCESSION AS MUCH POLITICAL CAPITAL AS THEY CAN.

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