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FM BONN
TO IMMEDIATE FCO
TELNO 871
OF 201610Z NOVEMBER 87
INFO ROUTINE WASHINGTON, TOKYO, PARIS, ROME, OTTAWA, UKDEL OECD
INFO SAVING CONSULATES-GENERAL IN THE FRG, BERLIN

FRG ECONOMY

SUMMARY

1. DESPITE GROWING CONCERN ABOUT INTERNATIONAL ECONOMIC PROSPECTS, STILL NO SIGNS THAT THE FEDERAL AUTHORITIES INTEND TO DEPART FROM EXISTING POLICY. STOLTENBERG TRIES TO DISCOURAGE EXPECTATIONS OF FURTHER FISCAL OR MONETARY MEASURES.

DETAIL

2. SPEAKING TO THE PRESS ON 18 NOVEMBER STOLTENBERG (FEDERAL FINANCE MINISTER) SAID THAT THE SCOPE FOR STIMULATING THE GERMAN ECONOMY SHOULD BE EXAMINED CALMLY. HE WARNED AGAINST PLACING EXCESSIVE EXPECTATIONS ON FURTHER FISCAL OR MONETARY MEASURES. THE FRG HAD ALREADY PLAYED ITS TRUMP CARD WITH ITS TAX REFORM PROPOSALS PLANNED FOR 1990. MORE SHOULD BE DONE TO PROMOTE DEREGULATION. THE TRADE UNIONS ALSO HAD A RESPONSIBILITY TO PURSUE A SENSIBLE WAGES POLICY. IT WAS IMPORTANT TO AVOID PUBLIC DISPLAYS OF DISUNITY WITHIN THE COALITION WHICH COULD HAVE AN UNSETTLING EFFECT ON MARKETS (A SIDE-SWIPE AT BANGEMANN AND HIS OPEN LETTER TO STOLTENBERG LAST WEEK ADVOCATING POSTPONEMENT OF INCREASES IN EXCISE TAXES PLANNED FOR NEXT YEAR EVEN IF THIS MEANT ACCEPTING A HIGHER BUDGET DEFICIT).

3. HARTMANN (FEDERAL CHANCELLERY) HAS ALSO CONFIRMED TO MINISTER (ECONOMIC) THAT THERE IS NO INTENTION AT THE MOMENT OF ALTERING EITHER THE PACE OR THE DIRECTION OF GERMAN ECONOMIC POLICY. HE SAID THERE WERE BOTH TECHNICAL DIFFICULTIES AND POLITICAL PROBLEMS IN BRINGING FORWARD THE TAX PACKAGE BY A YEAR TO 1989. (THIS IS A REFERENCE TO THE GROWING BUDGET DEFICIT AND THE PROBLEM OF SECURING THE NECESSARY MAJORITY IN THE BUNDESRAAT ON AN ISSUE WHICH WOULD AFFECT LAENDER REVENUE). LOWERING INTEREST RATES STILL FURTHER WAS NOT FAVOURED BY THE BUNDESBANK FOR MONEY TARGET REASONS AND IN ANY CASE SEEMED UNLIKELY TO ACCOMPLISH MUCH. HARTMANN COMMENTED THAT IT WAS NOT EVIDENT WHAT MEASURES THE FEDERAL GOVERNMENT COULD TAKE IN THE SHORT TERM WHICH WHICH WOULD HAVE GENUINE ECONOMIC, AS DISTINCT FROM POLITICAL, EFFECT. HE INDICATED HOWEVER THAT THE FEDERAL

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DEFICIT WOULD BE ALLOWED TO GROW FURTHER, WHICH MAY SUGGEST THAT THE FEDERAL GOVERNMENT DOES INTEND TO GO SLOW ON EXCISE TAXES.

4. INVOKING THE 1967 GROWTH AND STABILISATION LAW (UNDER WHICH THE GOVERNMENT COULD SPEND MONEY OR CUT TAXES ACROSS THE BOARD TO STIMULATE ECONOMIC ACTIVITY) IS A POSSIBILITY BEING CANVASSED IN SOME QUARTERS. HARTMANN SAID THAT THE SITUATION WAS NOT REGARDED AS DRASTIC ENOUGH TO JUSTIFY ITS USE AT THE MOMENT, ALTHOUGH EVIDENCE OF FURTHER SLOW DOWN IN THE GERMAN ECONOMY MIGHT CHANGE MATTERS. HE COULD WELL ENVISAGE THAT THE REACTION OF GERMAN BUSINESSMEN TO RECENT INTERNATIONAL TURMOIL WOULD BE TO REVISE INVESTMENT DOWNWARDS AND TO DRAW DOWN STOCKS. THE REACTION OF GERMAN CONSUMERS MIGHT ALSO BE TO INCREASE THEIR ALREADY HIGH PROPENSITY TO SAVE. HE WAS GLOOMY ABOUT THE LIKELIHOOD OF THE GERMAN ECONOMY ACHIEVING EVEN PREDICTED RATES OF GROWTH BUT THOUGHT THIS MIGHT TAKE SOME TIME TO SHOW UP.

COMMENT

5. DOMESTIC CONSIDERATIONS CONTINUE TO TAKE CENTRE STAGE. IN THE DEBATE OVER GERMAN MACRO-ECONOMIC MANAGEMENT. THE EXTERNAL SCENE, THE IMPORTANCE OF WHICH HARTMANN FREELY ACKNOWLEDGED, HARDLY GETS A LOOK IN. THE REFERENCE IN THE PRIME MINISTER'S MANSION HOUSE SPEECH TO THE FRG'S ECONOMIC RESPONSIBILITIES, FOR EXAMPLE, RECEIVED HARDLY ANY COVERAGE IN THE GERMAN PRESS. GIVEN THIS MIXTURE OF COMPLACENCY AND ADMINISTRATIVE LOG-JAMS IT IS DIFFICULT TO SEE THE GERMANS CHANGING GEAR WITHOUT REALLY WORRYING SIGNS OF A DOMESTIC ECONOMY DOWN-TURN.

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