

UNCLASSIFIED  
SAVING TELEGRAM

FROM BONN  
FRAME ECONOMIC

TO FCO TELNO 01 SAVING OF 02 February 1990. Info. Brussels,  
Luxembourg, The Hague, Paris, Rome, UKRep Brussels,  
UKDEL OECD, UKMis Geneva, all Consulates-General in  
the Federal Republic and West Berlin, Washington,  
Tokyo, Vienna.

FRG ECONOMY

SUMMARY

1. Real GNP growth of 4% in 1989, highest since 1979. Growth led by exports and capital investment. Government confident of over 3% growth in 1990. (paras 11 and 12)
2. 1989 tax revenue up by 9.7%. Net borrowing requirement falls to lowest level for 15 years. (para 13)
3. Unemployment back above 2 million in December. Resettlers placing strain on labour market. The 1990 wage round has begun on an encouraging note, the the main sectors have yet to settle. (paras 14 and 15)
4. Industrial confidence remains buoyant. Incoming orders and output maintain upward trend. Construction sector output reflects lively demand. (paras 16 to 18)
5. Inflation eases to 2.6% in January. Inflation in 1989 averaged 2.8% after 1.3% in 1988. (para 20)
6. Key interest rates unchanged but underlying mood remains nervous. Average bond yield touches 5 year high at over 8%. (para 22)
7. M3 growth remains below 5% in December, ensuring achievement of 1989 monetary target. (para 23)
8. Stock markets soar to all-time highs at turn of year but have since been tempered by political uncertainties in Eastern Europe. (para 25)
9. Record foreign trade and current account surpluses in 1989. (para 26)
10. Small improvement in FRG/UK trade as FRG imports from the UK outpace growth of exports to UK. (para 28)

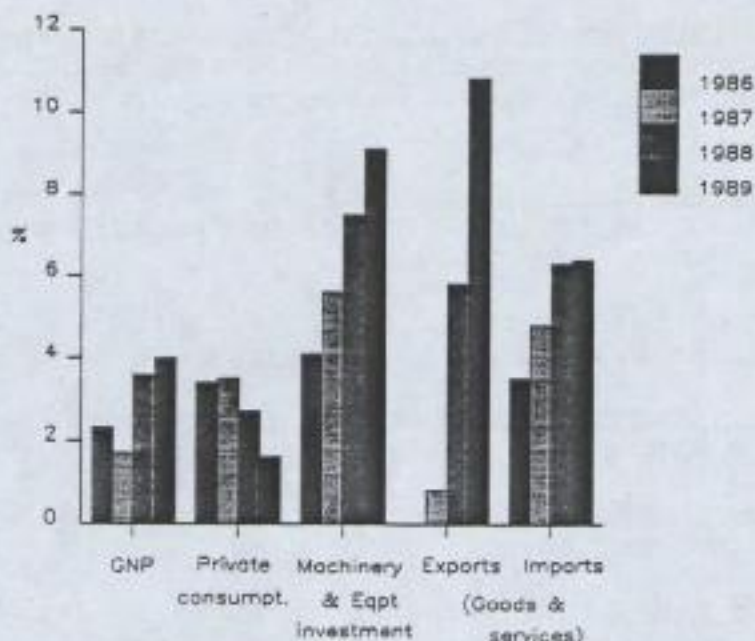
DETAIL

GROWTH

11. Provisional GNP figures released on 10 January by the Federal Statistical Office in Wiesbaden showed real GNP growth of 4% in 1989, the strongest increase since 1979. In nominal terms GNP rose by 6.3 per cent to DM 2255bn. The flywheels of economic growth were exports and capital investment, while both private and Government consumption were weak. Exports grew by 10.8 per cent real, the highest growth rate since 1974, against a 6.4 per cent rise in imports, pushing net exports in real terms up from DM 51bn to DM 80.3bn and contributing 1.7 per cent to overall GNP growth. The buoyant economy also fuelled investment, leading to a 9.1 per cent rise in machinery and equipment investment and a 5.2 per cent rise in building investment. The investment ratio climbed to 21.3%, its highest level since 1981. Private consumption growth was disappointing at only 1.6% after 2.7% in 1988, while government consumption actually declined by 0.8%, the first fall since 1973. Overall domestic demand rose by 5.3% nominal, 2.3% real. With import prices rising by 5% and export prices by 2.6%, the Terms of Trade worsened for the first time since 1984. National income rose by 5.7% to DM 1745bn with wages and salaries income rising by 4.5%, entrepreneurial and property income by 8.3%. The proportion of wages and salaries income as a percentage of national income fell to 67.4% compared with 74.4% in 1981.

GNP ANNUAL GROWTH (real)

% change on a year earlier





# A chancellor for all Germany?

THE TIMES  
**PROFILE**

OSKAR LAFONTAINE

**B**y this time next year, a poor boy from Saarlouis could, at the early age of 47, be chancellor of the richest country in Europe. If the rush towards the reunification of Germany continues, then the addition of the East German electorate, with its inbuilt socialist bias, could make Oskar Lafontaine, socialist prime minister of Saarland, the first chancellor of a newly united country with a mandate that would last a lifetime. He stands on the threshold of greatness — and he knows it.

By rights, Lafontaine, should be a member of the Christian Democrats instead of their scourge. Educated at a seminary from the age of nine, he passed out with honours and a university scholarship — a shining example of what a good Catholic education can do for a boy from a poor background. But within three years of leaving school he had joined the Social Democrats and launched himself enthusiastically into a political career. "I never could see anything particularly Christian about the Christian Democrats," he explained later, with the blunt forthrightness which has won him so many devoted admirers — and not a few committed enemies.

But it is also part of a style which has made him one of that rare breed of modern German politicians — a man with charisma and very much the man to beat. On Sunday, he leads his party confidently into the Saarland elections, as a popular prime minister of five years' standing. In 1985, he ended the CDU's hold on the steelmaking state, which had never before been broken.

It got so much a question of whether or not he will win on Sunday, but whether he can achieve that rarity in the splintered West German political system of an overall majority. He already has the enthusiastic support of Willy Brandt, the SPD's increasingly venerated elder statesman. At the moment, Lafontaine is deputy party leader to Hans-Jochen Vogel, who appears increasingly tired in opposition, and the SPD is looking for a new man at the top. It is due to make up its mind later this year. If Lafontaine leads the party to overall control of a state which was regarded as a CDU fiefdom only six years ago, there will be no

stopping him becoming the SPD's lead candidate for the general election in December, heading an energetic charge to sweep Chancellor Helmut Kohl from power.

That is why Chancellor Kohl will be making the weary trudge to the drab congress hall in Saarbrücken tonight to support the CDU's lead candidate in the election, Klaus Töpfer.

Töpfer already has the unenviable job of being environment minister in the federal government, which makes him a whipping boy for the green lobby. He is putting an experienced and brave face on the present election campaign. He was head of planning in the successful CDU administration in Saarland in the early Seventies and he knows the area well even though he is not, like his popular opponent, a local boy.

Despite the support of the chancellor, Töpfer must know in his heart that he stands little chance of winning back the Saarland and that he will do well even to deny Lafontaine an overall majority. Kohl, however, must be hoping that he does so because opinion polls already show that the stolid but uninspiring chancellor is trailing Lafontaine badly as a popular figure. If the SPD decides to pick "the ayatollah of the Saar", Kohl knows that he will have a desperate struggle to win in December.

Lafontaine has specialized in the unexpected, almost the outrageous opinion, shocking supporters and opponents alike into thinking afresh about big problems. His thinking was behind the party's Berlin Programme, the SPD's first new policy document for 30 years, which was largely rubber-stamped by a special congress last month.

It calls for an ecological overhaul of the economy, with shorter, more flexible working hours and is, in essence, Lafontaine's campaign for "nil-growth". "The old economy is finished," he claims. What he is striving to introduce is what he calls "eco-socialism".

He is determinedly a socialist, but by no means one whom Karl Marx would have recognized. His economic thinking was moulded by the Saarland, where the great steel industry which brought wealth to the region in the past was in decline. For him, the only real answer is to reorientate the labour market, with government

finance for further education and with trade unionists accepting that those on higher wages must not only work shorter hours, but must accept pay cuts to help create jobs and to compensate the unemployed. These are ideas which have brought him into open conflict with the union establishment.

His views on defence are enough to send a shiver down the corridors of Nato — but they are probably what makes him most attractive of all to the West German electorate. "We have thousands of nuclear systems in Germany already and we want them away," he says. "The discussion of balance in weapons is a crazy discussion in a situation of overkill capacity. Therefore, it is not a matter of an abstract concept of balance, but of human necessity to start negotiations on removing them."

**M**ore controversial and even more topical are his views on the refugee problem created by the huge influx of ethnic Germans from the collapsing Soviet empire. Basically, he believes they should not be allowed to come unless they have a job and a home to go to. It is a standpoint that runs counter to the emotional mood of the country.

But Lafontaine sees the dole queues growing parallel to support for the radical Right. Unlike Kohl, who is determined to hold back aid for the East until reforms are irrevocably under way there, Lafontaine wants the money spent immediately to persuade fellow Germans there that they will be better off in the end if they stay home.

His thoughts and ideas spill out of him in long, elegant, off-the-cuff

speeches. He sold his party programme to the Berlin congress in an hour-long detailed discourse, delivered with scarcely a note, which had the delegates hanging eagerly on his every word. The transcript later revealed that it was rambling and over-rhetorical, but Lafontaine knows how to play his audience and time his delivery. Physically, he looks something between Ernie Wise and Arthur Scargill, and he combines the wit of one with the oratory of the other.

This rhetorical range comes from his highly cultured and diverse personal background — one relic, at least, of his grounding at the Catholic seminary. He loves art and enjoys mixing with the artistic and literary world. Heinrich Böll, the Nobel Prize winner, is a good friend.

He has divorced both his wives — marriage does not seem to mix with his overfull timetable. The first, Ingrid, is a dealer in ceramics, and a head taller than he. The second was Margrit — whom he divorced two years ago amid talk that he had found a new East German pop singer girlfriend — and she is a ceramic artist. Their son, now aged seven, was named Frederic in memory of Chopin. He was scandalized when someone suggested the boy should be called Karl.

He maintains a wide circle of friends in universities all over the country and enjoys a good intellectual debate. He fleshes out his ideas in books like last year's *Song of Sharing*, in which he argued his new concept of employment. On the other hand, he keeps his football boots and regrets he no longer has time or fitness to play.

Although he is a populist, he generally does not share the tastes of the masses. He lives surrounded



**BIOGRAPHY**

- 1943: Born at Saarlouis, son of a manual worker who was killed in the war
- 1952: Sent to Catholic seminary at Prüm-Eifel
- 1962: Wins scholarship to study physics at Bonn and Saarbrück Universities
- 1966: Joins Social Democrats (SPD)
- 1968: Member Saar SPD regional committee
- 1969: Graduates with honours, takes job with public transport corporation
- 1970: Elected to Saar Parliament, deputy leader SPD group
- 1971: Chairman of Saar Tramways Union
- 1974: Elected mayor of Saarbrück
- 1976: Appointed lord mayor of Saarbrück
- 1977: Chairman Saar SPD
- 1984: Member of federal SPD central committee
- 1985: Prime Minister of Saarland
- 1987: Deputy chairman of federal SPD in charge of co-ordinating new SPD programme
- 1989: New SPD programme, first for 30 years, approved by special party congress

by books and he is an acknowledged gourmet. He hired a Paris cook for around £2,000 a month for Saarland's permanent representation in Bonn, where officials lobby for federal aid.

His critics say that he "speaks left and lives right"; his admirers describe him as a Renaissance

man. He lives surrounded by books and he is an acknowledged gourmet.

But he denies that he is a high-liver and attributes his tastes to his Saarland background. It is border country, he says, and the culture comes over from France — as his forebears undoubtedly did. That is

why he loves the area and why he has already announced that if he fails to become chancellor he will go back home. He would rather remain the big fish in the Saar pond than hang around in Bonn as the second largest fish in the federal sea.

**Ian Murray**

④  
Prime Minister  
You may like  
to read  
this. He is  
likely to be  
Kohl's  
opponent in  
Nuremberg.  
CDP  
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MODUK FOR SOFS, MIN DP, CDP, DUS(P)

FDP STATEMENT ON DEFENCE POLICY

1. AFTER A MEETING TO DISCUSS A PARTY ELECTION PROGRAMME, THE FDP EXECUTIVE ON 15 JANUARY ISSUED THE FOLLOWING STATEMENT:

"THE FDP EXPECTS FROM THE FEDERAL GOVERNMENT NEW PROPOSALS FOR THE FUTURE STRUCTURE AND ARMAMENT OF THE BUNDESWEHR AND THUS FOR THE SECOND ROUND OF THE NEGOTIATIONS ON CONVENTIONAL ARMS LIMITATION. THESE PROPOSALS SHOULD BE BROUGHT INTO THE DISCUSSIONS IN THE ALLIANCE. THEY SHOULD BE GUIDED BY THE FOLLOWING BASIC VALUES:

- (1) LIMITATION OF THE ACTIVE STRENGTH OF THE BUNDESWEHR TO ABOUT 350,000. WITH AN APPROXIMATELY CONSTANT NUMBER OF PROFESSIONAL AND SHORT-SERVICE SOLDIERS THIS MEANS A MUCH GREATER CADERISATION OF UNITS WHICH COULD BE RAPIDLY REINFORCED WITH RESERVISTS IN TIMES OF CRISIS OR WAR.
- (2) REDUCTION OF BASIC MILITARY SERVICE TO 12 MONTHS, COMPLEMENTED BY AN ADEQUATE NUMBER OF MILITARY EXERCISES.
- (3) LIMITATION OF CIVILIAN SERVICE TO 15 MONTHS.
- (4) BALANCED ELIMINATION OF SHORT-RANGE NUCLEAR MISSILES AND NUCLEAR ARTILLERY ON BOTH SIDES. PRIOR RENUNCIATION OF MODERNISATION OF THESE WEAPONS.
- (5) RENUNCIATION OF EFA. AIR DEFENCE TO BE SECURED BY CHEAPER ALTERNATIVES.

THESE MEASURES WILL RELEASE CONSIDERABLE FUNDS, PART OF WHICH IS