VENICE II, JUNE 8-10 1987

After the latest German economic growth figures in early June pointed to a slowing of the economy to only one percent of GNP, the Kohl government fully expected specific demands from its partners at the upcoming Venice Summit for further expansionary measures. The United States trade representative, Yeutter, stated that it would be beneficial for all western industrialized countries if there was greater growth in the Federal Republic. He even went so for as to suggest specific policies to achieve increased growth, such as an expansion of the planned tax reform, a looser interest rate policy and liberalization of the German telecommunication market.[194]

The German delegation attending the summit (Chancellor Kohl, Foreign Minister Hans-Dietrich Genscher, Finance Minister Stoltenberg and Economics Minister Bangemann) had two priorities: to once again deflect American criticism of the slow economic growth and demand for additional fiscal stimulus, and to convince the Reagan administration that the value of the US dollar had depreciated far enough. Both Germany and Japan were also firm in their conviction that the G-7 Louvre Accord of February (which called for central bank intervention to stabilize the exchange rate and closer coordination of interest rate policies) should be given more time to be effectively implemented before they would

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[194] Frankfurter Allgemeine Zeitung, June 6, 1987.

consider any new proposals.[195]

Although much emphasis was placed in the international media on the supposed discussion between the leaders on the Gulf question, it has become apparent through interviews that this issue was hardly discussed at the summit at all.[196] The leaders nevertheless did spend some time discussing the general development of East-West relations as well as agreeing once again to issue a summit statement condemning international terrorism.

On the eve of the summit, both President Reagan and Treasury Secretary Baker left no doubt that they would remind Chancellor Kohl and Finance Minister Stoltenberg of their responsibility for economic growth. As expected, the German delegation was absolutely firm in its conviction to withstand the US pressure. The Press Secretary of the German government, Friedhelm Ost, pointed out that "we are reaching the boundary of the possible."[197] He pointed out that the money supply was growing between 8 and 10% annually, that interest rates were at an all time low and that the government had decided to extend the second stage of the tax reform in 1988, by five billion DM. He used this to emphasize that Bonn was making a valuable and effective contribution to growth.[198] During the economic discussions at

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[195] IB.A .

[196] Personal interview with a German participant.

[197] Frankfurter Allgemeine Zeitung, June 9, 1987.

[198] Ibid.

the summit itself, Reagan, to everyone's surprise, avoided calling on the German government to further increase growth. He merely talked about the need for general deregulation and open markets. In any case, Kohl had not left any of his partners in doubt that in his eyes demands for additional growth increases were not justified.[199] He pointed out that with the 1988 tax reforms, Bonn would have freed fifty billion DM in the economy between 1986 and 1990, and that his government would in fact even accept a further increase in indebtedness in order to achieve the five billion DM tax package.[200]

In the deliberations on the question of agricultural subsidies, both President Reagan and Prime Minister Mulroney called for rapid steps to remove the excess capacity and price supports. They especially criticized the European communities' 'Common Agricultural Policy'. As expected Chancellor Kohl and President Mitterand strongly opposed this criticism and were not willing to consider any fixed timeframe for reductions of agricultural subsidies in the framework of the new GATT talks.
Nevertheless, they were willing to discuss this issue in the broadest terms possible in the Uruguay round.[201] This concession did not satisfy the US and Canada who wanted the communique to be based on the latest OECD declaration which had called for specific goals. This in turn proved unacceptable, especially to

[199] Frankfurter Allgemeine Zeitung, June 10, 1987.

[200] Frankfurter Allgemeine Zeitung, June 10, 1987.

[201] Ibid.

Mitterand. The leaders were in a deadlock and only after Mulroney threatened that he would refuse to sign the final communique, were they willing to agree on the general statement that they "would remove excess capacity through income support, not price support."[202] In the discussions on the exchange rate situation, the leaders and Finance Ministers reaffirmed their determination to prevent a further decline of the dollar through concerted intervention of the central banks. They did not agree to official target zones, nor "other policies returning back to fixed exchange rates."[203] Chancellor Kohl and Finance Minister Stoltenberg were very satisfied with the economic discussions at the summit. They both stressed that a high degree of agreement had been reached, especially in endorsing the continued cooperation between central banks and finance ministries initiated after Tokyo and in the Louvre Accord. Stoltenberg viewed the discussion about target zones for central bank intervention, which had preoccupied the discussions prior to the summit, as now having been cleared off the table after Venice.[204] He stressed that only from case to case should there be automatic intervention by the central banks in the international exchange markets.

Chancellor Kohl was extremely pleased that Bonn had not been singled out for criticism on its economic policy. The summit

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[202] Ibid.

[203] <u>Die Zeit</u> (D. Buhl), June 19, 1987.

[204] <u>Frankfurter Allgemeine Zeitung</u>, June 10, 1987.

communique lifted the whole question of economic growth to a multilateral level, noting that if in future, growth in one of the seven economies was unsatisfactory, the government should consider additional measures. The overall goal was now on a stimulation of growth through the opening of markets and deregulation. Kohl stressed that Germany was doing this through its three stage tax reform culminating in the large tax reform in 1990.[205] In his final press conference, the German Chancellor expressed pleasure that his philosophy for German economic, fiscal and exchange rate policy had been supported by the other leaders at the summit. He also stressed that the Federal Republic was determined to continue economic growth into its fifth year.

The overall assessment of the summit in the German media was positive, focussing primarily on the fact that the Federal Republic had not been forced to implement additional fiscal stimulus in its economy. It appeared that the government´s main priority had been met, even though the summit at Venice was clearly of a non-decisional nature. It was only in the months following the summit that some criticism about the meagre results was voiced. The dramatic stock market crash in October 1987, seemed to be a manifestation of the continuing extreme volatility of the international financial markets. In this climate, it was clearly not sufficient merely to restate previous commitments made in the G-7 as there was a real need for decisive leadership

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[205] Ibid.