

method of the peaceful use of nuclear energy, he hoped that Bonn would gain more support for its nuclear plans in the larger circle.⁴⁶

In his final press conference, Chancellor Schmidt expressed his great satisfaction that the German position had been so strongly reflected in the final communique. The overall assessment of the London Summit was extremely positive both by the German government and media as German's view seemed to have prevailed across the board.

D. Bonn, July 16-17, 1978

In the months leading up to the economic summit in Bonn, the first to be hosted by Chancellor Schmidt, there developed an increasingly bitter confrontation between the United States, supported by Great Britain, on the one hand, and Germany and to a lesser extent Japan, on the other.⁴⁷ The German government pointed to the continuing rise in US oil imports as the key factor in the large American balance of trade deficit which in turn put downward pressure on the value of the US dollar. Chancellor Schmidt saw this weakening of the US dollar as the major reason for a weakening of world economic growth, as countries with a strong emphasis on exports such as Germany and

⁴⁶ Ibid.

⁴⁷ Die Zeit (Jes Rau), July 14, 1978.

Japan were losing their competitiveness due to the relative rise in the value of their currencies in relation to the dollar.⁴⁸

The Carter administration immediately responded by pointing out that the real cause for the sluggish growth in most industrialized countries lay primarily in Germany which was experiencing virtually no economic growth and therefore could not pull in sufficient goods from her trading partners. This second round in the 'locomotive theory' debate would prove to be much more intense than in the previous year, especially since the expected growth rate in Germany had to be revised downward from the expected 3.5% GNP growth after there had been almost no growth in the first quarter of 1978.⁴⁹

The immediate reaction to the first quarter stagnation was extreme pessimism and concern in Germany as some of the leading economic experts predicted that the country found itself at the edge of a recession. The five leading economic research institutes themselves began to recommend "that the state should practice a fiscal policy that would strengthen the total economic growth through the removal of the high tax burden that was restricting growth."⁵⁰ Even the Frankfurter Allgemeine Zeitung which had traditionally been opposed to artificial stimulus in the economy now pointed out that "even though the growing

⁴⁸ Ibid.

⁴⁹ Emminger, D-Mark, Dollar, Wahrungskrisen, p. 424.

⁵⁰ Ibid. p. 425.

indebtedness was a cause of concern at present it saw no other way to revitalize the economy."⁵¹

Clearly, by the early summer there appeared to be a shift in the consensus towards the need for a concerted policy to revitalize the faltering economy. Even the economics ministry began to publically call for an "expansionary budget policy."⁵² Even though economics minister Graf Lambsdorff had repeatedly stressed his strong opposition to the locomotive theory, he was now so impressed with the slow economic growth that he wrote a letter to the Chancellor a week before the summit in which he called for an additional infusion of 10-15 billion DM in early 1979. He also called for "concerted action by the largest industrialized countries at the summit so that every country could play its part in world economic growth."⁵³

The major opposition in Germany to such a policy of expansion came from the Bundesbank (the central bank). Its president, Otmar Emminger, repeatedly spoke out against a loosening of German fiscal policy and stressed that the public indebtedness had now reached a dangerous level and that Germany would be able to reach its 1979 growth target without any additional measures.⁵⁴ Chancellor Schmidt had generally dismissed the idea

⁵¹ Frankfurter Allgemeine Zeitung, June 20, 1978

⁵² Emminger, D-Mark, Dollar, Wahrungskrisen, p. 426.

⁵³ Emminger, D-Mark, Dollar, Wahrungskrisen, p. 426.

⁵⁴ Ibid.

of the Federal Republic as a "world economic locomotive",⁵⁵ but the unexpectedly weak performance of the economy now convinced him that some action would have to be taken both in Germany and in the other industrialized countries.

In the preparation of the summit by the special representatives of the leaders (known as Sherpas), there developed the consensus that the economic crisis would only be overcome if the large industrialized countries would all harmonize their policies. Rather than singling out one or two countries to offer the needed push to the global economy, all seven countries would make a concerted effort together.⁵⁶ The Sherpas agreed that the United States should reduce oil imports and fight inflation and the German Sherpa, Dieter Hiss, agreed that the German government would then promise to increase growth. France and Britain offered to reduce protectionist barriers and Japan agreed that it would make a concerted effort to open its markets to foreign goods. Canada and Italy also agreed to promote growth in their economies whilst containing inflationary pressures. Germany was quite clear that this agreement would have to be accepted and adopted as a whole package and would not be put into practice if President Carter did not accept a real reduction in oil imports.⁵⁷

⁵⁵ Interview with H. Schmidt in Newsweek, May 29, 1978.

⁵⁶ Die Zeit (R. Herlt), July 14, 1978.

⁵⁷ Die Zeit (R. Herlt), July 14, 1978.

At the summit itself the German delegation (Chancellor Schmidt, Foreign Minister Hans-Dietrich Genscher, Finance Minister Hans Matthöfer and Economics Minister Graf Lambsdorff) made it quite clear that the economic difficulties had many causes and therefore could not be solved by one country alone but only through the concerted action of many countries. Schmidt stressed that Germany had already made a substantial contribution to the world economy through the increase in the exchange value of the German mark in relation to the US dollar and the fact that since 1977, imports had increased twice as fast as exports. Nevertheless, as expected, the Chancellor did declare his willingness to make a further contribution to economic growth although he stressed that he did not want to reveal any specific details at the summit. This would only be decided after the cabinet meeting on July 25, according to Schmidt. He also did not want to commit himself to specific growth rates.⁵⁸

The Chancellor furthermore pointed out that any additional German economic growth would depend on the willingness of other countries to lower trade barriers and allow German goods competitive access to their markets. He also once again highlighted the large US energy imports as the chief cause for the global economic imbalances, dismissed Carter's statement that oil imports had already been dramatically decreased and called on the President to finally implement a national programme for

⁵⁸ Frankfurter Allgemeine Zeitung, July 14, 1978.

energy conservation.⁵⁹

As the summit progressed it became increasingly apparent that all of the leaders except Schmidt stressed the need for specific quantitative commitments. Thus the Chancellor was expected to clearly state to what percentage of GNP the growth of his country would be increased. This ran counter to the previous German position not to establish such targets at the summit. Up to the last minute he resisted. But he ultimately agreed to specific quantitative measures for a revitalization of the German economy up to 1% of GNP, after all the other leaders had given their own national commitments.⁶⁰

The leaders also agreed, for the first time, to set up a conference of experts in December in order to assess compliance with the agreements made at Bonn. At that time it would become clear whether President Carter had been able to convince a reluctant Congress to contain oil imports and narrow the current account deficit and whether the Schmidt government had put in place "quantitatively substantial measures in order to get a higher growth rate."⁶¹ The summit leaders also called for a firm deadline for the Tokyo Round of the MTN - December 15, 1978. For the first time ever an official political communique was released

⁵⁹ Ibid. July 17, 1978.

⁶⁰ Ibid. July 18, 1978.

⁶¹ "Konjunktur: ein bisschen mehr Inflation?" in Der Spiegel, July 24, 1978.

on the subject of air hijacking. This issue was first introduced by the Canadian Prime Minister Trudeau and was enthusiastically supported by all the other statesmen.⁶²

In his final press conference the Chancellor stressed that whereas in previous summits the leaders had basically had a direct and intensive exchange of views, in Bonn all participants had pledged substantive contributions to solve the