

communique was not really that important."¹⁵⁸ Kohl's role in London had been more decisive than at Williamsburg as he had taken a decisive role in a number of key areas. He strongly pushed for his priorities at the summit although just as in the previous year he tried to do so with as little confrontation as possible. His true role in the summit club would be put to the test at the Bonn Summit in 1985 which he would host.

The London Summit was not given much attention in the German media as most of the focus in the period of the summit was on the largest labour unrest in Germany since 1945. General strikes were called over the issue of a thirty-five hour workweek. This also resulted in a strike by the printers union and for two of the three days of the summit the major dailies did not publish. This has made it somewhat difficult to effectively assess the coverage of the summit in the German print media, although there can be no doubt that the London Summit was not considered one of the greatest priorities in Germany at the time as the country was overwhelmingly preoccupied with its own domestic situation.

BONN II, MAY 2-4, 1985

In the months leading up to the Bonn Summit, the Reagan administration repeatedly pointed out that the United States expected its "increasing economic slack to be picked up by Europe

¹⁵⁸ Frankfurter Allgemeine Zeitung, June 12, 1984.

and Japan."¹⁵⁹ These were ominous signs that the 'locomotive theory' debate would once again dominate at Bonn, even though the Kohl government quickly dismissed the need for any more stimulus in the German economy, as it had already planned major tax cuts worth twenty billion DM which were scheduled to take effect in two stages, 1986 and 1988. Finance Minister Stoltenberg pointed out that any efforts by the government to accelerate these tax cuts would invariably revive inflationary pressures.¹⁶⁰

Another issue of concern for the Kohl government was the sign that the Reagan administration was gradually moving towards the French position on the need for major international monetary reforms. This had first become apparent at the OECD meeting on April 12, when Treasury Secretary Baker noted that the United States was now considering hosting a conference on monetary reform.¹⁶¹ Germany had always resisted such a move and wanted to use the Bonn Summit to attempt to convince the Reagan administration to move away from the apparent acceptance of the French position.

The third major priority for the German government at Bonn was to convince all of the other leaders to agree to substantive negotiations in the GATT context in 1986, and on a specific

¹⁵⁹ Putnam and Bayne, Hangin' Together, p. 198.

¹⁶⁰ Putnam and Bayne, Hangin' Together, p. 198.

¹⁶¹ Ibid., p. 199.

starting date for this new round of empty MTN.¹⁶² Bonn knew that President Mitterand had always refused to accept new GATT negotiations without a parallel commitment by the other industrialized countries for negotiations on currencies. It was thus the goal of Chancellor Kohl to move France away from its traditional position and in effect agree for new trade negotiations without such a currency conference.

Clearly, the German delegation at the summit (Chancellor Kohl, Foreign Minister Hans-Dietrich Genscher, Finance Minister Stoltenberg and the new Economics Minister Bangemann, replacing Graf Lambsdorff who had been forced to resign over the Flick bribery scandal) had a full list of priorities. In the political discussions all the summit leaders supported the American proposals for renewed nuclear arms reduction negotiations with the USSR and called on Moscow to join in the disarmament process. Kohl felt that this declaration was given added significance since Japanese Prime Minister Nakasone had joined together with the other leaders (whose countries were all members of NATO) in endorsing the western position.¹⁶³

Much emphasis was also placed by the German delegation on the symbolic declaration made by the leaders on the forty year anniversary of the end of World War II. Kohl was concerned with the significance of the close relationship between the former

¹⁶² Ibid.

¹⁶³ Frankfurter Allgemeine Zeitung, May 4, 1985.

wartime enemies and the fact that forty years after the conflict the Federal Republic and Japan were now accepted as equal partners. He was doubly pleased that the other leaders also endorsed the Federal Republic's policy towards East Germany and it is apparent that the German government was successful in convincing the other leaders to issue a pledge that the deep wartime divisions had now been healed both in fact and principle.¹⁶⁴

In the economic discussions at the summit, Chancellor Kohl presented a detailed position paper in which he called for a general strategy to strengthen lasting economic growth without risking an increase in inflationary pressures. He pointed out that stress should be placed on a sound monetary and fiscal policy and a strengthening of market forces through the reduction of market distortions, such as income policies, monopolies and subsidies. Kohl stressed that only in this way would it be possible to achieve a further lowering of interest rates in the near future and achieve exchange rate stability.¹⁶⁵ In his presentation he repeatedly underlined that the German government saw no reason whatsoever to change its economic course set in 1982, a strong signal to President Reagan of the futility of pushing Germany to further stimulate economic growth. As Kohl further pointed out, the US request for additional reduction of taxes and a loosening of the job market had in fact been

¹⁶⁴ Ibid.

¹⁶⁵ Frankfurter Allgemeine Zeitung, May 4, 1985.

satisfied with the proposed tax reforms of 1986 and 1988, totalling twenty billion DM, and the new job promotion law.¹⁶⁶ It appears that President Reagan and the American delegation were in fact convinced that any further efforts to push the Germans on this question would prove to be counter productive and decided to postpone this issue for another time. All the summit leaders were able to agree on was a joint statement on the expansion of economies without making any specific references to any individual countries.¹⁶⁷

On the question of a new round of multilateral trade negotiations, Kohl was supported by President Reagan, Prime Minister Nakasone, Prime Minister Margaret Thatcher and the new Canadian Prime Minister Brian Mulroney in calling for the start of a new GATT round in 1986. The German delegation had repeatedly stressed that it expected a moratorium on any new protection measures by all of the countries prior to the convening of a new trade round. At the same time Kohl again strongly rejected any connection between a GATT round and a currency conference. He seemed to win agreement from the US against the French proposal.¹⁶⁸

Nevertheless, President Mitterand was absolutely firm in his insistence not to move from his position and Chancellor Kohl

¹⁶⁶ Ibid.

¹⁶⁷ Putnam and Bayne, Hanging Together, p. 147

¹⁶⁸ Die Zeit (R. Herlt), May 10, 1985.

undertook a last attempt to achieve an acceptable compromise on this question through individual talks with the leaders. This met with some success as Mitterand agreed on the compromise formula in the final communique "that most countries are of the opinion to convene a trade meeting sometime in 1986"¹⁶⁹, although he was able to prevail in his insistence that the summit not name a specific starting date for the GATT round. Kohl was widely credited for reaching this compromise and although both he and President Reagan expressed their disappointment that no firm date was established at Bonn, Kohl pointed out with a note of optimism that as a result of the strong pressure from numerous countries for a further opening of markets, a new trade round would probably begin in 1986.¹⁷⁰

The Bonn Summit was an unqualified success for the Chancellor and marked his best summit performance to date. He had been able to push through all of his own priorities and had been instrumental in ensuring that the summit had reached some compromise on the start of a new GATT round without having to trade off his acquiescence for a currency conference.

In his final press conference he once again repeated his conviction that the Federal Republic would achieve acceptable economic growth rates with the established policies and dismissed the need to bring forward the second stage of the tax reforms to

¹⁶⁹ Ibid.

¹⁷⁰ Die Zeit (R. Herlt), May 10, 1985.

1986. Kohl also once again pointed out that even though he had thought for the agreement on a specific date for a new GATT round with great passion, this had unfortunately not met with total success largely due to the time constraints of a three day conference.

Even though this summit can be seen as a personal triumph for the Chancellor, most of the attention of the international media was not on the summit itself, but on President Reagan's state visit to West Germany with the visit to the Bitburg cemetery. This diverted most of the attention which probably explains why both the Bonn Summit and the role of its host, Chancellor Kohl, were not given the credit they deserved.

THE POLICIES OF THE G-5 BETWEEN BONN AND TOKYO

Before assessing the 1986 economic summit in Tokyo it is important to initially focus on the very significant decisions taken by the Finance Ministers in the G-5 in the months after Bonn. It had become increasingly apparent that some action would have to be taken on the question of exchange rates, as the value of the US dollar was seen to be overvalued in relation to other currencies and this began to have serious ramifications on the US balance of trade performance. This prompted a meeting of the G-5 in New York on December 22, 1985, at which the Finance Ministers noted that the US dollar was overvalued and stood in no relation

to "fundamental economic conditions."¹⁷¹ They thus called for an orderly appreciation of the other currencies against the dollar and the United States now agreed to participate in coordinated exchange rate interventions in order to correct currency imbalances. After concerted bank intervention in the five countries totalling five billion dollars, a rapid depreciation in the value of the US currency set in.¹⁷²

It is interesting to note that Treasury Secretary James Baker had initially not wanted the G-5 to focus on the exchange rates at all but instead on economic policy coordination. Yet, the German Finance Minister Gerhard Stoltenberg resisted any attempts to expand his 1986 tax cut and reduce interest rates in order to stimulate further growth in the German economy. It was only after Baker realized that effective coordination was a practical impossibility that he agreed to direct action in the exchange markets.¹⁷³

Putnam and Bayne point to this so called Plaza accord of the G-5 and see it as a clear manifestation that the economic summits were now losing their central place in international economic diplomacy as "the G-5 came out of its obscurity."¹⁷⁴ This assessment would be correct if one saw the summit and the G-5 as

¹⁷¹ Putnam and Bayne, Hangin' Together, p. 205.

¹⁷² Ibid.

¹⁷³ Putnam and Bayne, Hangin' Together, p. 207.

¹⁷⁴ Ibid., p. 208.

totally separate processes. In fact both complement each other. Whilst the leaders use the annual economic summits to discuss the broad elements of the international economic development they leave the detailed coordination to their Finance Ministers in the G-5 (which was expanded after the Tokyo Summit to include Italy and Canada in this process). Therefore, rather than being mutually exclusive the G-5\G-7 is an integral element of the general summit process. The G-5 Finance Ministers met again five months later revealing some disagreements on the consensus that had been reached in New York. Whilst Baker still hoped for stronger German and Japanese growth and expected the dollar to decline even further in relation to other leading currencies, both Stoltenberg and the President of the German Central Bank (Bundesbank) Karl-Otto Pohl, were concerned with the unsettling of the markets and sought to contain the rise of the Deutschmark. All participants nevertheless did come to an agreement that there would have to be effective action on "fundamentals of economic policy"¹⁷⁵ in order to effectively support the exchange rate corrections.

As a practical policy the Japanese Finance Minister Takeshita then introduced a proposal for concerted interest rates deductions by the three largest economies: Japan, Germany and the United States. As Putnam and Bayne point out concerted action was crucial, because if the US alone reduced her interest rates then this would drive down the value of the dollar even

¹⁷⁵ Putnam and Bayne, Hanging Together, p. 209.