

faster and if only Germany and Japan reduced their rates this would only cause the value of the dollar to rise again. Yet, if all three countries reduced together, then they would all benefit with an effective boost to growth and minimize the impact on the exchange markets.<sup>176</sup>

This agreement became unravelled in April 1986, when the Bundesbank did not reduce its rates parallel with the concerted reductions in the United States and Japan, arguing that the German money supply was growing too fast and fuelling inflationary pressures.<sup>177</sup> This caused immediate condemnation, especially from the Reagan administration, since it was seen to undermine the whole idea of coordination and to further destabilize the financial markets. The big question was whether the upcoming Tokyo Economic Summit would be able to reestablish the commitment for concerted action through a pledge by the leaders for continued coordination.

TOKYO II, MAY 4-6, 1986

Since early March Chancellor Kohl had already begun to lower any heightened expectations about the upcoming Tokyo Summit, by repeatedly stressing that such a forum was generally not conducive to specific agreements, but rather geared towards an open exchange of views between the leaders on crucial economic

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<sup>176</sup> Ibid.

<sup>177</sup> Ibid., p. 210.

questions. In doing this he was following an established strategy used prior to every summit in order to deflate expectations and avoid disappointment in case the leaders were not able to agree on any substantive commitments.<sup>178</sup>

In its preparation for the Tokyo Summit the German delegation (Chancellor Kohl, Foreign Minister Hans-Dietrich Genscher, Finance Minister Stoltenberg and Economics Minister Bangemann) clearly established a number of distinct priorities. Following the US raid on Libya in April, Germany expected the Reagan administration to push its partners at the summit to adopt a more determined stand against Tripoli. Chancellor Kohl saw the summit as a good opportunity to express his reservation to joining any large scale sanctions and wanted to present his own proposals on how to best deal with the terrorist threat emanating from Libyan territory. In the economic discussions Germany once again wanted to deflect the growing US criticism of the balance of trade surpluses and to clearly turn down the American request for more fiscal stimulation in the German economy. In the months prior to the summit the Reagan administration had called for a strengthening of the domestic demand in the German economy as it saw this as the most effective way to reduce the balance of trade surplus through increased imports to Germany.<sup>179</sup>

The Chancellor once again wanted to press his point at the

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<sup>178</sup> Die Zeit (K-P. Schmid), May 16, 1986.

<sup>179</sup> Die Zeit (D. Buhl), May 9, 1986.

summit, that the real cause for the unstable dollar level remained in the massive US budget deficit and he wanted to urge President Reagan to reduce his budget deficit more rapidly than had been the case to date. At the same time he was prepared to deflect any criticism from both the Americans and Japanese on the fact that the Bundesbank had not participated in the latest round of interest rate reductions. Prior to leaving for Tokyo, Finance Minister Stoltenberg told the German media that in his view the DM and Yen were overvalued in relation to the US dollar and that the goal of the Plaza Accord had been reached. He expected the American delegation to publicly acknowledge this at Tokyo.<sup>180</sup>

The summit leaders meeting in Tokyo were forced to deal with the immediate impact of the nuclear reactor accident at Chernobyl which had occurred one week earlier. Chancellor Kohl told the press conference two days prior to the summit that he would do everything possible to ensure that this issue would be sufficiently discussed. He noted that all leaders would have to consider whether enough was done internationally for nuclear reactor safety and pointed out that he would seek agreement from his partners to strengthen the notification requirements for nuclear accidents under the IAEA in Vienna. At the summit itself the leaders were in total agreement on the need for mandatory notification of nuclear accidents and in order to underline the importance of this question, issued a separate declaration on the

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<sup>180</sup> Frankfurter Allgemeine Zeitung, May 5, 1986.

Chernobyl nuclear accident.<sup>181</sup>

In the political discussions on terrorism, President Reagan called on the other leaders to undertake further strong action against Libya. Chancellor Kohl listened to the US proposals for dealing with Tripoli without offering his endorsement. Nevertheless, he did promise to do everything possible to improve the safety of American servicemen stationed in Germany from terrorist attacks. At the same time he expressed his strong skepticism of the usefulness of sanctions against Libya by pointing to their limited impact, and as an alternative suggested the removal of landing permits for the Libyan State airline if terrorist acts from Libyan territory did not cease. This proposal was endorsed by the other leaders.<sup>182</sup>

In the macroeconomic discussions both Chancellor Kohl and Finance Minister Stoltenberg faced expected criticism from their partners because the Bundesbank had refused to join in the latest round of interest rate reduction. Stoltenberg pointed out, that the Federal Republic did not have any need to catch up with Japan and the United States on the issue of interest rate reductions since German rates were in the lower ranges of the international scale. At the same time he pointed out that rather than condemn Germany for its latest refusal to lower rates, one should focus

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<sup>181</sup> Frankfurter Allgemeine Zeitung, May 5, 1986.

<sup>182</sup> Ibid.

on France which still practiced a high interest rate policy.<sup>183</sup> Kohl and Stoltenberg also repeatedly stressed that any further reductions in interest rates would threaten the money supply target of the Bundesbank and ultimately unleash inflationary pressures. Further, the Finance Minister noted that German actions were also motivated by an awareness of the need to avoid tensions in the European Monetary System as lower German rates would, in the short or long term, lead to renewed intervention by the other central banks to restabilize the EMS.<sup>184</sup>

During the discussions Kohl also presented the latest OECD figures which pointed to a strong growth in the domestic demand and expansion in the German economy. He used this to take the 'wind out of the sails' of President Reagan's and Treasury Secretary Baker's expected demand for additional German fiscal stimulus.<sup>185</sup> This proved to be unnecessary since the American delegation seemed to have come to the conclusion that to isolate both Germany and Japan in their criticism would prove to be counterproductive since both countries could point to statistical evidence that they were in fact more successful in stimulating domestic demands than had previously been expected. Baker instead introduced a new proposal for economic policy coordination amongst the leading economies. He called for a joint review of forecasts and objectives for each of the seven

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<sup>183</sup> Frankfurter Allgemeine Zeitung, May 5, 1986.

<sup>184</sup> Ibid.

<sup>185</sup> Die Zeit (K-P. Schmid), May 16, 1986.

summit economies based on ten specific 'indicators': GNP growth, inflation, interest rates, unemployment, fiscal deficits, trade balances, current account balances, money supply growth, currency reserves and exchange rates. Whenever there would be fundamental deviation from the anticipated economic course in any of the economies, the affected government would then agree to take additional action.<sup>186</sup> As Baker repeatedly stressed, these government actions should primarily focus on fundamental national economic policies rather than on exchange markets. The German Chancellor and Finance Minister believed that these Baker proposals were an effective tactical instrument by the United States to force them to further stimulate growth without having to specifically say so. Therefore, they both opposed the idea of these single 'indicators' as a form of automatic action forced by externally fixed targets, although they joined in the general summit acceptance of the proposals.<sup>187</sup> Stoltenberg explained Germany's support for the indicators as an effective method to underline the common recognition of the need to implement macroeconomic action into practical policy and pointed out that without a dramatic reduction in the US deficit, there could be no stability of the exchange rates.<sup>188</sup>

As expected, both Kohl and Stoltenberg did not leave any doubt that they agreed with the Japanese government in concluding that

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<sup>186</sup> Putnam and Bayne, Hanging Together, p. 207.

<sup>187</sup> Frankfurter Allgemeine Zeitung, May 6, 1986.

<sup>188</sup> Ibid.

the goal of the Plaza Accord had been reached. They pointed out that an even weaker dollar would not only promote inflation in the United States, but also weaken the international interest rate positions. They sought and received a pledge from both Reagan and Baker not to 'talk down' the dollar even further and seek a stabilization of the existing exchange rate situation.<sup>189</sup>

The summit leaders also discussed the important question of agricultural subsidies and their impact on the world agricultural market. This issue was introduced to the summit by the Canadian Prime Minister Brian Mulroney who was supported by Reagan and Thatcher in calling for a reduction of subsidies. As was to be expected, all the other European leaders and Nakasone were much more reserved on any question of reducing the agricultural supports. Throughout the discussion, Kohl told the other leaders that the removal of agricultural surpluses was impossible in a short timeframe and should be viewed as a very long term problem.<sup>190</sup> The Chancellor also made it quite clear that he was not ready to sacrifice the "German farmers for the mistakes made by all countries in the previous twenty years."<sup>191</sup> Nevertheless, he did ultimately agree to a very general statement in the final communique which highlighted the agreement of all leaders that the subsidies were a problem, although not offering any specific policy prescriptions. Kohl could thus confidently point out at

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<sup>189</sup> Die Zeit (K-P. Schmid), May 16, 1986.

<sup>190</sup> Frankfurter Allgemeine Zeitung, May 7, 1986.

<sup>191</sup> Ibid.

his final press conference that the statement on subsidies in Tokyo, in no way contradicted or forced him to change his government's decision to implement new national subsidies for German farmers.<sup>192</sup> Clearly, Kohl's position on agricultural supports was strictly curtailed by domestic political considerations. Both his own party, the Christian Democrats, and even more his coalition partner, the Christian Social Union, had a strong support base in many of the rural regions in Germany. This forced the Chancellor to be very aware of the concerns of the German farmers, which made a removal of the subsidies vital to their survival, a political impossibility.

Kohl's overall assessment of the summit was extremely positive as he had avoided being singled out by the other leaders to take additional fiscal measures in his own economy. He pointed out that the previous summits in London, Williamsburg and Bonn had not shown the common economic direction of the summit participants as had become apparent after Tokyo. The reason for this, according to the Chancellor, was the clear success of the economic course taken by the leaders. Most of the German priorities had been addressed at Tokyo and the summit was widely seen as a clear success in the German media.<sup>193</sup>

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<sup>192</sup> Frankfurter Allgemeine Zeitung, May 7, 1986.

<sup>193</sup> Ibid.