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MY TELNO 40: FRG WITHHOLDING TAX

SUMMARY

1. THE GOVERNMENT HAS ANNOUNCED THAT THE DOMESTIC 10 PER CENT WITHHOLDING TAX IS TO BE ABOLISHED. IT IS AS YET UNCLEAR WHAT EFFECT, IF ANY, THIS DECISION WILL HAVE ON THE GERMAN POSITION ON AN EC-WIDE TAX ON SAVINGS.

DETAIL

2. FOLLOWING MEETINGS OF THE LEADERSHIP OF THE THREE COALITION PARTIES AND A JOINT MEETING THIS MORNING OF THE CDU/CSU AND FDP PARLIAMENTARY PARTIES, THE GOVERNMENT SPOKESMAN, KLEIN, ANNOUNCED THAT THE 10 PER CENT WITHHOLDING TAX IS TO BE ABOLISHED. INTEREST INCOME WILL CONTINUE TO BE SUBJECT TO INCOME TAX AS IT WAS BEFORE THE IMPOSITION OF THE WITHHOLDING TAX. WAIGEL TOLD THE FRENCH AMBASSADOR AND ME TODAY THAT THIS ACCORDED WITH THE FRG'S OBLIGATIONS TO ITS EUROPEAN PARTNERS (I.E. THE FRENCH).

3. THE GOVERNMENT ALSO ANNOUNCED THAT THE CURRENT THRESHOLDS OF DM 300 (SINGLE) AND DM 600 (MARRIED) BEYOND WHICH INCOME TAX IS LEVIED ON INTEREST INCOME WILL BE DOUBLED. THE GOVERNMENT SAID THAT IT DOES NOT INTEND TO INCREASE OTHER TAXES TO COMPENSATE FOR THE LOSS OF REVENUE THROUGH THE TWO MEASURES.

COMMENT.

4. IT IS NOT YET CLEAR HOW THIS MAY AFFECT THE EC CONTEXT. KLEIN SAID THAT THERE WAS NO CONSENSUS WITHIN THE EC FOR A WITHHOLDING TAX, BUT NEITHER HE NOR WAIGEL GAVE ANY HINT OF WHETHER THESE DECISIONS, TAKEN FOR DOMESTIC REASONS, WILL COLOUR THEIR APPROACH IN BRUSSELS.

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'Too Much Courage' Causes Shudders In Kohl's Coalition

By ERNO VON LOEWENSTERN

BONN—There is a dark vision circulating in Washington: What if the Social Democrats take over in Bonn after the next elections of December 9, 1990? The Americans recall the party's threats to block updating of the last short-range missiles (Lance) in Germany. They remember a vow to rescind "W-18," the decision of the Bonn parliament to extend military service to 18 months from 15. They recollect a pledge that the Social Democrats will drastically reduce low-altitude flight exercises. Will not all this, Washington worries, turn West Germany into a paralyzed member of the North Atlantic Treaty Alliance, well on the road to neutralism?

Washington need not worry about the future any more. The government of the Christian Democrats and Free Democrats under Chancellor Helmut Kohl has achieved all this already. Mr. Kohl, formerly regarded as a staunch and courageous ally against German peacenik pressure, now says he will put off "W-18" for three years because "a new count" shows that the German armed forces, the Bundeswehr, have enough recruits coming up in the next years. This is palpably untrue. There are no new figures for recruits. There are, however, new figures for Mr. Kohl's party: The CDU was stunned in the Berlin and Hesse elections; polls show that they can only hope for 35% of the vote at present. The polls show a red-green majority of Social Democrats (43%) and Greens (9%) if West German elections were held now.

Only six years ago the CDU got 48.6% of the vote, winning a comfortable majority in coalition with the FDP, under the leadership of a Helmut Kohl who was doing the opposite of what he is doing now. Then he stood up for the NATO twin-track resolution to place medium-range missiles (Pershing 2) on West German soil after the Soviet government had begun to deploy the new SS-20 missiles. The Social Democrats attacked him for being "subservient to America" and being the candidate of the "missile party." Mr. Kohl never wavered—supported by the FDP of the same Hans-Dietrich Genscher who now is forcing Mr. Kohl to put off missile modernization.

But after the recent catastrophic losses in Berlin and Hesse, the powerful secretary general of the CDU, Heinrich Geissler, managed to convince his party that their terrible fall is due to "too much courage": The CDU is being punished, he claims, for the unpopular cost cuts coming with the reform of the public health insurance system. Actually populism has long been Mr. Geissler's philosophy.

He had made the Christian Democrats retreat from every position, including the national cause of reunification. Mr. Geissler himself actually led opportunistic rabble-rousing against low-altitude flights before the Social Democrats ever got around to that. Voter dissatisfaction was long simmering; there were slow erosions which

Messrs. Kohl and Geissler ignored—then, suddenly, within a few days before the Berlin elections the CDU lost almost one-fourth of their voters.

The avalanche has nothing to do with health reform resulting in lower payments for false teeth. Voters demonstrated their ire over CDU waffling on issues such as reunification, some voting the right-wing Republikaner party in protest, others returning to SPD and Greens arguing: Why vote CDU when they follow the red-green lead anyway? Nevertheless Mr. Geissler, brilliant even in faulty leadership, within a few weeks had hammered the CDU into believing that they were not being castigated for cowardice but for courage, arguing that now the CDU should "jettison ballast," for "the CDU must have the courage for unpopular decisions—but please not too much."

Since most young men would rather serve 15 months instead of 18 (women are not allowed to serve in the Bundeswehr), Mr. Geissler and the CDU leadership made the popular decision here as well as in many other fields, throwing almost everything overboard that the party stood for, including the brilliant defense minister Rupert Scholz, whom Mr. Kohl had installed only 11 months ago. His successor Gerhard Stoltenberg, formerly the internationally respected finance minister—now rotated into defense to make room at finance for the leader of the Bavarian sister party CSU, Theo Waigel—has to live with the panic decision to jettison "W-18" that Mr. Scholz would never have accepted.

Last January, two weeks before the coming Berlin elections—when these still seemed a safe bet for the CDU—Mr. Kohl had made the Bonn CDU faction vote for implementation in June, arguing that "German reliability in East and West" is at stake: "If we put implementation off now nobody will ever believe that we can make any necessary decision." Now "W-18" is as good as dead, for the Christian Democrats will probably not even be asked to decide—everybody expects them to lose the 1990 elections. In fact, everybody expects Mr. Kohl to be toppled by Mr. Geissler in the summer. But nobody expects Mr. Kohl's likely successor, Lothar Spaeth, the effervescent prime minister of Baden-Wuerttemberg, to provide better leadership.

All figures show that without "W-18," the German armed forces will not be able to keep up the minimal strength of 465,000 men required to defend West Germany against attack. The senior Bundeswehr officer, Inspector-General Admiral Dieter Wellershoff, took the unusual step of writing Mr. Kohl a letter of protest. The officers' corps, normally a stronghold of CDU sympathy, is deeply embittered.

NATO is similarly incensed. Putting off "W-18" and blocking missile modernization jeopardizes defense—and arms reduction. After all, why should the Soviets make any concessions if they see that the West Germans are ready to disarm unilaterally, abolishing a fourth of their conventional defense and all nuclear arms on West German soil?

Mr. von Loewenstern is editorial page editor of the German daily, *Die Welt*.

Prime Minister⁽²⁾

You may find this of interest.

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