

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND MR. PAUL VOLCKER,  
CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AT  
THE FEDERAL RESERVE BUILDING, WASHINGTON, ON THURSDAY, 29 SEPTEMBER  
1983 AT 1000 HRS

Present:

Prime Minister	Mr. Paul Volcker
Sir Robert Armstrong	
Sir Oliver Wright	
Mr. F.E.R. Butler	

The Prime Minister invited Mr. Volcker to comment on recent developments in the United States economy. Mr. Volcker said that the real economy was doing well; that recent monetary figures had been back on course; but that the fiscal deficit was too big. The Prime Minister said that she was worried about the deficit. Mr. Volcker agreed: in his view the deficit was a time-bomb. The Administration believed that economic growth would itself reduce the deficit: he did not find this argument plausible. But the President's speech to the IMF, though admirable in its support for the Bill to increase the resources of the IMF, had made clear that the Administration did not intend to take action to reduce the deficit through increases in revenue. They held the surprising view that, if the Administration was starved of revenue, the Congress would act to bring down expenditure; but there was no evidence that this would happen.



Mr. Volcker said that he did not share the complacency about the world debt problem of which he had recently seen signs. In his view it would continue to be difficult for at least another year. After Brazil, Mexico and Argentina, problems were coming up with Venezuela, the Philippines and Nigeria. Venezuela was in his view <sup>not</sup> a case for official assistance, and it should be possible to take action to deal with the other cases, although political difficulties made Argentina a cause for anxiety. On the immediate question of Brazil, he hoped that the British Government would withdraw the reservations expressed by the Chancellor of the Exchequer and take part with other members of the Group of Ten in providing export credits to fill the remaining gap in financing up to the end of 1984.

The Prime Minister said that the British Government were already playing their part in re-scheduling at some cost its borrowing requirement, and she did not wish to add further to this burden. She had understood from Mr. de Larosiere that <sup>the</sup> new Government money had been obtained. Mr. Volcker said that the Group of Ten had authorised Mr. de Larosiere to make this statement. Although the Chancellor of the Exchequer had entered reservations about Britain's part, he hoped that this would not be the final word since the package would be better balanced if Britain took part. Further export guarantees would not cost anything if all went well. It was <sup>in order</sup> necessary, /to reinforce the Brazilian Government's attempts to put the IMF programme through, to be able to say that the necessary funds would be available if they did so. They had already lost bridging funds through delay in complying with the programme: provided that



they got the programme through, IMF money would be made available in November and used to repay the Bank for International Settlements (BIS), and new money would be available from the commercial banks in December which would enable them to go forward. But the programme was very tough and if they could not get the programme through, no money would be made available and there would be default. The banking system would be able to bear such a default by itself, but it would make defaults by other countries more likely. In his view the monetary creation which would be necessary to see domestic banking systems through would be more inflationary than actions taken now to prevent default. He therefore hoped that the Prime Minister would give further consideration to the British Government's position on Brazil. The Prime Minister said that she had taken note.

F.R.B.

29 September, 1983