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- Extract from Record of Meeting between PM and Chairman of the Board of the US Federal Reserve System, Washington, 17.12.79

Oil Producers' Balances

The Prime Minister expressed her concern that the huge scale of current liquidity in the international banking system would inevitably fuel inflation in some part of the world economy.

Mr. Volcker was worried about the funds to be absorbed following the latest round of oil price increases. Percentage rises were now much less dramatic figures, but the rises were on a very much larger base than those of 1973/74, producing a volume just as large. There could be major problems in getting all this re-cycled. The Prime Minister shared these concerns. The situation was made bleaker by the growing ability of the producers to preserve their incomes whilst regularly decreasing their oil output. Mr. Volcker recalled that in 1973 there had been talk of the IMF working much more closely with the commercial banking sector. Nothing significant had come of this at the time, but the prospects would now need to be re-examined carefully.

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