

**CONFIDENTIAL**

Prime Minister

(2) *Esmond*

MR. SCHOLAR

*You were asking for this.  
We await the Chancellor's views.*

Ken Couzens and I agreed the enclosed Briefing Note for the Prime Minister on the United States Deficit and Interest Rates. It is entirely consistent with the first draft I sent to you on 1 June. In particular it does not mention or indeed imply that the President should consider increasing taxes or not pursuing his policy of reducing taxes. MS 2/6

The Chancellor has not yet seen it. But Ken Couzens thinks that he will, perhaps with reluctance, accept the omission of the issue of taxes. But this seems to me to be an absolute sticking point.

2 June 1982

ALAN WALTERS

**CONFIDENTIAL**

BRIEFING NOTE FOR THE PRIME MINISTER ON THE UNITED STATES  
DEFICIT AND INTEREST RATES

1. We continue to stand four square behind the efforts of the U.S. Administration to reduce inflation and believe the success <sup>of</sup> of those efforts will be/the first importance for the United States, for the Alliance and for the whole of the free world. We applaud the notable progress which is being achieved in reducing the U.S. inflation rate. We shall continue to express our support publicly for U.S. policy on this.

2. We support your methods as well as your objectives. We approve whole-heartedly your determination to maintain

- ① tight control of the growth of the money supply; to cut public
- ② expenditure; and to reduce progressively the federal budget
- ③ deficit.

3. We wish you success in your efforts in Congress to secure agreement on federal budgets showing a declining rate of deficits over the next 3 fiscal years. We very much sympathise with your wish to achieve this to the largest extent possible through public expenditure reductions, and with the smallest possible public sector. But we cannot try to tell you what is or is not possible in these matters.

4. What we do feel is that it is urgent to settle the question of the deficits as soon as possible. We believe that a settlement on the kind of declining path you have been seeking would

reassure markets and opinion generally, and would help reduce interest rates. We know that you, like we, want lower interest rates. At this stage in our counter inflation policies we can be powerfully helped by a belief that inflation is coming down for good, and greatly hindered by continued doubts about whether our achievements will endure. And we want people to believe that declining deficits will free resources within the monetary targets for an expansion of the private sector, which has always shown so much vigour in the United States.

5. We don't suggest that reducing the deficits will end all the problems. Nor do we suggest that that would remove all the interest rate problems of other countries, which may be attributable to their own national policies. We all have our own responsibilities. We do believe it would help however and would improve the chance of a lasting victory over inflation both in the United States and elsewhere.