

THE GOVERNOR

Copies to The Deputy Governor o/r
Mr Loehnis o/r
Mr George
Mr Fforde
Mr Dow
Mr Coleby
Mr Flemming
Mr Goodhart

628/7

JULY

1 I refer to JSff's note of 5 July and commit the following comment to paper now because I will not be able to attend your financial forecasts meeting later today.

2 My comment relates solely to JSff's examination of the option of some form of concerted cut in non-American interest rates, accepting a depreciation in terms of the US dollar but, hopefully, avoiding change in terms of other currencies. JSff suggests, however (in paragraph 8), that such action may be difficult to contemplate now ("it is already July", events are in charge, it would be seen as ganging up against the Americans, late 1981 would have been the better time ...). I do not at all share this doubt. I believe that a powerful case can be made for an early concerted interest rate "initiative". I qualify the term "initiative" because I do not have in mind a sharply-defined black and white concept but the value of at least starting discussion to try to create an atmosphere of mutual understanding among your EEC colleagues that is receptive to the idea, albeit not necessarily producing specific commitment to action in the very early future. I do not believe that, if this led eventually to a series of more or less concerted moves, this would be regarded as hostile by the Fed. Indeed, I could imagine that Volcker would himself welcome it, and it would obviously be important to keep him abreast of what was being discussed.

3 My main resistance, however, is to events, and I think we should be most reluctant to concede that they are totally in charge and that there is nothing that we can do. More or less concerted action on

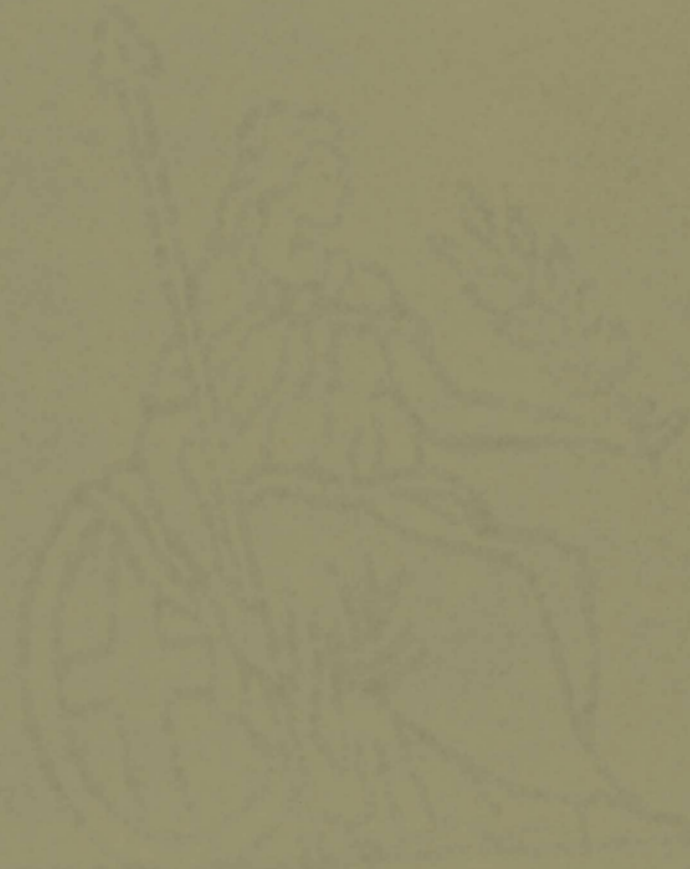
interest rates would in itself be only a modest step in relation to the scale of the problems that JSFf describes, but it would I believe have a "group psychological plus" in Europe out of all proportion to the direct impact on debt servicing costs.

4 All this obviously has relevance for your forthcoming Basle discussions.

Drafted but not seen by
D A Walker

8 July 1982

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