PRIME MINISTER

MEETING WITH MR. VOLCKER

It is probably logical to start with the US economy and its implications for the deficit and the dollar, then go on to the deficit and what can be done about it, and finally to the banking system. Attached is a note by Alan Walters and a summary of the prospects for the US deficit.

US Economy, the Dollar and Interest Rates

- What lies behind the present slow-down? What does Mr. Volcker expect growth to be next year? (He will say zero at worst and 3% at best).

- What impact is the high dollar having on US industry?

- Is high growth financed by savings from abroad sustainable?

- Can a soft landing for the dollar be achieved or will it plummet, requiring high interest rates to break its fall? (Mr. Volcker hopes that if moderate falls in interest rates and the deficit are achieved, Germany and Japan will adopt more expansionary policies).

US Deficit

- If growth slows down, what will be the impact on the deficit?

- Is the President concerned about the deficit or only about public expenditure? (He is likely to say the latter and that the President will resist tax increases strongly, preferring to seek public expenditure cuts in the first instance).

- What does he think is the best way to approach the President on the deficit? Should you argue directly for tax increases, make the point obliquely by reference to UK policy where deficit reduction required action on both sides, or should you leave the President to tackle the deficit in his own way?

Banking System

- Is Mr. Volcker concerned about the domestic portfolios of US banks if activity slows or oil prices fall?

- Is he confident about the ability of the US authorities to handle any difficulties?

- What lessons can be learnt from the Continental Illinois case?

International Debt

- Is there any alternative to the present case by case approach?

- How does he view progress on the debt packages initiated with Brazil, Mexico and Argentina?

- Are the IMF programmes associated with them being acted upon?

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