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10/4/74

OFFICE OF THE PRESIDENT
WASHINGTON, D.C.

From the President:

To: Bill Simon

Date: 10/3/74 Time _____ a.m.
p.m.

Interesting & helpful.
Thanks.
GRF

THE PRESIDENT HAS SEEN. *d.*



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

October 2, 1974

MEMORANDUM FOR THE PRESIDENT

Recycling

A major subject of discussion during the meetings of the finance ministers in Washington this week is whether some new initiative needs to be taken in the near future to set up a multi-lateral governmental mechanism to channel a portion of the investments now being accumulated by the OPEC oil producers in other parts of the world.

This discussion generally is referred to under the heading of recycling, a term which has no agreed definition but which seems often to be used in two different senses.

In one sense recycling refers simply to the process by which the oil producers' investible funds are moved into final investments either directly or through the intermediary of banks and institutions often located in a different country from the final destination of the investments.

On other occasions the term seems to be used in a narrower sense referring to a process by which governments of stronger industrialized countries might intervene to insure that the funds are lent to selected countries on terms less onerous than those on which the funds would otherwise be available, if at all, to those borrowing countries.

In this latter sense recycling could be undertaken by the U.S. Government either

- directly, by borrowing oil funds either on the market or directly from an oil producer and then re-lending the funds on favorable terms to another country, such for example as Italy, or

- indirectly, by placing some form of U.S. repayment guarantee on borrowings by a foreign country of oil funds lent either directly or through an intermediary such as the International Monetary Fund.

The subject of recycling has been given such prominence partly because of expectations, expressed often in Europe but apparently never in the oil producing countries, that a very large proportion of the Arab investments would begin to pile up in the United States. These expectations are based in part on the fact that some countries, notably Italy, may be near the end of their ability to borrow additional funds at usual rates. A number of banks, particularly smaller ones, probably have also reached the end of their ability to borrow additional funds unless their capital is increased. On the other hand, in fact, the U.S. received only a quarter of the Arab investments during the first eight months, and, so far as we can judge, an even smaller percentage in September. On a net basis, including transactions with all countries, the U.S. has probably borrowed an amount equal to about only one-fifteenth of the oil producer accumulations so far this year. It is also true that in the case of Italy its large borrowings this year have been related less to the increase in its payment deficit as a result of the changes in oil prices than to the larger portion of its current account deficit resulting from the past overly expansive oil policies.

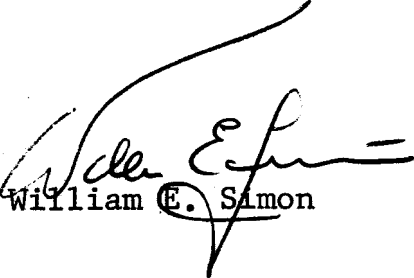
Under the circumstances the British Chancellor of the Exchequer Dennis Healey is strongly advocating in public a giant new official financing facility in the International Monetary Fund. This facility would be effectively guaranteed by the uncalled capital of the major industrialized countries and would be designed primarily to lend to industrialized countries such as Italy and the UK. Although Healey would suggest starting at a smaller number, he has mentioned \$30 billion as possibly the appropriate size for the facility.

In my speech and conversations with the other ministers I am taking the position

- that there are various alternatives which should be carefully studied,
- that there is not an immediate crisis need for a new facility because the many other available channels seem to be carrying the load well at the moment,

-- but that the U.S. stands ready to cooperate with other nations if a clear need for some new departure emerges.

In private conversations I am also pointing out the desirability of considering methods by which the major industrialized countries can appear to be cooperating in a broader context to help themselves rather than appear to be supplicants for oil producer largesse.



William E. Simon

THE WHITE HOUSE

WASHINGTON

October 4, 1974

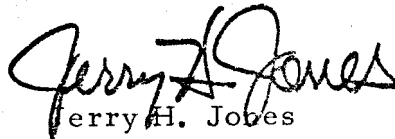
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MEMORANDUM FOR THE HONORABLE WILLIAM E. SIMON

SUBJECT: Recycling

Your memorandum to the President of October 2 on the above subject has been reviewed and the following notation was made:

-- Interesting and helpful.
Thanks.



Jerry H. Jones
Special Assistant
to the President

cc: Don Rumsfeld