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1. memo of conversation	Helmut Schmidt, David Rockefeller, et al, June 25, 1974, by Ridgway Knight (7 pp.)	6/26/74	C(A)

FILE LOCATION

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Rockefeller, David

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January 14, 1977

Dear David:

Thank you for your gracious letter. I greatly appreciate your encouragement and support.

With best personal regards,

Sincerely yours,

Arthur F. Burns

Mr. David Rockefeller
Chairman of the Board
The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Norm

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

David Rockefeller
Chairman of the Board

CHASE

January 6, 1977

The Honorable Arthur F. Burns
Chairman
Federal Reserve Board
Washington, D. C. 20551

Dear Arthur:

Thank you so much for your thoughtful letter refering to my service as a director of the Federal Reserve Bank of New York.

I was flattered to have been invited to serve and feel that the four years I spent with the New York Bank gave me some valuable insights into the workings of the Federal Reserve System. In many ways, these have been difficult years for banking but, in a sense, perhaps it was all the more interesting to have been involved with the System at such a time.

Your own role as Chairman of the Federal Reserve Board has been a very vital one for our country during the past several years. Your knowledge, your judgment, your dedication and your unswerving adherence to the principles in which you believe have been a sourse of inspiration to your fellow Americans and I hope you will continue in this crucial role for many years to come for surely the country needs you.

With all good wishes,

Sincerely,

David

February 13, 1976

Mr. David Rockefeller
Chairman of the Board
The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Dear David:

Your letter of January 30, 1976 expressed concern about recent newspaper articles that have set forth, without authorization, sensitive and confidential information relating to identified banks and bank holding companies.

I very much share your concern over such occurrences. Immediately after the first such publication, the Board requested of the United States Department of Justice a prompt investigation of the unauthorized disclosure of information. Simultaneously, internal measures were instituted to make more secure our procedures for the preparation and dissemination of documents. Regarding the published references to your bank, you have expressed surprise that information regarding your bank's condition existed which "had never been communicated either to our management or to our Board," and you have urged that any such information should be reviewed with your management and also made available to your bank's board of directors.

Inasmuch as your bank is examined by the Office of the Comptroller of the Currency, I have no knowledge of the extent to which examination results may have been discussed by the Comptroller's representatives directly with your bank's board of directors. My information is that in May of 1975 the Comptroller's Office did discuss with your bank's Management Committee several aspects of the bank's operating and management policies.

Insofar as the Board's communication with your bank's representatives is concerned, I am satisfied that precisely the type of operational and management review called for in your letter has been undertaken by Board representatives with senior management of your bank and, I would expect, conveyed fully and directly by management to the bank's board of directors. For example, I am advised that Mr. Brenton C. Leavitt, Director of the Board's Division of Banking Supervision and Regulation, met on November 29, 1974 with President Butcher to discuss operating difficulties existing in your bank. Again, on March 27, 1975 President Butcher, Executive Vice President Hooper and your bank's Attorney, Mr. Haberkern, met with Mr. Leavitt and other senior Board officials to discuss the report of examination of your bank as of July 1974. This report of examination was summarized for the Board by Mr. Leavitt in a memorandum of March 5, 1975, and later, without authority and by a person or persons as yet unknown, it was disclosed to and reprinted in the Washington Post. According to my information, the aforementioned meetings on November 29, 1974 and March 27, 1975 involved a very frank discussion of operational and managerial problems with your bank's senior management.

I am satisfied that the form and extent of disclosures made by Board representatives to your bank's senior management were reasonably calculated to apprise your bank of significant problems found to exist and of corrective action appropriate in the light of relevant Board operating standards and your bank's future plans.

I appreciate your action in bringing this matter to my attention and trust that my response, which I know you will bring to the attention of your board of directors, affords the assurance to which you and your board are entitled of the Board's continuing effort to promote and maintain a sound banking system.

Sincerely yours,

Arthur F. Burns

TJO
TJO'C:ls
#157

FILE COPY

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

David Rockefeller
Chairman of the Board

BOARD OF GOVERNORS
1976 FEB -2 PM 2:36
RECEIVED
OFFICE OF THE CHAIRMAN

CHASE

January 30, 1976

#157

Dr. Arthur F. Burns
Chairman, Board of Governors
Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Arthur:

At the regular meeting of the Chase Board of Directors last week, great concern was expressed with regard to the number of articles about the banking system which have recently appeared in newspapers across the country and throughout the world. It seems quite clear that the publication of such sensitive and confidential information, without authorization, seriously out of date, and significantly out of context, could seriously damage a system whose strength is predicated on public confidence.

However, it is very reassuring to know that you are making every effort to ascertain the source of this unauthorized information leakage, in order to preclude further occurrences.

We are particularly disturbed about the publication of two internal Federal Reserve Board memoranda which comment negatively on "Chase's management." As you know, Arthur, we regularly apprise our Board of Directors, on an in-depth basis, as to the condition of the bank, to include keeping the director's fully abreast of all examination reports, both internal and external.

We are surprised, therefore, to learn that documents supplemental to the examination's do in fact exist, which information had never been communicated either to our management or to our Board.

To the extent that a formal evaluation of the Bank's management by the Federal Reserve Board does exist, we believe that it should be strongly reviewed with our management and available also to our Board. Without such a review, neither management nor the Board can be expected to take such corrective action as might be called for in light of the criticism.

Sincerely,

David

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1976 JAN -9 PM 1:49

RECEIVED OFFICE OF THE CHAIRMAN

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

David Rockefeller
Chairman of the Board

CHASE

January 8, 1976

#30

Dr. Arthur F. Burns
Governor, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue
Washington, D. C.

Dear Arthur:

I am glad I was able to talk with you on Monday before you left for Jamaica to tell you briefly about our plans for the Teheran Financial Conference, and I would like to take this opportunity to give you more of the details.

At the request of the U. S. Iran Joint Commission, the U. S. Iran Business Council is arranging the conference. I am delighted to be serving as chairman of the U. S. delegation.

As I mentioned, the Financial Conference will begin on Tuesday, March 2 and will run through lunch on Wednesday, March 3. The theme of the conference will be the development of Iran's money and capital markets and the role that financial institutions, both domestic and foreign, should play to complement Iran's broad economic goals. The conference will be preceded on Monday, March 1, by the initial meeting of the U.S. Iran Business Council which you are also cordially invited to attend.

The conference will be organized around several plenary sessions at which major addresses will be given. These plenary sessions will be followed by working meetings at which smaller groups will discuss specific topics. It is our hope that you will agree to be a key participant on behalf of the U.S. delegation, with the thought that you might discuss the general subject of the role of domestic money and capital markets in a developing economy. We hope to have final agreement on the conference format within two weeks.

Our Economic Research people have already done a considerable amount of research on the subject matter for the conference. I enclose a study entitled, "A Capital Market Study of Iran," which you might be interested to see, if you so desired.

Book in GFB closet

Called - "No"
1/29/76
am

I realize that this is short notice given your busy schedule, but I think you would be ideal for a conference on this subject, and I am very hopeful that you will be able to participate and that Helen will be able to accompany you. If you could spare a couple of days before or after the conference, I know you would enjoy a visit to Isphahan and Persepolis.

I look forward to hearing your reply.

With best personal regards,

Sincerely,

David

P.S. I enclose a list of the U.S. participants who have been invited. We expect a very good attendance,

D.R.

U.S. SECTION
IRAN - U.S. BUSINESS COUNCIL
SEPTEMBER 2, 1975
FINANCIAL CONFERENCE
COMMITTEE MEMBERS

Mr. David Rockefeller
Chairman of the Board
The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Mr. Robert Abboud
Chairman of the Board
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Mr. Roger E. Anderson
Chairman of the Board
Continental Illinois National Bank and Trust Company of Chicago
231 So. La Salle St.
Chicago, Illinois 60693

Mr. Harvey Kapnick
Chairman of the Board
Arthur Andersen & Company
69 West Washington Street
Chicago, Illinois 60602

Mr. Donald C. Platten
Chairman of the Board
Chemical Bank
20 Pine Street
New York, New York 10015

Mr. Walter B. Wriston
Chairman of the Board
First National City Bank
399 Park Avenue
New York, New York 10022

TEHRAN FINANCIAL CONFERENCE
POSSIBLE U.S. PARTICIPANTS

Mr. A.W. Clausen
President
Bank of America
Bank of America Center
San Francisco, California 94137

Mr. Frederick G. Larkin, Jr.
Chairman
Security Pacific Corporation
333 South Hope Street
Los Angeles, California 90017

Mr. Richard D. Hill
Chairman
The First National Bank of Boston
100 Federal Street
Boston, Massachusetts 02100

Mr. B.F. Love
Chairman
Texas Commerce Bank, N.A.
P.O. Box 2558
Houston, Texas 77001

Mr. Thomas I. Storrs
Chairman of the Executive Committee
North Carolina National Bank
One NCNB Plaza
Charlotte, North Carolina 28255

Mr. Paul Hallingby, Jr.
President
White Weld & Co. Inc.
1 Liberty Plaza
New York, New York 10006

Mr. Donald T. Reagan
Chairman
Merrill Lynch & Co., Inc.
One Liberty Plaza
165 Broadway
New York, New York 10006

Mr. George L. Shinn
Chairman
The First Boston Corporation
20 Exchange Place
New York, New York 10005

Mr. Peter G. Peterson
Chairman
Lehman Brothers Incorporated
1 William Street
New York, New York 10004

Mr. Richard R. Shinn
President
Metropolitan Life Insurance Company
One Madison Avenue
New York, New York 10010

Mr. D.S. MacNaughton
Chairman
The Prudential Insurance Company
of America
Prudential Plaza
Newark, New Jersey 07101

Mr. M.R. Greenberg
President
American International Group, Inc.
102 Maiden Lane
New York, New York 10005

The Honorable Arthur S. Burns
Chairman of the Board of Governors
Federal Reserve System
Washington, D.C. 20551

Mr. Roderick M. Hills
Chairman
Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20549

Mr. Oakley Hunter
President
Federal National Mortgage Association
1133 Fifteenth Street
Washington, D.C. 20005

The Honorable James J. Needham
Chairman
The New York Stock Exchange
11 Wall Street
New York, New York 10005

Mr. Anthony M. Frank
Chairman
Citizens Savings & Loan Association
of California
9800 South Sepulveda Boulevard
Los Angeles, California 90045

Mr. M.D. Crawford, Jr.
Chairman of the Board
Bowery Savings Bank
110 East 42nd Street
New York, New York 10017

Mr. James B. Mayer
Chairman, Valley National Bank of Arizona
Valley Bank Center
241 No. Central Avenue
Phoenix, Arizona

Mr. Gerald L. Parsky
Assistant Secretary
Trade, Energy and Financial Resources
Policy Coordination
Department of Treasury
Fifteenth Street & Pennsylvania Avenue
Washington, D.C. 20220

Mr. Nathaniel Samuels
Chairman
A.G. International
1 State Street Plaza
New York, New York 10004

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

David Rockefeller
Chairman of the Board

CHASE

December 26, 1975

Honorable Arthur F. Burns
Chairman
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue
Washington, D. C.

Dear Arthur:

Thank you very much for your letter on behalf of the Board of Governors extending holiday greetings. It has been a privilege for me to have served on the Board of the Federal Reserve Bank of New York,and I have appreciated the insights which this position have given me into government policy. This has been a trying year for all of us, but perhaps some of the painful adjustments which we have had to make will put us in a stronger position to deal with the problems and opportunities which lie ahead.

Peggy joins me in sending Helen and yourself our warm wishes for your happiness and well-being in 1976.

Sincerely,

David

January 24, 1975

Mr. David Rockefeller, Chairman
Chase Manhattan Bank, N. A.
One Chase Manhattan Plaza
New York, New York 10015

Dear David:

In response to requests received from Congressmen, bankers and others, the enclosed questionnaire has been developed to enable the Board to make periodic reports to Congress assessing the correspondence between banking practices and the Federal Advisory Council statement on bank lending policies issued in mid-September 1974.

Would you please have an appropriate senior official complete the enclosed questionnaire — answering the lending practices questions and supplying the statistical data requested in the memorandum items — and return it by February 10, 1975 to:

Ms. Eleanor M. Pruitt
Banking Section
Division of Research and Statistics
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

We plan to repeat this survey of large banks on a quarterly basis, so long as the questionnaire appears relevant in light of underlying economic and financial conditions. I believe it is important for the banking community to be responsive to public demands for information on its lending priorities, and I will value your cooperation and assistance in making such information available.

Sincerely yours,

Arthur F. Burns

Enclosure
NB:vpj IDENTICAL LETTER SENT TO ATTACHED LIST
Cassette
1/22/75

FR 977
OMB No. 55R0260
Approval Expires January 1976

QUARTERLY SURVEY OF BANK RESPONSE TO FAC STATEMENT ON LENDING POLICIES

December 1974

On September 16, 1974, the Board of Governors of the Federal Reserve System mailed to each member bank a statement on bank lending policies developed by the Federal Advisory Council (FAC) suggesting how banks could effectively adapt lending policies in a period of credit restraint. The enclosed survey was developed for the purpose of ascertaining current bank response to the FAC statement, a copy of which is attached.

The questionnaire should be completed by a senior officer familiar with the bank's lending practices in the areas covered. Please return one copy of the completed report by February 10, 1975 to:

Banking Section
Federal Reserve Board
Washington, D.C. 20551

A. General questions.

1. Has your bank transmitted to its loan officers the contents of the FAC statement on commercial bank lending policies?

   Yes ☐ No ☐

2. Has your bank issued specific guidelines to its loan officers to implement the loan policies in the FAC statement?

   Yes ☐ No ☐

3. It is recognized that over-all credit conditions and the position of individual banks change. Either because of changes in credit demands, changes in fund availability, or changes in the over-all economic situation, how would you evaluate the urgency of credit allocation at your bank as compared with the situation prevailing in mid-September 1974, when the FAC statement was published (check one)—

   Significantly greater ☐
   Essentially unchanged ☐
   Significantly less ☐

B. Questions relating to the specific loan policies outlined in the FAC statement. Please check the appropriate box in both parts "a" and "b" for each question.

1. With respect to *loans to meet basic credit needs for normal operations of established domestic business customers* —

   a. Was the number of applications or requests for such loans or loan commitments received during December, as compared with the usual experience for the same month in recent years—

      Significantly larger ☐

      Essentially unchanged ☐

      Significantly smaller ☐

   b. In processing applications for loans of the types covered in "a" above, was the proportion approved in December

      Significantly larger than usual ☐

      Essentially unchanged ☐

      Significantly smaller than usual ☐

2. With respect to *loans to domestic customers to finance capital investment where access to capital markets is not available and where the investment is reasonable in size and necessary to maintain or improve productivity, or to increase capacity to meet existing or clearly anticipated demand* —

   a. Was the number of applications or requests for such loans or loan commitments received during December, as compared with the usual experience for the same month in recent years

      Significantly larger ☐

      Essentially unchanged ☐

      Significantly smaller ☐

   b. In processing applications for loans of the types covered in "a" above, was the proportion approved in December

      Significantly larger than usual ☐

      Essentially unchanged ☐

      Significantly smaller than usual ☐

3. With respect to *loans to basically sound, established domestic businesses suffering temporary lack of liquidity because of present conditions*—

   a. Was the number of applications or requests for such loans or loan commitments received during December, as compared with the usual experience for this period in recent years

      Significantly larger ☐ Significantly smaller ☐

      Essentially unchanged ☐ None received ☐

   b. In processing applications for loans of the types covered in "a" above, was the proportion approved in December

      Significantly larger than usual ☐ Significantly smaller than usual ☐

      Essentially unchanged ☐ None approved ☐

4. With respect to *loans to finance the home-building industry* (residential financing and mortgage loans)*—

   a. Was the number of applications or requests for such loans or loan commitments received during December as compared with the usual experience for the same month in recent years

      Significantly larger ☐

      Essentially unchanged ☐

      Significantly smaller ☐

---

* Please include in your answer, to the extent possible, the activities of your mortgage finance subsidiaries.

b. In processing applications for loans of the types covered in "a" above, was the proportion approved in December

- Significantly larger than usual ☐
- Essentially unchanged ☐
- Significantly smaller than usual ☐

5. With respect to *loans to individuals extended to meet their basic requirements for household needs and automobiles*—

a. Was the number of applications or requests for such loans or loan commitments received during December as compared with the usual experience for the same month in recent years

- Significantly larger ☐
- Essentially unchanged ☐
- Significantly smaller ☐

b. In processing applications for loans of the types covered in "a" above, was the proportion approved in December

- Significantly larger than usual ☐
- Essentially unchanged ☐
- Significantly smaller than usual ☐

6. With respect to *loans to domestic customers for purely financial activities, such as acquisitions or the purchase of a company's own shares*—

a. Was the number of applications or requests for such loans or loan commitments received during December as compared with the usual experience for the same month in recent years

Significantly larger ☐	Significantly smaller ☐
Essentially unchanged ☐	None received ☐

b. In processing applications for loans of the types covered in "a" above, was the proportion approved in December

Significantly larger than usual ☐	Significantly smaller than usual ☐
Essentially unchanged ☐	None approved ☐

7. With respect to *loans to domestic customers for speculative purposes, such as purchasing securities or commodities other than in the ordinary course of business, excessive inventory accumulation, or investing in land without well-defined plans for its useful development*—

a. Was the number of applications or requests for such loans or loan commitments received during December as compared with the usual experience for the same month in recent years

Significantly larger ☐	Significantly smaller ☐
Essentially unchanged ☐	None received ☐

b. In processing applications for loans of the types covered in "a" above, was the proportion approved in December

Significantly larger than usual ☐	Significantly smaller than usual ☐
Essentially unchanged ☐	None approved ☐

C. Memorandum Items. With respect to each of the items listed below, please report the dollar amounts outstanding (to the nearest thousand) for the dates specified. These items generally relate to specific loan categories in Schedule A of the Call Report or in the Weekly Report of Condition, and the footnotes identify the applicable line numbers in those Reports.

	AMOUNT OUTSTANDING (In thousands of dollars)	
	October 16, 1974	January 15, 1975
1. Commercial and industrial loans 1/		
a. Loans for residential construction included in above 2/		
b. Loans to foreign businesses included in above 3/		
2. Real estate loans secured primarily by residential properties 4/		
3. Loans to nonbank financial institutions 5/		
a. Finance companies 6/		
b. Other 7/		
4. Loans to individuals 8/		
5. Loans to foreign commercial banks, foreign governments and foreign official institutions 9/		
6. Foreign claims.		
a. Demand and time deposits due to foreign banks, foreign governments, and foreign official institutions 10/		
b. All other deposits 11/		
c. Gross liabilities to own foreign branches 12/		

1/ Weekly Report of Condition, item 2(h).

2/ For those banks that file the 416a (Commercial and Industrial Loans by Industry), all construction loans are reported separately as a line item in that report. For the purposes of memorandum item 1a in this survey, include *only* residential construction loans. If the data are not readily available, please estimate. For those banks that do not file the FR 416a, please make estimates of this item.

3/ For those banks that file the 416a, these loans are reported separately as a line item in that report. For those banks that do not file the 416a, please estimate.

4/ Call Report, Schedule A, items 1(b) and 1(c).

5/ Weekly Report of Condition, item 2(d).

6/ Weekly Report of Condition, item 2(d) (1).

7/ Weekly Report of Condition, item 2(d) (2).

8/ Call Report, Schedule A, item 6.

9/ Weekly Report of Condition, items 2(c) and 2(j) (1).

10/ Weekly Report of Condition, items 7(d), 7(g), 8(e), and 8(h).

11/ All other foreign demand and time deposits not included in Memorandum item 6a above. If data are not readily available, please estimate.

12/ Total dollar amounts due by all offices of the reporting bank in the states of the United States and the District of Columbia to the reporting bank's own branches located outside all of the following: the states of the U.S., the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, the Canal Zone, American Samoa, and Midway, Wake, or Guam Islands. Include in this total, sale of assets under repurchase agreements to own foreign branches. All liabilities should be reported gross, not offset by claims on foreign branches.

The space below is for any explanation or comment you wish to make regarding the information reported. Please indicate for each comment the number of the item to which it applies:

Name and address of bank

____

____

____

Signature ______________________ **Title** ______________________

FR 468 (Rev. 8/74)

BOARD OF GOVERNORS OF THE FEDER RESERVE SYSTEM

MEMO

Date 1/21/75 Time

To: Chairman Burns

From: Normand Bernard N.B.

Tel. No. Ext.

- [ ] Please call
- [ ] Returned your call
- [ ] Will call again
- [ ] See (phone) me re attached
- [ ] As per conversation
- [ ] For your information/approval
- [ ] Note and return
- [ ] For comments and suggestions
- [ ] Preparation of reply

MESSAGE:

Attached for your approval is a draft of the letter to be sent over your signature to some 150 banks. We will use your facsimile signature when you have approved the letter.

DRAFT

Dear

In response to requests received from Congressmen, bankers and others, the enclosed questionnaire has been developed to enable the Board to make periodic reports to Congress assessing the correspondence between banking practices and the Federal Advisory Council statement on bank lending policies issued in mid-September 1974.

Would you please have an appropriate senior official complete the enclosed questionnaire -- answering the lending practices questions and supplying the statistical data requested in the memorandum items -- and return it by February 10, 1975 to:

Ms. Eleanor M. Pruitt
Banking Section
Division of Research and Statistics
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

We plan to repeat this survey of large banks on a quarterly basis, so long as the questionnaire appears relevant in light of underlying economic and financial conditions. I believe it is important for the banking community to be responsive to public demands for information on its lending priorities, and I will value your co-operation and assistance in making such information available.

Sincerely yours,

Arthur F. Burns

OK,

Enclosure

THE CHASE MANHATTAN BANK
National Association

1 Chase Manhattan Plaza, New York, New York 10015

August 16, 1974

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1974 AUG 21 PM 3:02
RECEIVED
OFFICE OF THE CHAIRMAN

DAVID ROCKEFELLER *Chairman of the Board*

Honorable Arthur F. Burns
Chairman of the Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Chairman Burns:

Many thanks for your letter of August 5 addressed to Mr. David Rockefeller. Mr. Rockefeller is presently away on vacation, but your letter and attached material will be brought to his attention upon his return.

Sincerely,

Edna C. Bruderle

Edna C. Bruderle
Secretary

August 5, 1974

Dear David:

I am enclosing a brief memorandum from one of our staff on the question raised in your letter of July 12, concerning the investment policies pursued by the thrift institutions. As you will see, he attributes the bulk of the decline in mortgage lending to reduced deposit flows. Perhaps the thrift institutions have not done all they could to maintain mortgage lending, but it does appear that disintermediation has been the principal cause of their lessened mortgage activity.

With kind regards,

Sincerely yours,

(signed) Arthur F. Burns

Arthur F. Burns

Mr. David Rockefeller
Chairman of the Board
The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, New York 10015

Enclosure

SHA:AFB:srs
#1261

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 31, 1974

To Chairman Burns

From Stephen Axilrod

Subject: Mr. Rockefeller's letter on thrift institutions' investment in mortgages.

I would draw a somewhat different conclusion than does Mr. Rockefeller from the thrift institution statistics for the first five months of 1973 and 1974. The statistics, to me, appear to indicate that the decline in mortgage lending by these institutions has been mainly the result of reduced savings flows. There was some shift of investment preferences, but this was a minor factor affecting mortgages when compared with savings flows.

Our staff has provided the attached tables reflecting asset changes at savings and loan associations and mutual savings banks during the relevant periods as compared with savings flows. Some of the data differ from numbers prepared by Mr. Rockefeller's staff since various adjustments necessary to maintain series comparability were not taken into account in their tables. Our tables also show the percentage distribution of assets by category in May 1973 and May 1974.

The following main points emerge from the tables:

(1) The dollar increase in mortgage holdings at both types of thrift institutions was substantially lower in the first five months of 1974 than in the comparable period of 1973. This reduced pace of mortgage investment closely parallels the drop in their savings flows, however. For mutuals, net savings inflows during the first five months of this year had dropped to 52 per cent of their increase in the

comparable 1973 period, while net mortgage acquisitions this year were 54 per cent of last year's pace. For S&L's, net savings inflows were 73 per cent of last year's increase, and mortgages were 70 per cent.

(2) Measures of S&L funds going into housing should also take account of the instruments in the category "other assets." These include GNMA-guaranteed mortgage-backed securities, mobile home loans, and home improvement loans. Traditionally, in periods of mortgage credit stringency, some borrowers opt for improvement of their existing houses instead of new home purchases.

(3) It is true that in the first five months of this year, thrift institutions have maintained their liquidity relatively well or, in the case of mutual savings banks, increased acquisition of corporate bonds. The institutions have, of course, been influenced by relative yields and also by precautionary motives (the desire to remain liquid in order to have a cushion in case of even greater deposit outflows). With respect to relative yields, it should be noted that the 8½ per cent mortgage money ceiling in New York state pushes many of the mutuals in that state into the corporate bond market, given the recent high corporate bond yields.

(4) Despite some evidence of shifting investment preferences in recent months the proportion of mutual savings banks' assets in mortgage loans was still slightly higher in May 1974 (68 per cent) than it had been in May 1973 (67 per cent). The results were similar for S&L's. Mortgages and "other assets" combined accounted for 92 per cent

of S&L assets in May 1974, and 91 per cent in May 1973 (for mortgages alone the ratios were about 84 per cent in both periods).

Attachments

Table 1

Insured Savings and Loan Associations
Net Asset Changes During First Five Months of the Year
and Relative Share of Total Assets at the end of May

	1973		1974		MEMO:
	$ Change (millions)	Outstanding May 30 as a % of Total Assets	$ Change (millions)	Outstanding May 30 as a % of Total Assets	1974 Δ / 1973 Δ
Mortgages - Total	13,380 1/	84.2	9,379 2/	84.4	70.1%
FHA & VA	884	11.6	114	10.6	
Conventional	12,495 1/	72.6	9,264 2/	73.8	
Cash & Other Liquid Assets	1,896	8.2	1,723	7.2	
Other Investment Securities	63 1/	0.9	888	1.0	
Other Assets	2,131 1/	6.7	2,262	7.4	
MEMO: Savings Flow	11,261		8,269		73.4%

1/ Adjusted to reflect changes in reporting. Beginning January 1973, participation certificates guaranteed by the FHLMC and certain other mortgage-type loans, previously reported as conventional mortgages are included in other assets. The effect of this change was to reduce mortgage balances in December; this and other reporting changes affected balances in other investment securities and other assets.

2/ In accordance with our policy of adjusting for inclusion or exclusion of associations holding $50 million or more in savings or mortgages the change in total mortgages was adjusted to reflect addition of 4 newly insured S&Ls holding $179 in mortgages, all of which (for lack of detailed data) were assumed to be conventional mortgages.

Table 2

Mutual Savings Banks
Net Asset Changes During First Five Months of the Year
and Relative Share of Total Assets at the end of May

	1973		1974		MEMO:
	$ Change1/ (millions)	Outstanding May 30 as a % of Total Assets	$ Change1/ (millions)	Outstanding May 30 as a % of Total Assets	1974Δ / 1973Δ
Cash	-15	1.6	-298	1.5	
U.S. Govt. Securities	-132	3.2	-185	2.5	
State and Local Securities	202	1.0	-7	0.8	
Mortgage Loans	2,425	66.7	1,314	68.3	54.2%
Other Loans	1,120	3.9	591	4.1	
Total Corporate & Other Securities	708	21.6	1,006	20.5	
Corporate and other bonds	109	13.6	739	12.9	
Corporate stock	283	3.7	225	3.8	
Federal agency securities	45	2.7	-97	2.0	
GNMA mortgage-backed securities	272	1.6	145	1.8	
MEMO: Savings Flows	3,041		1,583		52.1%

1/ These dollar figures reflect actual changes in each category, adjusted for conversions of institutions. This is particularly relevant in 1974 when several large MSBs holding over $500 in mortgage loans converted to or merged with commercial banks.

THE CHASE MANHATTAN BANK
National Association

1 Chase Manhattan Plaza, New York, New York 10015

July 12, 1974

DAVID ROCKEFELLER *Chairman of the Board*

#1261

Dr. Arthur F. Burns, Chairman
Board of Governors
Federal Reserve System
20th Street & Constitution Avenue
Washington, D. C.

Dear Arthur:

Our Economic Research Department has put together some figures on the growth and change in composition of assets of savings and loan associations and savings banks during the first five months of 1974 compared with the similar period for 1973. I thought you might be interested to see this memorandum since it suggests that the decline in real estate and mortgage loans was due as much, if not more, to a shift of assets from mortgage loans to other more profitable investments than it was to a decline in savings.

I felt this information would be of interest in view of our conversation in Washington Monday evening.

Sincerely,

David

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1974 JUL 17 PM 12: 59
RECEIVED
OFFICE OF THE CHAIRMAN

July 12, 1974

To: Messrs. David Rockefeller, Chairman
Willard C. Butcher, President

Net Increase in Assets of Savings & Loans and Savings Banks, First 5 Months of 1974 vs. 1973.

Both savings and loans and savings banks have had smaller increases in assets this year than last. At the same time, there has been some shift away from mortgages in favor of other assets. This has been particularly the case with savings banks, which have greater leeway in this respect.

The attached tables present details on the increase in assets. Figures in the tables, and also below, refer to changes in the first 5 months of 1974 vs. the first 5 months in 1973. They show the following:

a) Total assets of S&Ls increased $14.4 billion in the 1974 period vs. $17.5 billion in 1973. The major reason for the slower growth was a smaller gain in savings -- particularly since March. It is interesting to note that the net increase in other sources of funds for S&Ls has been as great this year as last, and amounts to 42% of the total for the 1974 period.

b) The slowdown in S&L asset accumulation occurred chiefly in mortgages -- down 25% from 1973. Investment in securities -- short-run and other -- actually rose to $2.6 billion in 1974 from $2.4 billion in 1973.

c) Assets of mutual savings banks rose $1.7 billion in 1974 (about 1.6%) vs. $4.3 billion in 1973. The decline again was the result largely of a reduction in savings flows. The inflow of non-deposit sources of funds has held up well, but only represents 10% of the total.

d) The major slowdown in savings bank asset accumulation has been in mortgages -- with the absolute increase of $754 million in 1974 only 30% as large as in 1973. In contrast, mutual savings banks have expanded their holdings of corporate securities by $1.0 billion this year compared with $709 million in 1973. Thus, the increase in corporates has been greater than the increase in mortgages.

Economics Group

NET INCREASE IN ASSETS OF SAVINGS & LOANS,
FIRST 5 MONTHS OF 1974 VS. 1973

	1st 5 months of 1973		1st 5 months of 1974	
	$ Change (millions)	% Change	$ Change (millions)	% Change
Mortgages				
FHA & VA	884	3.1	114	0.4
Conventional	11895	6.9	9443	4.8
Cash & Other Liquid Assets (1)	1896	10.0	1723	9.4
Other Investment Securities (2)	513	29.9	888	45.6
Other Assets (3)	2281	15.5	2262	12.3

(1) Includes U.S. Government Agencies under 5 years, State and Local Securities under 2 years, Time Deposits, and Bankers Acceptances

(2) Miscellaneous Securities that do not meet maturity or regulatory requirements of liquid assets

(3) Includes GNMA - guaranteed, mortgage-backed securities and FLHB stock.

NET SAVINGS GAIN, SAVINGS AND LOANS
($ millions)

	1973	1974
January	3188	2121
February	1848	1777
March	3594	4052
April	807	-200
May	1824	521
Total 5 Months	11261	8271

CHANGE IN ASSETS OF MUTUAL SAVINGS BANKS, FIRST 5 MONTHS OF 1974 VS. 1973

	1st 5 months of 1973		1st 5 months of 1974	
	$ Change (millions)	% Change	$ Change (millions)	% Change
Cash	-15	-0.9	-307	-15.6
U.S. Govt. Securities	-134	-3.8	-244	-8.1
State & Local "	203	23.3	-28	-3.0
Mortgage Loans	2425	3.6	754	1.0
Other Loans (1)	1120	35.6	537	13.9
Corporate & Other Securities	709	3.3	995	4.7

(1) Includes Fed Funds Sold, Open Market Paper, and other Non-mortgage Loans

NET SAVINGS GAIN, MUTUAL SAVINGS BANKS
($ millions)

	1973	1974
January	766	257
February	521	521
March	1103	1239
April	96	-441
May	525	6
June	909	650
Total 6 months	3920	2232

July 10, 1974

Mr. David Rockefeller
Chairman of the Board
The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10015

By wire dated July 9, 1974, I have requested Citicorp to postpone for two weeks a prospective issue of floating interest rate notes. The delay is designed to give the Congress and Government officials who are principally

2

concerned a further opportunity to study the economic and financial implications of the issue. Since Chase Manhattan Corp. has registered a similar issue, I want to extend my request to your firm even though I recognize that the Chase Manhattan Corp. offering may not be scheduled during the interval in question.

ARTHUR F. BURNS, CHAIRMAN
FEDERAL RESERVE BOARD

NB/RCH:slc

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

July 10, 1974

Dear David:

In view of the Board's actions yesterday with regard to Citicorp, the wire I have just sent you -- a copy of which is enclosed -- could have been no surprise to you.

It was good to see you this Monday.

With kind regards,

Sincerely yours,

Arthur F. Burns

Mr. David Rockefeller
Chairman of the Board
The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, New York 10015

Enclosure

June 28, 1974

Dear Mr. Rockefeller:

Before leaving town today, Dr. Burns asked me to thank you for your letter of June 22nd and for the copy of your talk in Williamsburg.

Hope this finds you completely recovered.

Sincerely yours,

Catherine C. Mallardi
Administrative Assistant
to the Chairman

Mr. David Rockefeller
Chairman of the Board
The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, N.Y. 10015

#1068 to Gov. Holland 6/28/74

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1974 JUN 27 PM 1:44

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OFFICE OF THE CHAIRMAN

THE CHASE MANHATTAN BANK
National Association

1 Chase Manhattan Plaza, New York, New York 10015

June 22, 1974

#1068

DAVID ROCKEFELLER *Chairman of the Board*

Chairman Arthur F. Burns
Federal Reserve Board
20th Street and Constitution Avenue
Washington, D. C.

Dear Arthur:

At various times when we have met you have asked whether I had any thoughts on possible candidates for the Federal Reserve Board. You mentioned this particularly in reference to Andy Brimmer's imminent departure. I have given this some thought, and enclose a list of men I think you might wish to consider. Bill Foulke of the Provident National Bank seems especially appealing to me. For one thing, he comes from Philadelphia which I believe is the City Andy Brimmer comes from also. In addition, he is a competent banker, and a very solid thinker and citizen. Naturally I have no idea if he would accept, but since he has only three years before retirement, I should think it possible that he might be interested.

I am leaving today for some meetings in Europe but will be back in a week and hope we can get together upon my return. There are many things I would like very much to discuss with you.

With best wishes,

Sincerely,

P. S. In case you did not see it, I enclose a copy of a speech I made at the Monetary Conference in Williamsburg on "Financial Aspects of the Energy Situation."

(Mr. Rockefeller was very sorry not to have had a chance to sign this letter personally before leaving on a business trip to Europe.)

June 13, 1974

POSSIBLE CANDIDATES FOR FEDERAL RESERVE BOARD

WILLIAM GREEN FOULKE — 62

Chairman and Chief Executive Officer, Provident National Corporation, Philadelphia (Provident National Bank). Princeton, AB 1934. With Provident National since 1940, first in Trust Department and later with broader responsibilities. President of Philadelphia Clearing House Association; Director of Provident Mutual Life Insurance Co., John P. McGuire & Co. and other corporations. Trustee or Director of Pennsylvania Hospital, University City Science Center, Charles E. Ellis School for Girls, Fairmount Park Art Association, etc. Past President of Pennsylvania Bankers Association.

DONALD G. ROBBINS, JR. — 59

Senior Vice President and Director, Singer Manufacturing Company. With Singer since 1938, including responsibilities as Chief Financial Officer. Trustee, Elmira College, International College (Lebanon). Active in Council on Foreign Relations, Conference Board and American Management Institute. Dartmouth, AB 1936; MIT, MS 1938.

GEORGE F. JAMES — 65

Recently retired. Former Dean of Business School, Columbia University, 1969-73. Senior Vice President of Finance for Mobil Oil, 1959-69. With Standard Vacuum Oil Company (Australia) 1957-58. Associate Professor and Assistant Dean, University of Chicago Law School, 1939-42. Director: Equitable Life, F. W. Woolworth, Edie Growth Fund. Trustee of Commission on Economic Development. University of Chicago, Ph.B 1930; JD 1932; Columbia, LLM 1934.

HARRY W. ALBRIGHT, JR. — 49

Lawyer. New York State Superintendent of Banks since 1972. Formerly Executive Assistant to the Governor of New York State. Earlier, partner in DeGraff, Foy, Conway & Holt-Harris. Member, Advisory Board of State Employees Retirement System; Associate Legislative Counsel, New York Medical Society; Associate Counsel, Civil Service Employees Association. Member or Director of New York State Urban Development Corporation, New York State Mortgage Agency, Community Facilities Project Guaranty Fund, etc. Yale, AB; Cornell, LLB 1952.

OREN ROOT 63

Lawyer. Partner, Root, Barrett, Cohen, Knapp & Smith. Former President and Director, Charter New York Corporation (1965-70); Superintendent of Banks, New York State (1961-64). Trustee, State University of New York, Fordham University, Vera Institute of Justice. Former President, National Association of Mental Health Inc. Princeton, AB 1933; University of Virginia, LLB 1936.

Remarks by David Rockefeller
Chairman of the Board
The Chase Manhattan Corporation
At International Monetary Conference
Williamsburg, Virginia, June 6, 1974

FINANCIAL ASPECTS OF THE ENERGY SITUATION

When this conference met a year ago, both international monetary reform and the long-range energy problem were discussed. At that time, however, little connection was made between the two.

Certainly none of us foresaw the huge rise in the price of oil which was to come in the final months of the year, or the disruptive impact it was to have on world financial relations. In retrospect, the relevance of Secretary Shultz's speech last year is clearer to most of us now than it was then.

These developments once again illustrate how our best laid plans can often be disrupted by unforeseen external developments -- what economists are fond of calling "exogenous variables" and others often call "good excuses!"

Well, what was exogenous yesterday is very much a fact of life today, and it is the subject our panel will discuss with you this afternoon.

For my part, I'll begin by laying out the broad dimensions of the problem, pointing to some of its implications for international financial and political relations, and suggesting what seem to be some promising approaches to solutions. My distinguished associates on the panel will then give us their various perspectives on the situation.

In the final quarter of last year the Organization of Petroleum Exporting Countries (OPEC) increased the price of oil fourfold -- a substantially more rapid increase in price than that of other critical commodities. Given these prices and present levels of production, this means they will receive more than $100 billion yearly for their oil exports. Of this $100 billion, the oil-producing nations will spend some $40 billion for goods and services -- leaving $60 billion or so as a surplus to be reinvested. This $60 billion surplus, incidentally, compares with a $4 billion surplus by the same countries in 1973.

Taking into consideration existing reserves, and interest and dividends on these massive funds, total reserves of the oil-producing nations are likely to exceed $70 billion by the end of 1974, $140 billion by 1975 and $200 billion by the end of 1976. These are staggering amounts -- and only over a three-year period.

The principal holders of these reserves will be in the Gulf Area, with Saudi Arabia, Iran and Kuwait accounting for about one half. Other important reserve holders will be Iraq, Libya and Venezuela. And, of course, Nigeria and Indonesia will also benefit.

These huge surpluses of necessity must be offset by corresponding deficits on the part of oil consumers. The balance of payments deficit of the <u>developed</u> countries is projected to increase by $40 billion. The key deficit nations, after adjusting for other balance of payments considerations, will be Italy, the United Kingdom, France, Japan and the Scandinavian countries. My own country will swing from a surplus in its current account, which it had struggled hard to attain, to a deficit once again this year.

The developing nations, for their part, will face a severe increase in their combined deficit of close to $20 billion a year. Countries such as India, Bangladesh and Sri Lanka will have particularly hard times.

All of this suggests a structural disequilibrium of major proportions in the balance of payments of countries around the world -- one that could have serious implications for the world economy and international financial mechanisms. Somehow,in some manner,the huge surpluses of the oil producers must be recycled back to the deficit oil consumers. As it is,higher prices are having damaging inflationary impacts on the domestic economies of oil consumers.On the other hand,if recycling does not occur, the oil consumers will be forced eventually to deflate their economies with severe consequences of another sort for the Free World.

In considering this recycling problem it is helpful to distinguish between the short run -- say the next year to eighteen months -- and the longer period. One must also distinguish between three groups of oil consumers: first, the industrial nations; second, developing nations which are in a fairly strong financial position; and third, those developing nations which are in a decidedly weak position.

We already have gained some experience in the short run. The first sizable payments were made by the oil companies to the producer nations in March, April and May, and thus far they have been recycled back successfully -- principally through the international banking system.

The oil-producing nations, for example, have been placing their money mainly in the Eurodollar market or in sterling. The banks have been the major recycling vehicles, taking this money on deposit, usually at call or on very short maturity, and relending it to oil-consuming nations for periods of five to seven years -- a process which obviously creates a very unbalanced and precarious maturity structure.

So far this year, $12 billion or more has been committed to industrial nations to help cover their 1974 balance of payments deficits. To a considerable extent, the borrowing is being carried out by governments or governmental entities, such as the British railways.

While this process can be successful for a limited period of time, there are at least four very serious shortcomings to it, especially in view of the astronomical amounts that loom ahead.

First, the banks cannot continue indefinitely to take very short-term money and lend it out for long periods of time. We hope that this problem will be alleviated to some extent by countries in the Middle East agreeing to place funds at longer maturity as they become more familiar with the recycling process.

Second, and even more serious than the question of maturities, is the likelihood that banks eventually will reach the limits of prudent credit exposure, especially with regard to countries where it is not clear how present balance of payments problems can be solved.

Third, the oil-producing countries cannot be expected to build up their bank deposits indefinitely. They, too, will soon reach prudent limits for individual banks or even for individual nations.

My own view is that the process of recycling through the banking system may already be close to the end for some countries, and in general it is doubtful this technique can bridge the gap for more than a year, or at most 18 months. Perhaps Mr. Guth will comment on this later.

Finally, this form of recycling is not even a temporary solution for lesser-developed countries in a weak financial position -- countries like India, Bangladesh and Sri Lanka which are not in a position to borrow at all in commercial markets. The World Bank estimates that an additional $2 billion will be needed in 1974 by financially weak lesser-developed countries for balance of payments purposes. This may not seem a huge sum in an absolute sense, but even this relatively small amount places tragic strains on the countries involved -- strains that can only be alleviated by new international governmental approaches and a firm sense of global commitment and cooperation. And these are strains that will accelerate dramatically in 1975 and beyond as already limited reserves are exhausted.

Compounding these very pressing shorter-range problems are a host of far thornier questions and obstacles down the road. Structural adjustments, of course, will gradually get underway between the economies of the oil producers and the consuming nations. Prices may be reduced somewhat, and the oil producers will step up their imports and increase the speed of their own internal development. Countries like Iran, Venezuela, Nigeria and Indonesia have a longer-run capacity to use most of their oil surplus for internal purposes. But these processes will take considerable time. In the interim, these countries will be large accumulators of reserves.

Moreover, countries such as Saudi Arabia, Kuwait and the United Arab Emirates clearly lack internal absorptive capacities in any way commensurate with the incomes they will receive. On the contrary, one of their major aims is eventually to accumulate a body of invested wealth outside their countries which will yield an income great enough to replace their oil revenue as it runs out. Naturally they are concerned about such matters as world inflation, exchange risks, and the possibility of expropriation of their assets.

We are fortunate in having Dr. Awad on our panel, and I am sure he will be able to tell us more about the uses to which the oil-producing countries in the Middle East expect to put their surplus funds for both internal and external purposes.

Looking at the situation realistically, I believe it is clear that both the private sector and governments must play a much more significant role in the long-term investment process.

Financial and industrial concerns from Europe, Japan and the United States already are proving of some assistance in speeding up internal development in the Middle East. My own bank, for example, is establishing a merchant bank in Saudi Arabia and a commercial bank in Iran (both jointly owned with local participants) as well as branches in Egypt, the United Arab Emirates and elsewhere. We plan to serve as one of the bridges between the Mid-East and the industrial world -- both for internal development and for external investment.

Yet ours can only be a small supporting role in a drama of massive proportions.

Though not yet large, long-term investments by Middle Eastern countries in the industrial nations are beginning to build up a modest scale in real estate, selected securities and some direct investments in industry. Hopefully, in the future they may be persuaded to participate more widely in such investments, as well as to assist in the financing of major international undertakings like the James Bay power project in Canada. Yet the sums requiring investment are so enormous, and the institutional facilities necessary to carry them out so limited, that I question whether such investments will have much impact on the gap for some time to come.

All of this clearly suggests that both the World Bank and the International Monetary Fund will increasingly be called upon to play key roles in the recycling process. The World Bank will need to concentrate on those lesser-developed countries that are in most serious need, while the Monetary Fund will probably have to deal with both developed and developing countries.

Ideally, funds for this purpose should come from the surpluses generated by the oil producers. Iran, for instance, has already offered to lend funds to the World Bank and IMF, and also to make some direct loans to India and others at concessionary rates to finance oil imports. Similarly, the recently announced willingness of the oil producers to establish a $2.75 billion "oil facility" to help countries with balance of payments problems is a positive move at least in the shorter term.

I fear, however, that this can only be seen as a modest first step when one considers the magnitude of the funds that must be redistributed. Solutions in many cases will demand more concessionary terms than those currently envisioned by the oil-producing nations. Moreover, both the World Bank and the IMF may have to adopt more flexible concepts of risk.

We must apply even more in terms of resources and imagination at all levels if we are to arrive at constructive long-range solutions. Critical additional steps are necessary on both the philosophical and administrative fronts to handle the massive needs involved. New techniques, strategies and mechanisms will have to be devised -- and devised quickly. Most importantly, a premium will have to be placed on international cooperation.

For some time, for example, the Committee of 20 in the IMF has been considering a new central reserve asset -- a revised SDR, which would represent a basket of currencies, and hence neutralize the exchange risk between major currencies. Perhaps this asset could play a role in future investment plans of the oil-producing nations, and, indeed, it is assumed that it will be part of the new IMF "oil facility."

It may additionally be possible to work out international guarantee arrangements with regard to expropriation. In this respect, we should remember that the oil producers have one important alternative to accumulating reserves and making investments abroad -- they could leave the oil in the ground. From the point of view of the consuming nations, this would create serious shortages, at least for some years to come.

It is also highly desirable that ways be found to channel surplus oil revenues into projects designed to create alternate sources of energy. This would not only help the world at large, but would also provide a source of continuing revenues for the oil-producing nations after their reserves have been exhausted. But it will have to be done in collaboration with the industrialized nations which have the necessary technology, and it is to be hoped that serious discussions along these lines will not be delayed.

Finally, it is imperative that the developed countries of the world join with the oil producers to assist the less-developed nations. Unless there is a far more concerted effort by all, including my own country, in this direction, I fear that the only result will be economic and political chaos. In this connection, it is imperative that Congress act favorably on the replenishment of the International Development Association as quickly as possible. It has perhaps never been so clear that the true self-interest of any nation depends ultimately on the welfare of others.

Underlying all of these requirements, however, is the fact that we must come up with a means of recycling funds on a far more massive scale than now possible. Some argue that we should simply wait for the forces of supply and demand to bring prices down and thereby create a new structural equilibrium. Others feel that inflation in the oil-consuming nations will help alleviate the problems.

While there is some validity to both of these positions, I believe we must also be aware of their limitations. First of all, inflation has little hope of answering the problem since the purchases of even the largest oil producers are so relatively small. Second, I fear that relying solely on supply and demand can have disastrous results for many of the developed nations -- leading to disruptive domestic unemployment and depression in these countries, and to a general sense of distrust in the world community. One cannot ask nations to call continually on their reserves when they can see no clear light in the future. This is like draining one's swimming pool in the midst of a drought. Moreover, if the position of the developed nations is eroded further, the developing nations can have little hope at all.

On the other hand, of course, some painful structural changes will be required, and it would be imprudent to ignore them. The challenge, it seems to me, is to achieve a delicate balance between necessary concessions to countries with problems and an orderly realization over time of the inevitable impact that the laws of supply and demand will have on shifting world resources.

Creating a mechanism to handle recycling of this scale and to determine acceptable concessions and risks is, of course, exceedingly difficult. Perhaps the mission of the IMF could be expanded in this direction, or perhaps it would be best to create a separate vehicle so as to avoid burdening the IMF with the dual responsibilities of policing monetary affairs and curbing unemployment.

Whatever the means, I believe it is imperative we develop swiftly a new way of looking at world financial needs -- a perspective that emphasizes global stability as well as individual national credit worthiness. If we are to progress significantly, we must have a vehicle that allows us time both to act realistically to correct structural disequilibriums and to avoid disharmony. And this vehicle must result from a conscious decision of both the oil-consuming and oil-producing nations. I would hope this question would be high on the agenda of the Committee of 20 when it meets later this month.

Needless to say, all of this may seem somewhat academic if either the price of oil or the demand for oil should suddenly decline. The outlook here is highly uncertain, though hardly cause for unbounded optimism. I'm sure Mr. Morris will be able to enlighten us on these issues.

Let me just say that there are some signs that the present high price is restricting demand for petroleum products in the consuming nations at least to a limited extent. Our bank estimates that world petroleum consumption this quarter will run slightly behind a year ago, whereas an increase normally would have been expected. Also, we believe that production has been expanded so that it is now running somewhat ahead of consumption. If this is the case, pressure could very well build up on prices, and it will be interesting to see how the OPEC countries react to the problems.

While oil prices may eventually come down somewhat, my own judgment is that plans and policies throughout the world should not be based on the assumption that the decline will be large enough to solve the recycling problem. Modest price reductions may give us more time, but they will not materially alter the basic situation. Indeed, I would guess that we would need a price reduction of some 40%-to-50% to produce anything close to a new structural equilibrium. Thus we have no choice but to face up to the recycling challenge and, in cooperation with the oil producers, to devise the institutional arrangements necessary to cope with it.

The successful creation of such mechanisms will be highly dependent on the political climate. Here, one conclusion is certain: the Middle East countries, by reason of a shift of wealth and resources, are entering a new period -- a period during which their political influence, as well as their economic weight, will loom larger on the world scene.

The strenuous efforts in which Henry Kissinger has been engaged provide testimony to that fact, as has the parade of cabinet members from other countries to the Middle East in recent months. At the same time, the new wealth in the Middle East is likely to strengthen the hands of moderate governments in that area and orient them more firmly toward the West.

If sustained, this trend toward moderation may well be a highly desirable and significant political dividend. It will also be essential in assuring the stability that must underlie an orderly approach to the redistribution of international capital.

The situation is still beset with uncertainties, both political and economic, and we are running out of time on many fronts. Given a clear realization of the interdependence of all the nations involved, however, I believe we can find ways to transform the problem of surplus capital in the hands of some nations into many positive opportunities for progress and development worldwide. But this will <u>not</u> happen by itself. It will demand the involvement and dedication of both the public and private sectors on a scale far exceeding that which exists now.

Above all, it must involve a degree of global teamwork which we have not seen up to this point. If the nations of the world approach the energy situation sincerely and resolutely, there is reason to hope that it can be used as a catalyst and a rallying point for a new era of international cooperation.

It is a sad fact that challenge is too often the most effective father of unity. In the past, the fear of communism has served to lend common purpose to the nations of the Free World, and the threat of nuclear holocaust has awakened all nations to the necessity of meaningful joint solutions. Now, as these threats diminish in the minds of many, some may well be tempted to place immediate, more selfish concerns ahead of global imperatives. It would be tragic if the energy situation becomes a force for futher devisiveness. Let us hope rather that it is a new spark to rekindle a mutual striving among nations that recognize the world's inevitable interdependence.

Mr. David Rockefeller
Chairman of the Board
The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, New York 10015

6/27/74

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