

MEMORANDUM OF CONVERSATION

June 26, 1947

SUMMARY OF THIRD MEETING OF UNDER
SECRETARY CLAYTON AND AMBASSADOR
WITH BRITISH CABINET MEMBERS.

Sir Stafford Cripps was not present at this meeting but Sir John Henry Wood and James Helmore represented the Board of Trade; Sir Edward Bridges and Sir Wilfrid Eady and Mr. R. W. B. Clarke were present for the Treasury; Sir Orme Sargent and Sir Edmund Hall-Patch represented the Foreign Office. As in previous meetings, Mr. Peterson and Mr. Gunter attended for the Embassy.

Participants at the meeting had copies of the revised "aide memoire" for the Foreign Secretary.

1/ Mr. Bevin thought the memorandum set forth accurately the views expressed and received at previous meetings. He could not tell what line would be taken at Paris or what the outcome would be but for his guidance he thought he could use the memorandum with reasonable safety as an approach in the Paris discussions. While he knew the memorandum was without commitment he sought assurance that it represented the U.S. Administration's approach to the European economic problem.

Mr. Clayton thought this was so. The memorandum contained some things which had not been discussed in Washington, for example the outline of the difference between the emergency phase and the long-term phase of European rehabilitation. There had been little discussion of the whole subject at Washington and none at all in the NAC, which committee was described, and practically all of the consideration thus far given--meager indeed--had been in the Department of State.

Mr. Bevin understood that the Marshall idea encompassed a relatively short-term, say four years, and involved help to Europe in its purchases from the Western Hemisphere while Europe itself was getting underway. This would be of tremendous help.

Mr. Clayton said he could only indicate what he thought the Administration would recommend to Congress and believed that the British authorities would understand this distinction in our form of government which understanding he thought was highly important. Mr. Clayton thought some countries would be found in no present difficulties as regards their balance of payments but that these might have some long-term development problem. For the latter the UN Organization had established a bank.

/Mr. Bevin

Mr. Bevin mentioned another thought regarding the four-year term of assistance. This was related to a question in the House of Commons June 23 by Mr. Warbey who asked Bevin to bear in mind the importance for the U.K. of securing a balanced economic development of Europe and ensuring that there should be no one-sided stimulation of the industrial West without a corresponding stimulation of the agrarian East.

In meeting Europe's food needs Mr. Bevin wanted to avoid sowing too much wheat and while he agreed with Mr. Clayton's idea of a sliding scale adjustment of agriculture in Europe he believed that if cereals production was stimulated too much an agricultural surplus would be created and would "burst things". Mr. Bevin thought it best to work to a balance in European agriculture in three years whereby it would revert to the 1934-35 levels of imports of human foods.

Discussion then analyzed the prewar pattern of European food production, Nazi methods and exceptionally high protection on grain resulting in exorbitant prices. Mr. Bevin did not think it would be possible for Europe to get into balanced agricultural production in less than three years.

Mr. Clayton mentioned the necessity of getting away from current abnormal imports of food and fuel. He did not wish to see a return to the abnormal grain production of the days of Hitler and Mussolini or other artificial stimulations which affected the pattern of distribution in 1936-38. Mr. Douglas mentioned that even before 1933-34 there was some artificial stimulation of wheat production in Italy.

At the end of the discussion on food production it was generally agreed that a European balance should not be supported by subsidies.

Mr. Bevin then discussed the long-term phase of European recovery. He assumed that if "we as a club go to the U.S. and find a willingness to support the putting up of a plant", he assumed that the lending bank would give consideration to (a) repayment prospects and (b) the rationality of the project. Mr. Clayton thought this was correct and that rationality meant that the plant would have reasonable prospects of economic survival.

Mr. Douglas believed the bank, for example in considering a new steel rolling mill, would analyze existing capacity, the new mill's competitive position, questions of tariff protection and if the project was not economically sound in these respects it might not receive bank support. In this Mr. Clayton agreed. In absence of these measures on the part of the bank's borrowers, investments markets would not absorb the securities of the institution.

/Mr. Bevin

Mr. Bevin remarked that Europe was so extensively devastated that he was anxious not to force it to export products too soon and as repayment of loans would arise from exports he inquired regarding the repayment terms of the International Bank.

Mr. Dalton interjected to ask the extent to which the Bank's loans must be at a uniform rate and at a uniform time of repayment. Mr. Douglas thought the Bank held wide authority in these fields, Mr. Clayton adding that certain minima in interest rates were established, namely, 3 per cent on loans to the public, plus a 1 per cent commission charge. Mr. Clayton mentioned 4 per cent as a minimum rate.

Mr. Dalton asked that if the Bank in making a series of loans could balance out its aggregate position to meet the required minimum by having higher rates and shorter repayment on one loan and lower rates and longer repayment on another individual loan. Mr. Clayton thought that a rate much above 4 per cent would be too high. Mr. Dalton mentioned that the Bank had interest-free contributions from participating governments and with reference to Mr. Clayton's understanding that reserves were invested in Treasury bills Mr. Dalton thought it might be possible to place some funds in higher-yield securities thus to permit a lower loaning rate.

Mr. Bevin suggested that at the forthcoming Paris meeting the USSR would demand priority in its application for credits and would sweep other applicants aside. Mr. Bevin expected a Russian demand in this direction and asked regarding the U.S. attitude. Mr. Clayton said he could not give a categorical answer regarding the U.S. attitude toward credits to Russia but stated as his opinion that there would have to be a radical change in the Russian position regarding European recovery and other related matters before the American people would approve the extension of financial assistance to Russia. Mr. Clayton referred to the Secretary's definition that Europe included territory west of Asia. On this subject many things had to be considered in the U.S. But Mr. Clayton suggested that Russia did not need food, fuel and fiber and would thus have little basis for participating in the short-term phase. The need for short-term assistance varied inversely as one went east. As for food, Russia had offered wheat to France (delivered actually 180,000 tons according to Hall-Patch) and Mr. Clayton understood there were suggestions that Russia furnish wheat to the U.K. The USSR also sent cotton to Balkan countries and as for fuel, acquired 5 million tons of coal annually from Poland as reparations, costing \$2.50 to \$3.00 a ton. Finally Russia held gold. Mr. Clayton thought the USSR would have difficulty in making a case for the short-term phase although for the long-term there might clearly be a basis for Russian needs of credits for capital equipment, for reconstruction, development, etc.

/Mr. Bevin

Mr. Bevin thought if Russia did not get in on the short-term scheme they would not play in the Marshall program. If so, he asked Mr. Clayton if the British would be supported by the U.S. in going along with the others. Mr. Clayton replied in the affirmative.

Mr. Dalton then mentioned with regard to the long-term that Russia was not a participant in the International Bank, and therefore, could not borrow. However, it was open to Russia to join the Bank but as mentioned by a Treasury representative, this seemed unlikely because as a member the USSR would be required to reveal its gold holdings.

Mr. Bevin then brought up the question of balanced budgets in Europe. Does this apply in the short or the long term? He mentioned France, wherein a balanced budget might create a difficult situation. But if a balanced budget was a consideration for the long-term that might be reasonable for France. Similar conditions obtained in Italy. Mr. Bevin would look with greater favor on balanced budgets as a condition in the longer term.

Mr. Douglas referred to the text of the memorandum and the words "as soon as possible".

Mr. Bevin applied this phrase to France noting the "gripes" already arising from fiscal measures courageously introduced and said he would not like the U.S. and the U.K. to appear as a source of pressure--deflationary pressure upon the French people.

Mr. Clayton thought the language of Article VIII could be accepted by any reasonable interpretation. Mr. Dalton thought Article VIII contemplated a manageable budgetary position, the sort of thing he was doing in the U.K. There might be surplus one year--deficit another--but over a term of years a balanced position should be sought.

Mr. Douglas agreed that Europe was in a dilapidated position, much of which had been inherited both as regards fiscal affairs and productivity. He did not think the statement contemplated drastic budgetary measures and thought it meant reasonable steps. Mr. Bevin interjected that that would be satisfactory. Mr. Douglas continued that there should be an intention to maintain a manageable budgetary position although he realized that one government could not bind its successors. Mr. Bevin then made what he called a friendly suggestion to the U.S. to use cautious language in these matters. In the U.K. during the depression an attitude arose tending to blame the U.S. for its difficulties and this caused ten years of unpleasantness. Caution was therefore warranted and he agreed the end result but said care must be taken to avoid a political row.

/Mr. Clayton

Mr. Clayton suggested that in European relief as a whole the distinction between short and long term assistance might not be precise in the thinking of various countries of Europe and the Paris meeting would of course find it necessary to take in both problems. The only distinction the U.S. desired was to draw a line between U.S. assistance and International Bank assistance.

Mr. Bevin mentioned the attraction of the prospect of free assistance for those in dire need with which Mr. Clayton agreed. Mr. Bevin summarized that we deal with the Congress on dire needs and on the long-term must deal with the Bank.

Mr. Bevin, outlining Paris plans, recognized the need for great speed. He wanted a small representative body, perhaps from five countries (mentioning France, Czechoslovakia and Italy) to work up some proposals by early August for use in the U.S. in September. Mr. Clayton thought this would be satisfactory and discussion then turned on the inclusion of Italy on the committee or sub-committee, substance of which has been previously reported.

Mr. Bevin then referred to the Mediterranean Area and expressed hope that what he called the "Genoa cycle" could be restored. The Board of Trade representatives confirmed the importance of this. Bevin said he had once calculated the employment of between 750,000 and 1 million persons in the U.K. depended on Italy, with particular emphasis in South Wales.

Mr. Dalton then referred to the convertibility obligation. Considering the short period before the effective date some cases of "squeeze" seemed likely to arise. He understood that in individual cases relief from convertibility could be arranged without reference to Congress. Mr. Clayton said this was correct. Mr. Dalton added he was merely airing his views so that if later he wished to raise the question he would have the proper basis. Mr. Douglas mentioned that the agreement provided for this to be done in exceptional cases.

Sir Wilfrid Eady said they had no cases at present and did not contemplate any general escape from the convertibility obligation but he anticipated the need for temporary relief in the case of countries holding sterling balances with which no agreement could be reached by July 15. He also mentioned China. The British would give an impressive list of countries with which convertibility would be made operative (and sterling balance agreements concluded) but they might have to use the escape clause for India. Mr. Douglas suggested that Mr. Dalton work out the proper procedure and inform us as promptly as possible because advance information would avoid embarrassment. The information suggested would be treated with extreme confidence.

/Mr. Dalton

Mr. Dalton closed on the note that the timetable of the Financial Agreement was "so wrong". He did not blame the U.S.--"it is our fault" but he doubted whether the Bretton Woods agreements which contemplated a five-year transition period would prove workable. In the meantime it was difficult for the U.K. to take the burden of convertibility.

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