

TOP SECRET

MEMORANDUM OF CONVERSATION

June 24, 1947

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

Mr. Bevin

The chronic troubles of Europe are interwoven with politics and our dollar problem really comes from Europe. Europe can contribute materially to the solution but Britain with an Empire is on a different basis.

I am looking for some temporary interim solution to enable the U.K. to play its part. The U.K. dollar problem is seen in Balkan countries as well as in the U.K. and all we try to do or say in Europe is conditioned by our own resources.

I went ahead on the Marshall Plan without asking questions and I feel that it is the quickest way to break down the iron curtain. My recent experience in France shows that Russia cannot hold its satellites against the attraction of fundamental help toward economic revival in Europe. If the U.K. in playing its part in this program should encounter snags we would desire and hope that the U.S. can put the U.K. in position to go ahead. We really ask to be in the position which we held in 1923-24 in economic reconstruction after the last war. I would impress upon everyone the importance of quick action if anything is to be done.

I am worried about the loan and for practically all of my plans Mr. Dalton puts in a caveat as regards our resources. The rise in prices has thrown us a year out and the U.K. position compelled me at Moscow to draw in my horns. For that reason I could not support Secretary Marshall to the extent I desired and I think it would pay the U.S. and the world for the U.S. and the U.K. to establish a financial partnership.

The first European need is for food. We need a better pipeline and a security of rations. I need six or eight weeks stockpile of grain to guarantee a ration of 1800 calories to 1949 (presumably referring to Germany.)

Mr. Dalton

Reviewed the financial position and found rapid worsening of their position in the last six months. The rate of drawings upon the loan has risen rapidly and this loan (which they had expected would carry Britain through the "difficult" period) would be exhausted at the end of the year.

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In ascertaining why this had happened he mentioned wholesale prices up by 40 per cent. This had in effect reduced the value of the loan by \$1 billion. Secondly, Canada and Argentina had demanded dollars to a rapidly increasing extent in payment for Britain's imports from those countries and third, this action revealed a dollar shortage throughout the world which was fundamental to difficulties faced by Britain. The real reason for the difficulties was the slow rate of world recovery including recovery in the Far East and Indonesia which were important to the United Kingdom. The world problem had an impact requiring very urgent action.

In their own field they might take defensive action by cutting U.K. imports but this would start a circle of restrictionism which should be avoided. Sir Stafford Cripps interjected that the U.K. had encountered increasing difficulties in earning foreign exchange, mentioning import handicaps in Latin America and recent cancellations of U.S. contracts for example for linen and hosiery. These troubles arose from a dollar shortage all over the world.

Mr. Clayton said Mr. Bevin's speed in acting after the Secretary's speech created a highly favorable impression in the United States. In the U.S. viewpoint, no further piecemeal assistance was feasible for Europe. The problem must be dealt with as a whole. Italy might today be in the worst position of European countries but solution of Italian problems must await a program for the whole problem. Thus speed was essential.

Mr. Clayton referred to an opening remark by Mr. Bevin to the effect that the U.K. wanted to be a partner in the European Plan and if it could not be equipped financially to carry out such a partnership its relations with the U.S. would become somewhat similar to relationship between the U.S.S.R. and Yugoslavia. Mr. Clayton could not see how the U.K. could find itself in a "Yugoslav" position. He asked how the U.K. problem was different from other European countries.

Mr. Clayton referred to the paper delivered at Washington regarding the U.K. financial and trading position and understood the difficulties. As for Russia's satellites in Eastern Europe he doubted with Mr. Bevin whether the U.S.S.R. could hold or improve its position there, because those countries would be compelled for a long time to trade actively with the rest.

Mr. Clayton reiterated that he was unable to visualize the Administration going to Congress regarding new proposals for any one country and he felt that a European plan must be worked out. In this, Mr. Bevin's continued leadership would be welcomed.

Mr. Bevin

Brief discussion indicated that Bevin is most

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anxious for some interim financial arrangement from the U.S. to stop a back-biting of his foreign affairs moves by people at home who were pinched by the British financial position. He considered the U.K. production and recovery record since the war as a good one. Mr. Clayton mentioned that not all of the financial difficulties were due to the U.S. price rise. Mr. Bevin said the "circle" must be broken. "Can't some temporary arrangement running to 1947 and '48 be worked out? Give me 5 million tons of grain and I will break the production problem in Germany".

Mr. Dalton interjected with reference to Mr. Clayton's question that one difference between the U.K. and other European countries was that the U.K. is helping in Germany. Mr. Bevin, reverting to food, said the U.S.S.R. was flush with cereals and he was trying to get grain from them. Poland was in balance. On the general European plan he had in mind dealing with food, coal, steel etc. in parallel columns to show requirements of individual countries. But he needed some assurance of continuity of supply in 1947-48--perhaps 1949--which he called "two desperate years".

Sir Stafford Cripps interjected that internal measures open to the U.K. could not make more than six weeks difference in the exhaustion of British resources and also expressed the opinion that there was a difference between the U.K. and other European countries because of U.K. trade with non-European countries.

Mr. Bevin said that if U.K. was considered just another European country this would fit in with Russian strategy, namely, that the U.S. would encounter a slump and would withdraw from Europe, the U.K. would be helpless and out of dollars and as merely another European country the Russians, in command of the Continent, could deal with Britain in due course. Speaking of food, the Prime Minister mentioned that Britain had to let Australian supplies go to India to avoid starvation and catastrophe for which Britain held political responsibility and similar considerations applied in parts of Africa.

Mr. Douglas

The Ambassador referred to figures received from the Treasury and asked whether the draw-down of the loan in the next six months would be as rapid as in the first six months of 1947. He mentioned that part of the recent drain was for the purpose of replenishing stocks which had been run down in the first spurt of U.K. economic revival and also that British purchase of ships was a non-recurring item. After momentary thought Mr. Dalton said he was not hopeful of improvement. He agreed that replenishment of stocks and ship purchase might not recur but replenishment would carry over a twelve-month period. Centre items were the cost of convertibility (see below) about which the British had argued at Washington, the dollar cost of which he could not estimate. Non-discrimination in imports was also

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mentioned. Mr. Bevin interjected that convertibility and nondiscrimination obligations upon the U.K. had in his opinion been dated three years too soon. Sir Stafford Cripps mentioned that their export estimates might prove high and recent closing of markets raises the question that even though the British could make the goods they might not be able to sell them. In response to Mr. Clayton's question he said he thought Argentine marketing difficulties represented hit-or-miss measures by Miranda of the Argentine Government.

Mr. Clayton then asked pointedly why Mr. Dalton had not come earlier with these troubles noting that Congress would adjourn July 26 and exceptional cases for relief from governmental commitments might be difficult to handle at this session. He would not prophesy inability to handle cases in this Congress but wondered why the British authorities had not taken up the problem when it first arose. The British response was that Canada and Argentina demands for dollars caused much of the trouble and this had arisen rapidly and somewhat surreptitiously.

Mr. Dalton, in referring to convertibility of sterling made it clear he was not asking for or suggesting any change in this commitment under the Financial Agreement. Moreover, he pointed out that regardless of the terms of the Financial Agreement a large part of the difficulties now facing the British would have arisen anyway.

Mr. Clayton

Referring to Mr. Bevin's need of food, Mr. Clayton said that food up till now was a question of production and not money, noting that the 15 million ton export of U.S. cereals was a vast effort and reached about the maximum which transport and transit facilities would allow. He agreed the U.S. was well fed and possibly wasteful of food but this did not indicate unwillingness to share with others since the transit problem was the bottleneck. We did not have the boxcars, terminals, port facilities, etc. and could not create them over-night. Perhaps one million more tons of cereals could be gotten out but there was a limit. Mr. Bevin observed that in contrast to UNRRA operations the authorities could concentrate needs of food better at present and could avoid waste in Europe.

Mr. Bevin spoke of German affairs, mentioning recent conversations with General Robertson and difficulties in working out plans because of U.S. budgetary limitations. "In our plans, will we be held up by appropriations?" "Clay and Robertson seem forever tied by appropriation questions". Mr. Clayton said that of course appropriations were a limiting factor in our form of government but he would look into the difficulty.

/Mr. Clayton

Mr. Clayton reiterated that the U.K. as a partner in the Marshall program rather than a part of Europe, with special assistance to the U.K. partner would violate the principle that no piecemeal approach to the European problem would be undertaken. He said that in the U.S. even a non-piecemeal approach would be hard to sell to the U.S. public and Congress and he frankly saw no possibility of interim arrangements for the U.K. as part of the European approach. (At this point I thought Sir Stafford Cripps raised two points in the Financial Agreement, namely, convertibility and non-discrimination in imports which might be looked into as some relief to the British dollar problem. Mr. Gunter is not quite sure if this was specifically raised by Cripps).

At this point Mr. Clayton raised the first of his criticisms of the U.K., namely, their handling of the Ruhr coal problem. He also then raised the question of U.K. action regarding measures in Japan, both of which had been covered separately.

To summarize, Mr. Clayton described the idea presented by Secretary Marshall as involving a really big problem. The U.S. Administration wanted information from all of the interested European countries as to why recovery in Europe had been so slow, what Europe could do to help itself, and how long it might take, with a minimum of assistance from the United States for Europe to get back on its own feet.

Following views on reasons for slow recovery and remedial measures, we would need information regarding food requirements, fuel requirements and other emergency essentials.

Prime Minister, referring to Mr. Clayton's remark on socialization, said that new socialist structures were created as alternatives to structures created by the Nazis which syndicates could not be allowed to re-emerge and if they did would cause fears in neighboring countries. Mr. Bevin thought the trouble in Germany stemmed from unsettled level-of-industry questions and mentioned controversy of whether German steel production was to be 11 million tons or some other figure. He also deprecated dismantling of German industry and asked that Clay settle this question so the Germans will know where they stand, expressing willingness to fight out with the French any US-UK agreements which were not palatable. Besides level-of industry problems, he thought the Potsdam Agreement, forced on him in his first day of office, left much to be desired. Syndicates in Germany were a war potential and could not be put back. In general, Mr. Bevin thought U.S. and U.K. plans for Germany were not far apart. Mr. Clayton said he would look into the level-of-industry problem in Germany.

On the point of German management, the Ambassador expressed his personal view that part of the problem hinged on the question of clothing managers of the industrial operations with enough authority to get production going. He also believed that the lack of a currency in Germany which commanded public confidence was a root difficulty, decreasing incentives, diverting resources, creating black markets and chicanery. (There was general agreement that the lack of confidence in currency was a problem which applied over all Europe). Mr. Bevin agreed on the currency question and mentioned his thought that the currency for the non-Russian zones could be linked with the French franc, the Belgian franc and the Dutch guilder. He referred to confusion of authority in coal operations and said he was trying to get this straightened out. The proposal of Clay for a single trustee he thought would not work.

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