

ations. No doubt some funds must be given but a *quid pro quo* should be obtained in connection with each such financial advance. In Israel's own self-interest we must insist that Israel take definite steps to put its financial house in order so that both of us can look eventually toward eliminating the necessity for further US aid. A first step in this direction was taken when, in return for recent financial assistance amounting to \$24 million to meet pressing current debts, Israel agreed to a mission headed by Mr. Mikesell to study Israel's financial situation and especially to get more facts and figures on its current unfunded debt. We need to be more frank in insisting that further American financial assistance to Israel can only be given when the end result will be to put Israel in a better position to control its expenditures and hence to become economically stronger. This in turn will allow Israel to make certain financial concessions to the Arabs which should help Israel to attain peace with its Arab neighbors. Israel will of necessity remain a "remittance state" until she has attained peace with her neighbors, has reduced her military expenditures and has put herself in a position to develop more normal trade relations with nearby countries.

An initial step in this direction is now under consideration. It is the unfreezing in Israel of Arab refugee bank balances. The next step that would logically follow would be at least preliminary discussions over the compensation Israel will pay for property of Palestinian Arabs taken over by the new state. Some action along these lines becomes increasingly advisable in view of the results Israel has recently gained in obtaining compensation from the West German Government for the property of Jews who were killed or driven out of Germany.

(17) At the same time we must keep equally alert for chances to press Israel's Arab neighbors to a more realistic appreciation of the fact that Israel is there and is likely to remain there for some time. We must urge them to show a greater flexibility and a greater willingness to enter direct negotiations than they have shown to date.

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No. 82

780.00/8-852

*Memorandum of Conversation, by the Assistant Secretary of State  
for Near Eastern, South Asian, and African Affairs (Byroade)*

TOP SECRET

[WASHINGTON,] August 8, 1952.

Subject: Meeting with the President