

No. 587

884A.10/7-1053 Telegram

The Secretary of State to the Embassy in Israel

SECRET

WASHINGTON, March 24, 1953—6:11 p. m.

863. Embtel 1426. ¹ Israel Government represented by Eban, Sherman, Shalit and Lewin has made similar presentation here to that described reference telegram, except for strong implication that assistance relieve Israel Government of short-term debt burden should come before June 30, and argument that transferability provisions Mutual Security Act makes this feasible. Request was made for roughly \$70 million in grant funds to meet debt estimated \$98 million in payments falling due during period April 1, 1953 to May 30, 1954, less about \$28 million in normal lines of credit. Representations were made that reduction in level indebtedness would be permanent.

Department finds Embassy-TCA comments very helpful and concurs that if funding operation undertaken it should generally follow lines reference telegram.

Following appear to be major arguments in favor operation: (1) Unless assistance granted Israel may default during forthcoming fiscal year. On economic side this would (a) probably cause immediate termination all bank and most commercial lines of credit; (b) cause serious disruption flow consumers goods and raw materials until purchasing placed on cash basis; with major portion dollar income already pledged to banks, transfer to cash basis might be delayed until after severe hardship caused Israel population. On political side default would (c) be harsh psychological blow to Israel people which would probably shake confidence in present moderate Government; (d) encourage Israel Government to follow policy of desperation; (e) provide evidence to Arab states of success boycott, tend to reverse present trend toward acceptance Israel as permanent feature Near East and upset slow improvement in political climate which US hopes will eventually lead to peace; (2) Funding would decrease extra cost (estimated \$7 or \$8 million annually in direct and indirect charges) of maintaining present short-term debt, which now reduces free dollar exchange available and reduces impact U.S. aid; (3) Operation would relieve high Israel officials of time-consuming and difficult problem of turning over short-term indebtedness; Israel Government generally is now subjected diffi-

¹ Document 582.