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*The Chargé in Israel (Russell) to the Department of State*

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592. Joint Embassy-USOM. McDaniel and White are meeting with Israel Finance Ministry tomorrow morning (Usfoto 205)<sup>1</sup> and expect to obtain additional information on short term liabilities which will assist in consideration of Sherman request.

While default by Israel Government would have adverse economic and political effects (Embtel 1965, June 26)<sup>2</sup> it is important that we not permit Israel Government use threat of default to justify unwarranted diversion grant-in-aid funds for short term debt purposes. (Embtel 1919, June 16)<sup>2</sup> Experience has shown that Israel Government tends to operate its short term debts at or beyond uppermost manageable limits. Large US cash releases in fiscal year 1952 and 1953 have resulted in only meager improvement relative to magnitude of problem and its recurring character. (Embtel 1567, April 11)<sup>2</sup>

Political considerations inevitably involved in any action taken on Sherman request. US policies to fill free world security vacuum in this area have been based upon belief it is essential to create confidence of Arabs in objectivity and even-handedness of US toward countries in area. Near East trip of Secretary and Stassen, refusal of western powers to accept Israel Government's *fait accompli* approach to Jerusalem in moving of Foreign Ministry, US backing of UN following Israel Government refusal comply with Ben-nike request in Banat Yaacov construction, and US participation in general disapprobation of Qibya raid—have gone far to convince both Israel and Arabs of our desire to work equally with both sides in reducing tensions. Israel Government has given numerous indications of its dislike of this policy (Embdes 58, July 14)<sup>2</sup> but it has increasingly come to accept it as fact. It is important that it continue to realize that efforts to thwart such a policy will be in vain. There is possibility that sudden approach in Washington without any indication here of current financial crisis, may be effort, at exact moment Security Council may vote a censure of Israel, to secure an action by us which would be generally regarded as going

<sup>1</sup> Message from the Foreign Operations Administration to the Operations Mission at Tel Aviv, not printed.

<sup>2</sup> Not printed.