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AIDE MEMOIRE FOR THE FOREIGN SECRETARY

[This note has been prepared for the personal guidance of the Foreign Secretary after informal and preliminary discussion with the United States Ambassador and Mr. Clayton.

It has been shown to the United States Ambassador and Mr. Clayton but must not be regarded as in any sense a commitment.]

Introductory

I. It is an essential point in the U.S. approach to the present situation that whatever scheme is drawn up should deal comprehensively with the needs of Europe, and not piecemeal with particular countries. A prime condition on which substantial help is likely to be forthcoming from the people of the United States (and it looks as though nothing effective could be done without help on a really substantial scale) is that they feel confident that this help will be used, not alone as a temporary alleviation of the ills of particular countries, but essentially for a well-thought-out scheme which is demonstrably directed to remedying the underlying causes of the European situation as a whole. In particular, the scheme must be directed to restoring European production within a stated period to a level which will render unnecessary Europe's present abnormal dependence on imports. U.S. thought also attaches importance to avoiding the perpetuation of uneconomic rivalries between the countries of Europe.

II. Statement as to the present position.

As a first step, therefore, it would be helpful if the countries of Europe could co-operate in preparing a statement themselves as to why in 1947 - two years after the end of the war - they still find themselves in such serious economic and financial difficulties.

(The U.S. Administration have, of course, a good deal of information themselves on this. But from the point of view of Congress and public opinion it would be of great help to have such a statement carrying the authority of the Governments of the countries of Europe).

### III. Statement of needs.

Next, the European countries concerned should draw up a statement of their own needs and production capabilities. Taking coal as an example, the statement would show:-

- (a) Consumption: the present rate, and the requirements for consumption at the present time and over the ensuing (say) four years, and from what sources it is proposed that the requirement should be met.
- (b) European production: the present rate, and the extent to which production can be expanded over the ensuing four years to meet home needs, and for export.
- (c) What special steps are proposed to increase the rate of production, and any special help required to this end, e.g. in the way of importation of additional equipment.

Statements on similar lines should be drawn up in regard to:-

The principal foodstuffs;

Fertilisers;

Steel;

Fibres;

Transport: road and rail;

Machinery for immediate expansion of output.

### IV. Statement of long-term objectives.

The above relates primarily to immediate needs. Statements on broadly similar lines will also be required covering plans for longer term reconstruction and development.

V. Purpose of these Statements. These statements will enable comprehensive schemes to be drawn up which will show - both as regards primary needs and long-term reconstruction -

- (a) what Europe needs in order to get on her feet again;
- (b) how much of what is needed for the purpose can be found from within Europe itself and how much must be found from outside;
- (c) the economic objectives towards which Europe will agree to work, over the next four years;
- (d) how long the job will take, and - assuming for example that it will take four years - the minimum amount of help which will be required in each of those four years. Presumably this will be on a descending scale.

VI. Countries to be covered

More will be known about the attitude of the countries of Eastern Europe towards the scheme after the forthcoming meeting in Paris.

It is understood that, while it is hoped that the scheme will cover Europe as a whole, the U.S. Administration would be satisfied if it could be started with the Western countries of Europe as a nucleus, on the understanding that the scheme would be open to other countries if they so desired.

VII. Integration of Production

Public opinion in the United States attaches great importance to some assurance being given by the countries of Europe that their goods and products of all kinds will be freely available to each other so that the needs of Europe will, so far as is economically practicable, be met from European resources, and that this should be reflected in the pattern of reconstruction and development. United States opinion is thus thinking of a 'continental' rather than a country approach to the present trade and production problems of Europe.

The first reaction of U.K. officials to this is as follows:-

Any proposal that went so far as asking for assurances even in principle that the European countries would constitute themselves into a Customs union would present great difficulties and would almost certainly involve delay which in present circumstances would be disastrous.

On the other hand, as there is a great shortage of the essential resources for capital re-equipment, there is scope for considerable co-operation between countries in order to avoid unnecessary duplication of effort in capital expenditure.

It must be recognised, however, that schemes for integrated production must carry some security to the producer that he will have an assured market and to the user that he will obtain supplies.

The working out of this conception thus presents considerable difficulties. But it probably presents the natural line of evolution towards the conception of the continent of Europe as a viable economic unit.

Moreover, the position of Great Britain, which is not merely a European country but an international trader, presents very special difficulties.

#### VIII. Financial Stability

Public opinion in the United States also attaches great importance to satisfactory assurances that participating countries will take all reasonable action to place their budgetary affairs in a manageable position as soon as possible, as an essential preliminary step toward the stability and convertibility of their currencies.

#### IX. Methods of operation

While no decision has yet been reached, it is presumed at the moment that the United States Government contemplate that the immediate help required might be provided by some means which would be generally equivalent in its financial effects to grants in aid, although in appropriate instances the United States Government may seek some sort of commodity consideration in connection with its strategic stockpile programme.

The needs of long-term reconstruction should, however, be met by the International Bank. It is true that the Bank has as yet only made one substantial loan. It is thought that the Bank would be much more ready to make funds available if:-

- (a) a comprehensive scheme for Europe had been drawn up; and
- (b) through the assistance of the United States, a firm economic foundation had been laid for Europe's recovery from her immediate problems.

X. It is understood that the United States Administration contemplate that, although the approach to the problem is essentially European, the arrangements for giving help for immediate needs would take the form of a series of agreements between the United States Government and each of the countries concerned.

In this connection it is understood that there might well be differences in the objects or purposes for which help was given to different countries according to the varying needs and situations of such countries. For example, help to Great Britain would not necessarily be limited to help in regard to supplies which Great Britain draws from the United States. In her case, the help would

have to be in a form which would enable her to obtain essential supplies from, e.g. Canada and Latin America.

XI. Timing. The U.K. officials regard it as essential that the statements in II, III, IV and V should have been completed not later than 1st September, 1947.

6th June, 1947.