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THE WHITE HOUSE

WASHINGTON

June 7, 1968

MEMORANDUM FOR THE RECORD

SUBJECT: NSC Meeting on the UK June 5, 1968, 12:00 Noon

The President asked Secretary Rusk, before going into the UK issues, to comment on the forthcoming NATO meeting.

Secretary Rusk said that elections were adding to the uncertainties in NATO. The U.S. elections first of all but also the forthcoming elections in France and Canada and the uncertain outcome of the recent elections in Belgium and Italy. He saw the basic objective of the NATO meeting at the end of the month to point up the need to maintain solidarity. The results in turn could have an impact on the pressures this year to reduce our troops in Europe.

With regard to the UK, Secretary Rusk said the polls showed that the Wilson Government was facing increasing difficulty. He noted Ambassador Bruce's telegram on the question of whether a breakdown such as occurred in France could happen in the UK. Bruce says no -- unless an economic and financial breakdown took place that made the British prey to the gnomes. On the other hand, some improvement on the economic front together with a new sense of purpose -- such as the opportunity to play a leading role in Europe -- could radically change the outlook in the UK over the next few years.

For the present, the British will continue to withdraw from far off commitments and look toward closer ties near at hand -- NATO and Europe.

Whether the Tories, if they come to power, could reverse the East of Suez withdrawal will depend on the UK's economic capabilities at the time.

Our bilateral relations with the British are good:

- The impact of the "special relationship" diminishes as the UK world role diminishes.
- They can take their "sense of special relationship" into Europe by continuing close consultations with us.
- Secretary Fowler outlined the nature of the sterling problem. The British are receiving new short-term funding of their outstanding

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short-term credits -- in effect a roll over of short-term credits. They also have some credits for military procurement. But, apart from their current deficit, they are under pressure from holders of sterling balances who want to shift to other forms of reserves. Their credit position is not substantial enough to withstand these pressures and their over-all position is therefore precarious.

Partly their problem is one of confidence. They have come up with a good balance of payments program which has received international approval but at home "the city" -- their own financial center -- is still a trouble spot and keeps running down sterling's prospects.

The UK lost almost three-quarters of a billion dollars in May because of the nervousness about the international monetary system. Sterling holders were the major factor and the need to do something about these balances on a multilateral basis is a priority undertaking on which we are now engaged.

In regard to the related problem of the French franc, it is clear that the current French moves are designed to hold their exchange rate for the present. But their wage-price settlements will put pressure on the rate and probably cause a crisis in the fall. A French devaluation would add to sterling's difficulties and spill over to the dollar. These are interdependent problems. Our first answer in dealing with them would be passage of the tax bill.

The President said this pointed to the need for contingency planning and asked what was being done.

Secretary Fowler said he would report separately on the work underway and stressed that passage of the tax bill would put us in a position to take the initiative in this entire area.

Secretary Clifford said:

-- A number of effective working relations with the British in the military area have gone by the boards with their withdrawal.

-- They are a good ally in NATO and we hope they will continue to be so. The announcement that they are bringing troops back to beef up their NATO commitment is fluff -- not substance.

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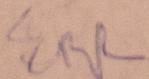
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-- Vacuums they are leaving in Southeast Asia and the Persian Gulf present problems for us.

Walt Rostow asked whether the French internal crisis would reduce their capability to obstruct UK entry into Europe.

Secretary Rusk said that after the elections de Gaulle may be in a stronger rather than a weaker internal situation. But the Italians and the Germans may now press more strongly for action in this area, given the vulnerabilities they now see in the French system.

The President concluded the meeting by making arrangements for Secretary Fowler to bring him up-to-date in the near future on contingency planning in the international monetary area.


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