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~~FOR THE PRESIDENT ONLY~~

SUMMARY NOTES OF 587th NSC MEETING  
June 5, 1968, 12:15 - 12:45 p.m.

SUBJECT: Current Issues Affecting US-UK Relations

Secretary Rusk summarized the current situation in Europe, making the following points:

1. We are in an interim period in our relations with NATO.
  - A. A watchful waiting attitude is customary during our election year.
  - B. Both Canada and France are also in an election period.
  - C. Belgium and Italy are in the process of forming new governments.
  - D. A difficult and uncertain situation exists in Greece.
2. At the NATO meeting scheduled later this month in Iceland, our objective will be to prevent disarray in NATO.
3. The uncertainty in Europe has the effect of increasing the importance to Europeans of the level of U. S. forces in Europe.

Secretary Rusk then turned to the current situation in the UK. He made the following points in addition to summarizing a recent cable from Ambassador Bruce (copy attached).

1. The Wilson Government is in difficulty with all Britishers and confronts divisions within the Labor Party.
2. Despite Wilson's troubles, the UK is more stable than France.
3. Many Britishers have not adjusted to their new role in the world.

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- A. The UK is steadily withdrawing from its security commitments in distant areas but at the same time is giving more support to NATO. The size of the UK contribution to NATO depends on whether the Labor government succeeds in improving the economic situation in the UK.
- B. The special relationship the UK has with us is less important to them now because the British have less interest in maintaining a world role. Operationally, the U. S. and UK are working on fewer real problems. The concept of Atlantic cooperation could replace the special relationship. Close bilateral relations with the British, however, will certainly continue.

Secretary Fowler, describing the State paper as excellent, stated that sterling is the major U.S.-UK problem. Aspects of the sterling crisis involve:

1. Short-term funding. We have assisted the British, particularly in supporting their requests for international bank withdrawals.
2. Bilateral credits.
3. The role of sterling in an international monetary system.

The UK financial situation is precarious and, in Secretary Fowler's view, British resources to apply to this problem may be less than indicated in the State Department's paper. Essentially, he added, continental countries have confidence in London and have welcomed British actions reflected in the last UK budget. However, the London financial community has less confidence in the Wilson Government. This is because the British Government and the London business community are out of step.

Secretary Fowler does not share the view of some that the return to power of the Conservative Party would be an improvement. He doubts that the Conservatives could handle the economic situation, especially a wage-price policy, as well as the Labor Party has done.

With respect to the current situation in London, Secretary Fowler said the British were losing large amounts of reserves not only because of widespread lack of confidence in sterling but also because several countries are diversifying their reserves. This diversification puts pressure on the pound because those countries in the pound bloc move out of sterling into other currencies. Thus, events are forcing Britain to recognize that the pound will not much longer be used as a reserve currency. The immediate problem is how to deal with the sterling balances held in those countries which are diversifying their reserves.

As to France, Secretary Fowler predicted that DeGaulle would seek to maintain the franc at its present rate. In the future, France might have to devalue -- possibly as early as this fall -- in order to meet wage increases which the government will be forced to grant French workmen. If the French do devalue, heavy pressure will fall on the British just at the time they may well be getting their financial situation in balance.

Secretary Fowler called attention to the loss of U. S. reserves in the last six months. He said work was going forward on how to deal multilaterally with the problem of sterling balances in other countries. Contingency plans are being drawn to insure that the sterling problem does not have a major unfavorable impact on the dollar. In addition, initiatives are being worked out to deal with the impact in Europe of instability of the pound and franc which undoubtedly will affect the dollar. These initiatives can be taken only after the tax bill is passed.

Secretary Clifford said that the British do not have the resources, the backup, or the hardware to deal with any big world problem. He said they are no longer a powerful ally of ours because they cannot afford the cost of an adequate defense effort. He made these points:

1. Earlier we had the closest working relations with the British. They looked after one part of the world and we looked after another part.
2. The British are continuing their contribution to NATO but are retrenching elsewhere.
3. It is not certain that the British can keep even their present level of forces in NATO. Although the UK is earmarking for NATO those troops being withdrawn from other areas, no real increase in NATO power results because the earmarked forces merely help to bring the British NATO contribution up to the level they have previously maintained.

Secretary Clifford acknowledged that the British withdrawal creates real problems for us in Southeast Asia, in other parts of Asia, and particularly in the Mediterranean where the Soviets recently have become more active.

In response to a request by the President, Mr. Rostow said one question he would like to have Secretary Rusk answer was whether the chance of the British getting into the Common Market was greater now that DeGaulle is in trouble.

Secretary Rusk asked Assistant Secretary Leddy to reply. Mr. Leddy said DeGaulle will not change his opposition to British entry even though he is in difficulty in France. DeGaulle will, however, have greater difficulty in carrying out his effort to prevent British entry.

Secretary Rusk reported that Foreign Ambassador Bohlen believes DeGaulle may win a large majority in the forthcoming French election. If this happens, DeGaulle will be able to exert considerable pressure on other Common Market members to continue to hold out against British entry. If DeGaulle loses the election, however, his power to oppose British entry may be considerably reduced. A second factor affecting British entry is that the new Italian government may not be as strong for British entry as past Italian governments have been.

Mr. Rostow pointed out that the only operational matter was the suggestion that State-Treasury recommendations for actions to deal with the current monetary situation be sent to the President promptly.

The President asked that such recommendations be prepared for him.

(Attached is the briefing memorandum for the President which he referred to at the meeting.)

*Bromley/Mill*