

December 17, 1948

Personal and Confidential Memorandum to Mr. Martin:

Some thoughts re loan application of Israel: As I see it, there are three aspects to this problem:

1. Domestic-Political: I am well aware of the pressure upon you prior to the elections to "do something" for Israel. I am not aware of the extent of that pressure now, nor of campaign promises which may have been made; nor can I pass judgment upon the necessity or advisability of keeping such promises. It seems to me that this is just another case where yielding to pressure groups out of political considerations might well not be in the national interest; and I wonder whether aforesaid "political considerations" are really as important as the professional politicians make them out to be.

2. Economic: I have never been in that part of the world nor, in my previous experience, have I had extensive business relations there, hence I have practically no personal knowledge of economic conditions. However, I have an impression that Israel is a country poor in natural resources, its economy being based largely on small-scale agriculture, and that quite possibly much of the land may have been over-worked or even worked out. It is obvious that one of the major problems of the new State is to feed the population, steadily increasing both from natural results and from immigration. I have not seen any population figures, old, new or estimated. I have no knowledge of Israel's resources in raw materials which would serve as a basis for industrial expansion. The country's markets in the past have been, and for the future logically will be, in nearby countries. The question arises whether these nearby countries will be able or willing to purchase the major export crop, citrus fruits. I cannot visualize hard currency markets of size for either her agricultural or manufactured products in the near or more distant future, nor can I visualize convertibility of soft currencies until some long time ahead, if ever.

I have frequently read reports that the Jewish race as a rule does not take kindly to farming or manual labor. In this connection I am reminded of an old Far Eastern saying about the emigrating Chinese: "The coolie of today is the merchant of tomorrow and the capitalist of the future."

I attach little weight to the representations of the spokesmen for Israel as set forth in Mr. Lynch's memorandum of December 8, from which I quote as follows:

(a) "Israel has requested a loan of \$100 million from the Export-Import Bank to take care of a portion of the gap between its financial needs and resources outlined above and in order to help it to establish its credit

in foreign capital markets in general and, in particular, in the U.S. capital market." I entertain serious doubts whether the extension of a loan by Eximbank would serve to establish Israel's credit in capital markets, either foreign or U.S.; it might conceivably have an adverse effect.

(b) The Israeli representatives "have insisted that the best assurance of repayment that the Eximbank has is the probability that the new State will have to attract private foreign investment for some time and that it therefore will have every incentive to maintain a high credit standing." Credit standing is only established after a considerable time of satisfactory performance and punctual payments.

(c) "Finally, they have pointed out that World Jewry has a very high moral stake as well as a substantial financial interest in the success of Israel and that it can be counted on to ensure against a default of the new State." It is certain that the statement in the first clause is 100% correct, but I entertain some questions with regard to the accuracy of the second clause. Is it not possible that if Eximbank should step in in a big way, World Jewry might step out and "let George do it"? I am inclined to think that the Big Boys, meaning the heavy contributors, would be quite likely to do that. I do not know what hold upon the smaller fry the church may have. Perhaps their situation is like that of the Catholic church which lives off the dimes and quarters of the 'proletariat' and not off big donations from the wealthy.

In my travels I have known many Jews of diverse nationalities and national extractions, and some of them I have counted good personal friends. Among them, as among all races, colors and creeds, I have found the good, the indifferent and the bad. From my observation they are good business men, keen traders (qualities which I admire), but by and large they are opportunists and their batting average for commercial probity leaves something to be desired.

3. International-Political: From the maps which I have seen, Israel will be a nation small in size with a very irregular (and therefore probably vulnerable) boundary, surrounded by larger and presently hostile nations.

In my judgment, based admittedly upon incomplete and imperfect information, Israel is not and is not likely to be of great importance in the international picture, being too far removed from Russia and protected by potential bulwarks to the north. I feel that it is always possible, even probable, that for many, many years we shall see recurring squabbles of more or less virility with the Arabs. I am wondering whether a vigorous financial support of Israel may not incur the open or veiled enmity of the Arabs and other Mohammedan nations farther to the east and nearer to the southern boundaries of Russia-in-Asia. In the event of serious eventualities, oil from Arabia and farther east would be most important. Hence I question whether we might not be backing the wrong horse.

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I believe that the question which is worrying you is whether President Truman should go to Congress with a request for substantial aid to Israel (which request would probably be granted) or whether Eximbank should take over the situation and make some loans. As I see it, the answer to this question is decidedly difficult.

My personal feeling is that the answer depends upon the amount involved. If a loan of \$25 million or perhaps somewhat more, if an economic analysis should warrant, would fill the bill, then let us go ahead. If on the other hand the requested \$100 million (with prospects of further requests) is the minimum, then I think our directors would have to do much soul-searching to reconcile such a loan with our act's requirement of "reasonable assurance of repayment."

W.D.W.