

room for progress toward federation if Arabs and Jews find they can live together in harmony but in present state of tension provides for their segregation which British officials with long experience in Palestine Govt believes essential. Proposed provincial boundaries give Jews best land in Palestine, practically all citrus and industry, most of the coast line and Haifa port. Jewish legitimate demands including large measure of control of immigration and opportunity to develop national home, have been met with exception of Jerusalem and Negev. Christian interests must be taken into full account in Jerusalem and Bethlehem, and disposition of Negev is remaining undetermined until its potentialities can be ascertained. I am not convinced that plan has been made so attractive to the Arabs but British are willing to negotiate with them on basis our agreement and as reported in my telegram No. 6913 of July 22 they want to convene appropriate representatives in London at earliest possible date. [Grady]

HARRIMAN

[In telegram 6956, July 24, 1946, 2 p. m., the Embassy in London transmitted a message from Mr. Grady to Mr. Henderson stating in part: "We have considered every phase of problem and see no practical alternatives to our recommendations. Moreover I seriously doubt under all circumstances that British would be willing to renegotiate on basis some alternatives. They have been most reasonable and completely cooperative." (867N.01/7-2446)]

867N.01/7-2446 : Telegram

The Ambassador in the United Kingdom (Harriman) to the Secretary of State

TOP SECRET
US URGENT

LONDON, July 24, 1946—7 p. m.
[Received July 25—9:07 p. m.]

6970. From Grady. Secret and Personal to Secretary. Following is complete text of agreement reached unanimously with British Committee:⁷

"1. The British and United States Delegations have now examined as a whole the recommendations of the Anglo-American Committee of Enquiry and have arrived at a common viewpoint on the broad principles of a policy for carrying out these recommendations. The following summary of these general principles is submitted for consideration by the two Governments.

⁷The Department files contain a version of the agreement printed (but not released) by the British Government entitled "Palestine: Statement of Policy", dated July 26, 1946. The British version differs from the one in this telegram primarily in minor matters of punctuation, capitalization, and the like. Footnotes will indicate how the versions differ in a substantive sense. The agreement is known as the Grady-Morrison Plan, the Morrison Plan, or the Provincial Autonomy Plan.

DISPLACED PERSONS AND THE POSITION OF EUROPEAN JEWS

2. There are two aspects to this problem—(I) re-settlement in Europe and (II) emigration to countries outside Europe.

The Anglo-American Committee recognized that the overwhelming majority of displaced persons, including a considerable number of Jews, will continue to live in Europe. One of our objectives should, therefore, be to create conditions favourable to the re-settlement of a substantial number of displaced persons in Europe.

3. The only areas in Europe in which our two Governments can directly control these conditions are the British and United States zones of Germany and Austria.

In these areas, they are prepared to assist native Jews to resettle once more in German and Austrian communities. All available means are being used to eradicate anti-Semitism. Concentration camp survivors receive special treatment as to rations, financial assistance, housing and employment. Moreover, both American and British authorities are pressing for an early decision on plans, at present under quadripartite examination, for the restitution of property confiscated by the Nazis. We recommend that all further practicable steps should be taken to make possible the resettlement of displaced persons in those zones.

4. Italy and the four ex-enemy satellite states will be required by the peace treaties to secure to all persons under their jurisdiction human rights and the fundamental freedoms, and it may be hoped that this will promote in these countries conditions favourable to the re-settlement of displaced persons.

5. Elsewhere in Europe our two Governments must rely on action through the United Nations to give practical effect to the provisions on human rights in the Charter. They should support the establishment of a commission for human rights and, also such measures of implementation as the United Nations may adopt to ensure the protection of these rights to the fullest extent practicable. Through their support of the efforts of the United Nations to re-establish political and economic stability in Europe, our Governments will continue to contribute to the restoration of those basic conditions which will make possible the reintegration in Europe of a substantial number of displaced persons, including Jews.

6. Though substantial numbers of displaced persons may be resettled in Europe, new homes must be found elsewhere for many of those, including Jews, whose ties with their former communities have been irreparably broken. As the Anglo-American Committee pointed out, Palestine alone cannot provide for the emigration needs of all Jewish victims of Nazi and Fascist persecution. The two Governments should, therefore, proceed at once with measures designed to

aid the re-settlement elsewhere of other Jews and displaced persons. These will include the following:

(a) Continuing support, through the United Nations, for the establishment of the international refugee organization which will be capable of dealing effectively with the problem of refugees and displaced persons as a whole.

(b) Strong support for the appeal to be made at the forthcoming General Assembly of the United Nations calling on all member governments to receive in territories under their control a proportion of the displaced persons in Europe, including Jews. In doing so, it should be emphasised that the United Kingdom Government has already accepted a commitment to promote the re-settlement of about 235,000 Polish troops and civilians and their dependents.

In addition, a large proportion of the refugees admitted during the period of Nazi persecution have remained in the United Kingdom. Of these, approximately 70,000 are Jews. With respect to the United States, 275,000 refugees have been permanently resettled there, including 180,000 Jews. On resumption of the normal flow of immigration to the United States some 53,000 quota and non-quota immigrants from those European countries from which the displaced persons are drawn will be able to enter as permanent residents every year. It may be assumed that in the fiscal year ending June 30, 1947, the large majority of these immigrants will be Jews and other displaced persons. The President of the United States is prepared to seek the approval of Congress for special legislation for the entry into the United States of 50,000 displaced persons, including Jews.

(c) Simultaneous, though separate, approaches to the governments of the British Dominions, who should be informed of the action taken and proposed, and should be invited to support the appeal to member governments of the United Nations and to receive a number of displaced persons in territories under their control. Both governments, in their approach, would emphasise the weight of the influence which could be exerted by the example of action by the Dominions, the United Kingdom and the United States, in inducing other United Nations to correspondingly liberal action. The United Kingdom Government would further stress the relations between the settlement of displaced persons and the problem of Jewish immigration into Palestine. The United States Government would indicate that the arrangements it could undertake for an emergency quota would be favourably influenced if assurances had been given that a number of displaced persons would be re-settled in the British Commonwealth.

(d) Continued active support to the Intergovernmental Committee on Refugees and, through it, to the re-settlement of as many refugees and displaced persons as practicable. Active consideration is already being given to a promising proposal for the transfer of displaced persons to Brazil. The number to be re-settled there is estimated at 200,000 or more. Similar proposals relating to other South American countries are also being explored.

7. We recommend that simultaneously with the announcement of the new policy for Palestine, our two Governments should make a statement on the lines indicated in paragraphs 2-6 above. Arab

opposition to the admission of 100,000 Jews to Palestine will be much stronger if this movement begins before any indication has been given that steps are being taken to promote the re-settlement of Jews and other displaced persons in Europe and to secure that other countries receive a share of those for whose emigration provision must be made.

8. We accept the principles laid down in recommendation 3 of the report of the Anglo-American Committee, that Palestine as a whole can be neither a Jewish nor an Arab state, that neither of the two communities in Palestine should dominate the other, and that the form of government should be such as to safeguard the interests in the Holy Land of the three great monotheistic religions. We recommend that any form of government adopted should be based on these principles. We also endorse the ultimate objective, set forth in the report, of securing self-government for the inhabitants.

The various alternatives to proceeding with the implementation of the recommendations of the Anglo-American Committee have been considered. It is our view that some alteration in the present governmental situation in Palestine has to be made and made speedily. To attempt to continue the present situation would involve the imposition of a policy by the exertion of military force and against the resistance of either or both of the two peoples of Palestine.

In the present situation in Palestine the imposition of a system of government by external authority could only be avoided either (*a*) by the termination of the mandate and withdrawal of British troops, which would lead to such internecine warfare by the Jews and Arabs as to make such a course unthinkable, or (*b*) by agreement among the Jews and Arabs themselves, of which there seems to be no present prospect.

Since some degree of compulsion will probably have to be employed it should be employed in setting in motion a system of government based on recommendation 3. The degree of such compulsion may be minimized and perhaps even acquiescence secured by wise and practical implementation of that recommendation.

The crux of the governmental problem in Palestine is to find a constitutional system which while observing the principles of recommendation 3 will best make possible progress towards self-government. The report puts forward no detailed suggestions for this purpose and our main task has therefore been to devise a method for its attainment.

We have considered an instrument of government on unitary binational lines based on parity between the two peoples in its legislative and executive functions, with provision for emergency action by the administering authority in the event of absence of willingness on

the part of the two peoples to participate in the functioning of such a plan, or in the event of a deadlock in such governmental machinery.

In view, however, of the expressed reaction of the two peoples to the report of the Anglo-American Committee, we believe that the following plan is more practicable and that effect could be given to it with less difficulty.

PLAN FOR PROVINCIAL AUTONOMY

9. *Territorial areas.* The plan envisages the division of Palestine into four areas: an Arab province, a Jewish province, a district of Jerusalem and a district of the Negev. The Jewish province will include Eastern Galilee, most of the Plains of Esdraelon and Jezreel, the Beisan area, Haifa, the Plain of Sharon (excluding the town of Jaffa) and a portion of the southern coastal plain. The Jerusalem district will include Jerusalem, Bethlehem and their immediate environs. The Negev district will consist of the uninhabited triangle of waste land in the south of Palestine beyond the present limit of cultivation. The Arab province will include the remainder of Palestine.

The population of these areas will be approximately as follows:

	<i>Arabs</i>	<i>Jews</i>
Arab province	815,000	15,000
Jewish province	301,000	451,000
Jerusalem district	96,000	102,000
Negev district	—	—

The provincial boundaries will be purely administrative boundaries, defining the area within which a local legislature is empowered to legislate on certain subjects and a local executive to administer its laws. They will in no sense form [be] frontiers and they will consequently have no significance as regards defence, customs or communications. In our view, however, it is of great importance to make it clear that, once settled, these boundaries will not be susceptible of change except by agreement between the two provinces. We recommend that a provision to this effect be embodied in any trusteeship agreement and in any instrument bringing the plan into operation.⁸

10. *Division of powers.* The provincial governments will have power of legislation and administration within their provincial areas with regard to municipal and village administration, agriculture, fisheries, forest, land registration, land sales, land settlement, land purchase and expropriation, education, public health and other social services, trade and industry, and local roads, irrigation, development

⁸ The British version at this point includes the following sentence: "The details of the boundaries proposed are shown in the map reproduced in Appendix A." The map is printed in British Cmd. 7044, Palestine No. 1 (1947): *Proposals for the Future of Palestine, July, 1946-February, 1947*, after p. 14.

and public works. They will also have power to limit the number and determine the qualifications of persons who may take up permanent residence in their territories, after the date of the introduction of the plan. The provincial governments will be required by the instrument of government which establishes the fundamental law to provide for the guarantee of civil rights and equality before the law for all residents. They shall not, in their legislation or administration, impose obstacles to free inter-territorial transit, trade or commerce.

For the purpose of carrying out these functions the provincial governments will have power to appropriate funds, to levy taxes, excluding customs and excise, to borrow within the province and, with the consent of the central government, to borrow abroad.

Control of foreign exchange and currency shall, for the time being, be a function of the central government. The central government shall also for the time being be responsible for the licensing of imports. It shall allocate licenses equitably between the two provinces after consultation with their representatives. Within two years of the introduction of the provincial autonomy plan (unless a later date is agreed to by the provinces and the central government) a broad allocation of the value of import licenses between the two provinces shall be made from time to time by the central government, in consultation with the provinces. Thereafter the provinces shall have the right to obtain for their residents licenses up to the amount of the allocation and to decide to what classes of goods such licenses shall be allocated. At a date not later than 31 December, 1946, import licensing shall be on a non-discriminatory basis as between sources of supply.

If Palestine becomes a member of the United Nations or any specialized agencies thereof (including the International Monetary Fund, the International Bank, or the proposed International Trade Organization) the provincial governments must deal with all relevant matters within their jurisdiction in a manner consistent with the obligations of Palestine as a member of these bodies.

There will be reserved to the central government exclusive authority as to defence, foreign relations and customs and excise. In addition there will be reserved initially to the central government exclusive authority as to police, prisons, courts, railway facilities and Haifa harbour, posts and telegraphs, civil aviation, broadcasting and antiquities, though certain of these powers will be transferred in whole or in part to the provincial governments as soon as it becomes practicable. The central government will in addition have power to borrow money, to make financial grants to the provinces, to provide for inter-territorial and international irrigation and development projects, to facilitate inter-territorial and international trade and commerce and communications, and to provide for arterial highways. It will be empowered to examine and verify municipal and provincial accounts, to

prescribe suitable and uniform methods of accounting, to prescribe the uses of any funds granted by it to the provinces, and to examine proposed budgets of provincial expenditures, and to make recommendations with respect to them.

Immigration will be administered by the central government. So far as the provinces are concerned, the central government will authorise the immigration desired by the respective provincial governments, to the extent to which the economic absorptive capacity of the province will not thereby be exceeded. It shall not have power to authorise immigration into either province in excess of any limitations imposed by the provincial government.

All powers not expressly granted to the provincial governments will be reserved to the central government.

11. *Provincial governments.* An elected legislative chamber will be established in each province. During the first 5 years of the plan the presiding officers of those chambers will be appointed by the High Commissioner. Thereafter they will be elected by the chambers from among their members. Bills passed by the legislative chambers will become law only after they have received the assent of the High Commissioner, representing the administering authority, but assent will be denied only if such bills are inconsistent with the instrument of government.

A provincial legislature may provide that any residents of the Jerusalem district designated by it may be represented in the provincial legislature if they so desire.

An executive consisting of a chief minister and a council of ministers will be appointed in each province by the High Commissioner from among the members of legislative chamber after consultation with its leaders.

If a provincial government fails to perform a proper governmental function or exceeds its proper function the High Commissioner will have authority to exercise emergency powers within the province for the performance of that function or to prevent such excess.

12. *The Central government.* The executive and legislative functions of the central government will initially be exercised by a High Commissioner appointed by the administering authority. He will be assisted by a nominated executive council composed of the heads of the major executive departments. Certain of these departments will be headed, as soon as the High Commissioner deems practicable, by Palestinians.

A development planning board will be established by the High Commissioner comprising the heads of the appropriate central executive departments, and representatives of each of the provinces. This board will initiate plans for the general economic development of Palestine and will supervise the implementation of such plans. A tariff board

will also be established on similar lines to advise on customs and excise policy and on the rates of duty to be imposed.

13. *The Jerusalem district.* In the Jerusalem district there will be established a council with powers similar to those of a municipal council. The majority of its members will be elected, but there will be certain members designated by the High Commissioner.

As [*The*] central government, in respect of the Jerusalem district, will have the same powers to limit the number and determine the qualifications of persons who may take up permanent residence in that district as are conferred on the provincial governments in respect of their provinces.

Powers not delegated to the district council will be exercised in the Jerusalem district by the central government.

14. *The Negev district.* The Negev district will be held under direct administration by the central government pending a survey of its development possibilities. Within 5 years and upon the completion of this survey, the administering authority shall submit to the appropriate organ of the United Nations recommendations, arrived at after consultation with the Arab and Jewish provinces, concerning the disposition of the area.

15. *Considerations in the adoption of the provincial plan.* The following are the main advantages of the plan for provincial autonomy:

The plan offers to the Jews an opportunity to exercise a wide measure of control over immigration into one part of Palestine and to forward in the Jewish province the development of the Jewish national home. At the same time it offers to the majority of the Arabs of Palestine their own political institutions in an Arab province and freedom from the fear of further Jewish immigration into that province without their consent. It makes it possible to give practical [effect] to the principles of government enunciated in recommendation 3 of the Anglo-American Committee; and it offers a prospect of development towards self-government of which there is less hope in a unitary Palestine. It provides a means of segregating Jew and Arab to an extent which should substantially reduce the risk of a continuation of widespread violence and disorder in Palestine. In the long term, the plan leaves the way open for constitutional development either towards partition or towards federal unity. The association of representatives of the two provinces in the administration of central subjects may lead ultimately to a fully developed federal constitution. On the contrary, if the centrifugal forces prove too strong, the way is open towards partition. The provincial plan does not prejudge this issue either way. The administering authority will be prepared to hand over the government to the people of the country as soon as the two communities express a common desire to that end and present an agreed scheme which will ensure its stable administration.

In arriving at the provincial autonomy plan as preferable on grounds of practicability to the unitary bi-national plan, we are not unmindful of the fact that there are inherent in it certain difficulties:

(1) The plan calls for immediate decision on the highly controversial matter of the boundaries of the respective provinces. It is one on which feelings on both sides are apt to run high.

(2) The Jewish and Arab populations are so interlaced in the area out of which a Jewish province would have to be created that a very serious minority problem would arise in that province which would not be involved in the proposed Arab province. The argument may be made by the Arabs that if it is proper to submit such a large segment of the Arab population to a majority rule by the Jews in the Jewish province those same considerations would support their own contention that a Palestinian state be set up in which there would be a majority of the Arabs and a minority of the Jews. Under the proposed system, however, there would be effective protection for the Arab minority in the Jewish province.

(3) The proposed boundaries are such that the land and other economic resources in the Jewish area are superior to those in the Arab area. The Jewish area would be well able to support the requisite governmental services of the provincial government. The Arab area would not now be able to support even the present level of services, much less the improved services which the recommendations of the Anglo-American report urge as necessary to raise the Arab standard of living. This difficulty is met by the general power given to the central government to make grants to provinces and by the specific provisions in a later paragraph for meeting the anticipated deficiencies in the budget of the Arab province during the earlier years of the autonomy plan.

After considering the foregoing difficulties, we feel that the provincial autonomy plan is the preferable one for meeting recommendation 3.⁹

HOLY PLACES

16. It will be the duty of the central government to safeguard the Moslem, Jewish and Christian holy places. An inter-denominational council will be set up to advise the central government on all matters relating to the Christian holy places.

LAND POLICY

17. In putting the provincial autonomy plan into effect the administratering authority will rescind the land transfer regulations of 1940. The prohibition or frustration of provisions in leases stipu-

⁹ At this point in the British version appears a Section 15A which reads: "*Further Details of Provincial Autonomy Plan.*—The United States Delegation have submitted a preliminary draft for the heads of an instrument of government to give effect to this Plan. This draft, which is reproduced in Appendix B, gives some further details of the constitution proposed. The draft has not been examined by the two Delegations jointly; but it is a valuable contribution which will serve as a basis for further work on the preparation of the draft constitution."

lating that only members of one race, community or creed may be employed on or in connection with the land leased will be a matter for action by the provincial authorities.

IMMIGRATION

18. Under the provincial autonomy plan immigration will be administered by the central government separately for the Arab province, the Jewish province, and the Jerusalem and Negev districts. In effect immigration into the provinces will be regulated by the provincial governments, subject only to the power of the central government which may impose limitations upon immigration in accordance with the economic absorptive capacity of either province. These provisions will probably mean the complete exclusion of Jewish immigrants from the Arab province, but will result, under ordinary circumstances, in immigration into the Jewish province on whatever scale is desired by its government. The grounds on which the central government could curtail the immigration quotas proposed by the provinces will be defined in the instrument of government and in any trusteeship agreement or other instrument approved by the United Nations. The provincial authorities will, therefore, be able to appeal to the United Nations against any decision in respect of immigration which they consider to be in contravention of the terms of such instruments.

On the assumption that our proposals for provincial autonomy are adopted as the policy of our two Governments, we recommend the acceptance of recommendations 2 and 6 of the Anglo-American Committee.

19. We have considered the memorandum embodying the results of the preliminary discussions held in London from 17th to 27th June on recommendation 2 of the Anglo-American report, and we endorse the outline plan for the movement of 100,000 Jews to Palestine.¹⁰ We recommend that this plan be initiated immediately it is decided to put the constitutional proposals into effect.

We recommend that every effort should be made to complete the operation within 12 months of the date on which the emigration begins. We recommend that the necessary immigration certificates should be issued as rapidly as possible. As regards the rate of movement, shipment will proceed at the maximum rate consistent with the clearance of the transit camps in Palestine.

For the purpose of checking illegal immigration any Jews entering Palestine illegally after the plan has been initiated will be counted against the 100,000.

¹⁰ At this point in the British version appears the following: "A summary of this Plan, revised to take account of our conclusions on the questions of policy then left outstanding and to incorporate certain later information, is contained in Appendix C."

THE ARAB PROGRAMME

20. We accept recommendations 5 and 9 of the Anglo-American Committee that the economic and educational standards of the Arabs should be raised, subject to the proviso that the pace at which such development can be undertaken will have to be limited by practical considerations, such as the provision of trained personnel and the capacity of the economy of the area to absorb a large spending programme. A tentative plan has been worked out by Palestine Government which can form the basis of the programme.

(a) *Health and social services.* We endorse the proposals for a health service for the Arabs of a standard similar to that established for the Jews. We also contemplate the establishment of social services ancillary to education and health, e.g. institutions for the care of mothers, children and the old, school feeding, playgrounds, unemployment assistance, the teaching of handicrafts, youth and cultural organizations.

(b) *Education.* The immediate provision of compulsory education for the Arabs is not practicable, but universal primary education could be achieved in 10 years, except as regards girls in the smaller villages. Immediate steps should be taken to improve primary, secondary and university education in the Arab community.

(c) *Economic measures.* Improved facilities for education and for health and other social services will not alone bridge the gap between the standards of living of the two communities; a wide economic advancement must accompany them.

The greatest part of the Arab rural community, which constitutes 66% of the whole Arab population, consists of a peasantry living at about bare subsistence level. There are few village industries and Arab industry in general provides very little employment. Measures to improve Arab economic conditions must be directed primarily to the agricultural population, but should also include measures to promote the development of light industries. The principal measures envisaged are the following:

(I) Agrarian reorganization to rationalize and consolidate land holdings.

(II) Improvement in the use of land: promotion of regional development: prevention of erosion: agricultural research.

(III) Promotion of light industries and development of local crafts and industries.

(IV) Provision of cheap credit.

(V) Expansion of labour organizations.

(VI) Promotion of the cooperative movement.

(d) *Living conditions.* We also recommend the following measures for improving living conditions in the Arab community:

(I) Improvements in housing and promotion of housing schemes.

(II) Survey and town planning with a view to improvement schemes.

(III) Improvement of water supplies.

21. The cost of the foregoing proposals is discussed in later paragraphs.

DEVELOPMENT PROJECTS

22. We believe that the need for economic development in Palestine should be recognized as merely a part of the broader situation with respect to economic development in the countries of the Middle East. In any statement which is made to the interested parties or to the public, it should be emphasized that our Governments have assisted and welcomed the advent of the states of the Middle East into full political equality. They have observed with interest the examination by those states of their possibilities for economic development, which appear to be great. If it is the desire of any of those states to resort to international agencies for aid by loan or otherwise in exploring and effectuating such projects, as for example in the reclaiming or improvement of great areas by water control and irrigation, they will receive sympathetic support.

Certainly most substantial Palestinian development should be linked with developments in Transjordan and probably in Syria and Lebanon.

We recommend that a survey of the water resources of Palestine and, with the consent of the Government of Transjordan, of water resources common to the two areas should be undertaken as soon as possible by consulting engineers of international repute. They should further be invited, if adequate data for the purpose is available, to draw up an outline project indicating the best use of the water available. This project should be considered, and action on it taken, by the central government in consultation with the development board to which, for this purpose, the Government of Transjordan, and of any other neighboring state affected, would be invited to send representatives.

23. Long term development schemes which are wholly within one province will be financed by borrowing internally or abroad by the provincial government or an appropriate organization in the province. In the event that the borrowing is from abroad it is possible that the loans will have to be guaranteed by the central government. Long-term development schemes which involve both provinces or perhaps neighboring countries will require participation by the central government but it will be desirable for the provincial governments to take as much responsibility as is practicable in day-to-day administration and particularly in finance. The financial support of such projects should ultimately be made the responsibility of the provinces in proportion to the benefits which they derive. Schemes financed by loans

should be self-liquidating and, as such, they can be secured on revenues from the projects, reinforced when necessary by a general charge on provincial revenues.

FINANCE

24. We have considered various estimates of the cost of carrying out the measures set out above. We have also considered the effect on the Palestine budget of introducing the proposed scheme of provincial autonomy. We have based our conclusions on two assumptions; first, that the cost of living index will not rise in Palestine, and, secondly, that there will be no increased expenditure on law and order coupled with loss of revenue due to disorders and non-cooperation.

On the first of the points, it is clear that the programmes envisaged will constitute an inflationary influence, but against this a large part of expenditures will be for imported goods financed with external money. In addition substantial borrowing of savings within Palestine may be assumed and increasing supplies of imported goods at lower prices should become available. Should our assumption be incorrect, it is not possible to estimate the effect on the Palestine budget but cost of living subsidies involving expenditure of up to 4,000,000 pounds might be necessary. Equally, disorders and non-cooperation might add significantly to expenditures and reduce revenues.

25. *The Jewish programme.* According to our studies the total costs of the immigration of the 100,000 Jews can be put at approximately 70,000,000 pounds, made up as follows:

Transitional assistance, 6,000,000 pounds.

Housing, 14,000,000 pounds.

Capital investment to provide employment, 50,000,000 pounds.

Since it is essential to complete the programme as soon as possible, we assume that the whole 70,000,000 pounds will be spent within 2 years. The maximum expectation from reparations available for Palestine is 5,000,000 pounds; from contributions by world Jewry 20,000,000 pounds; and from loans to be raised in Palestine (whether in Palestine pounds or in sterling) 35,000,000 pounds. This would give a total of 60,000,000 for the Jewish programme, leaving a deficit of 10,000,000 pounds, which can be met by self-liquidating loans.

26. The Jewish Agency has publicly accepted responsibility for costs connected with the immigration of 100,000 Jews to Palestine. This financial responsibility should be confirmed, but there would be no need to ask the Agency to agree to any of our specific estimates. In due course the responsibility in question will be transferred to the government of the Jewish province.

Our studies indicate that 10 million pounds of required capital cannot be provided from Jewish sources within the next 2 years. As,

however, this deficiency is for purposes suitable for self-liquidating loans, it can be met by loans under the 250 million dollars credit provided for in paragraph 29.

27. *Financial effects of provincial autonomy.* A rough distribution of existing expenditures and revenues on the basis of the division of responsibility among the central government, the two provinces, and the Jerusalem district indicates that:

(a) The central government will continue to incur more than half of the present expenditures of the Palestine Government. It will have an estimated surplus in the order of perhaps 1,000,000 pounds.

(b) Revenues of the Jewish province will be substantially in excess of expenditures, giving rise to a surplus of 1,400,000 pounds.

(c) Expenditures of the Arab province will be substantially in excess of revenues, giving rise to a deficit of 2,100,000 pounds.

Since expenditures in the programme for the benefit of the Arabs would be concentrated entirely in the Arab province, the deficit of 2,100,000 pounds in that province will be increased by an amount which might run to 1,000,000 pounds annually as an average in the first 5 years.

From this total recurrent deficit of roundly 3,000,000 pounds there may be deducted possibly as much as 1,000,000 pounds representing excess revenues of the central government subject to grants to the province. There will remain currently a net deficit in the neighbourhood of 2,000,000 pounds. The United Kingdom Delegation proposes to recommend to His Majesty's Government to ask Parliament to assume of [*the*] ultimate responsibility for recurring deficits up [to] the time when increased revenues permit it to be met out of Arab provincial or central government funds.

28. *Cost of the Arab program.* We have attempted to estimate the cost of a practicable program, using as a guide the estimate of costs made in a survey by the Palestine Government. That survey was made on the basis of a program spread over the whole of Palestine. The concentration of the program in the Arab area would in any case make it necessary to revise these estimates. We have allowed for this, and also for such limitations as the provision of trained personnel and the capacity of the Arab economy to absorb a large spending program. Allowing for such considerations we think that a spending program of up to 15 million pounds to 20 million pounds over 10 years should be regarded as fully adequate to implement the recommendations for improved education, health, and economic services of the Anglo-American Committee. In addition, 10 million pounds should be provided for credit facilities. There are, however, so many unknown factors in the carrying out of such a program that it would be most unwise to commit ourselves to any public statement as to the amount

of the programs to be undertaken. Of the Arab program 10 million pounds for credit facilities could be secured from local bank credits. Of the remainder of the program, only a small portion would be suitable for the self-liquidating loans dealt with under paragraph 29. Provision of an additional 12,500,000 pounds at this time will, it is believed, care for expenditure sufficient to ensure that the program will be effectively carried forward to the period when means of additional financing may be found. The United States Delegation has therefore agreed, as a part of its contribution to the general program, to propose to the President of the United States that he recommend legislation granting 50,000,000 pounds¹¹ to the Government of Palestine for the purpose of financing development schemes not suitable for self-liquidating loans and for assisting in the meeting of extraordinary expenses during the difficulties of the transitional period.

29. *Capital for development.* A large portion of the capital needed for the self-sustaining projects mentioned in paragraph 22 must come from outside sources. It is possible that Palestine could obtain a loan from the International Bank if she should become a member. The United States Delegation proposes, in the event that¹² finance from other sources such as the International Bank is not available, to recommend that the President seek legislation authorizing the making of loans through an appropriate agency for the development of the Middle East region, including Palestine, up to 250 million pounds.¹³

30. *Public order.*—It is clear that the difficulties of introducing the policy which we have outlined will be greatly enhanced so long as there are in existence armed organizations, Arab and Jewish, determined in the last resort to oppose by force any solution which is not to their liking. We agree that private armies constitute a danger to the peace of the world and ought not to exist, and that attempts to prevent by violence the execution of the policy once it has been put into effect should be resolutely suppressed. We agree that to this end it is necessary that armed organisations which are not prepared to submit themselves to the full control of the central government should be dissolved and that the illegal holding of arms and explosives should be vigorously combatted.

31. *Future procedure.* We recognise that, in view of the existing situation in Palestine, any policy for that country will probably have to be introduced without the willing consent of either community. On the other hand, there is a degree of sustained and determined resistance of either Jews or Arabs beyond which no policy could be

¹¹ The British version reads "dollars", as does the last word in paragraph numbered 29.

¹² At this point in the British version the word "adequate" appears.

¹³ The British version contains a Section 29A which reads: "Details of the financial implications of our proposals are contained in Appendix D."

enforced. An effort to obtain at least a measure of acquiescence from the Arabs and Jews would therefore be an essential preliminary to the introduction of the above proposals. We therefore recommend that, if these proposals are adopted by our two Governments, they should be presented to Arab and Jewish representatives as a basis for negotiations at a conference to be convened by the United Kingdom Government.

32. In accordance with recommendation 4 of the Anglo-American Committee, we propose that the new policy should be embodied in a trusteeship agreement for Palestine. The conference with Arab and Jewish representatives should therefore be convened in time for its results to be available before the opening of the second part of the first session of the General Assembly of the United Nations. If the results of the conference were such as to suggest that the new policy would meet with a sufficient degree of acceptance in Palestine, the Government of the United Kingdom would proceed to put the plan into effect and would inform the General Assembly that practical considerations required this to be done under the existing mandate, but that they would press on as quickly as possible with a trusteeship agreement and would hope to lay a draft before the General Assembly at its next (1947) session. It would then be possible simultaneously to inaugurate the policy in Palestine and to undertake the consultations provided for in article 79 of the United Nations Charter.

33. We are not able at this stage to make recommendations regarding the course to be adopted if the conference with Arab and Jewish representatives led to the conclusion that the introduction of the policy proposed would be so violently resisted by one or both of the two peoples in Palestine that it could not be enforced. In that situation further consultation between our two Governments would be necessary."

[Grady]
HARRIMAN

867N.01/7-2546 : Telegram

The Ambassador in the United Kingdom (Harriman) to the Secretary of State

CONFIDENTIAL

LONDON, July 25, 1946—10 a. m.
[Received 10:49 a. m.]

6975. From Grady. I have just received the following letter from Dr. Goldmann of the Jewish Agency which he insisted should be sent in to me at the meeting I was attending.

"Referring to my telephone conversation with you this morning, I feel it to be my duty to let you know the following, which Dr. Weizmann and I had intended to tell you had you been able to see us. We