

As Economic situation

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Sir Chakravarty  
Mr. Off. Secy  
Mr. Brown  
Mr. Macaulay  
Mr. Campbell

BRITISH EMBASSY,  
WASHINGTON, D. C.,

March 22nd, 1939

W.S. [Signature]  
[Signature]

No. 536 E

My Lord,

The President is now deeply involved in controversy with his critics in Congress over the two subjects which are fundamental to his whole policy. On the question of foreign policy and its concomitant of rearmament the next few weeks will show whether he can throw sufficient weight behind his supporters in Congress to carry the type of revision of the Neutrality Act which he desires. This, however, is a subject which I shall have the honour to deal with in a separate despatch. The President's other struggle, in the sphere of internal politics, centres upon the question whether the left-wing New Dealers with their philosophy of spending for recovery, continued social reform legislation and sympathy for progressive trade-unionism are to continue to dictate the policy of the Democratic Party, or whether the more conservative element of that Party rallying around the Vice President will gain control, dictate the platform and nominate the Democratic candidate in 1940.

3. The New Deal has always represented a social challenge to white supremacy in the Southern States and has never been popular there; in the agricultural West it shows its greatest strength as it has become

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The Right Honourable  
The Viscount Halifax, K.G.,  
etc., etc., etc.

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more and more an economic necessity; in the industrial North-East the country has long been divided on the subject of the New Deal owing not only to disputes between capital and labour but to the internecine disputes between the rival labour organisations. This great industrial area contains the greatest voting power and it can turn the scale in 1940. The President well realises that the continued divisions between the American Federation of Labor and the Congress of Industrial Organisations can only play into the hands of the capitalists and that this may suffice to swing the balance towards the Republican Party. This is therefore his principal motive in appealing, as he has recently done, to both labour organisations to get together and make peace. Mr. Roosevelt's appeal, which was referred to in paragraph 3 of my despatch No. 253 of March 2nd, has been followed by meetings between the two bodies acting under a strong hint from Mr. Roosevelt that if after every effort has been exhausted the conferees are unable to make peace he will probably be forced to step in with a proposal of his own. The Republican Party can be expected to encourage resistance by the American Federation of Labor whose membership consists of the more conservative and highly paid craftsmen who form a kind of aristocracy of labour in this country. Mr. John L. Lewis's proposals appear to include the formation of a new American Congress of Labor which would supersede and embrace the two existing organisations as well as the independent four big railway unions. There is as yet no indication of an agreement being near.

3. Meanwhile in Detroit Mr. Homer Martin has set up an independent union outside the United

Automobile/



Automobile Workers Union from which he has seceded. Mr. Martin's supporters voted in favour of reopening negotiations with the Ford Company. He has been accused of having sold out to the reactionary motor manufacturers, who have recognised the need for collective bargaining and will be glad to find a sufficiently amenable union to bargain with. The actual strength of Mr. Martin's union is not yet apparent. He claims more than half of the former members of the United Automobile Workers Union, whereas the Congress of Industrial Organisations declare that he represents less than one-tenth of its membership.

4. If the President can succeed this summer in composing the differences between the rival labour groups he will certainly be in a stronger position to influence Congress which will be thinking of the labour vote at the next elections, and to that extent the moderates headed by Messrs. Garner, Farley and Pat Harrison, may find it advisable not to press their opposition too openly. Even so Mr. Roosevelt will probably decide to continue with his business appeasement policy because he must have some further recovery to show if he is to be able to nominate his successor in 1940.

5. I mentioned in my despatch No. 253 E of the 2nd March that, as part of a policy of business appeasement, the suggestion was made by the Secretary of the Treasury that Congress should examine what taxes if any are holding business back. The two chairmen of the Ways and Means Committee of the House and of the Finance Committee of the Senate promptly wrote to Mr. Morgenthau expressing gratification and the desire to cooperate, /

cooperate, and suggesting that the Treasury should lay before their respective Committees its views and recommendations for tax revision as soon as the March 15th income tax returns had been received. There the matter stands at present, no specific proposals having yet been formulated. A certain amount of scepticism has been expressed whether anything really valuable will be accomplished along this line at the present time, since it seems generally agreed that while expenditures are running at their present level no reduction can be made in the aggregate of taxes. The President moreover has spoken rather discouragingly at press conferences of the prospects of serious tax revision at present. At the same time as the proposals for reconsideration of the tax system were put forward Senator Harrison of Mississippi issued a statement saying that he was opposed to increasing the present legal maximum of the national debt, namely \$45,000 millions, but that if this were to be avoided, a radical and substantial cut in Government expenditure was necessary, unless additional taxes, which would act as a deterrent to business revival, were to be imposed. This statement was backed up by other members of Congress, and Senator Byrd has again rebuked Mr. Eccles for his views on the desirability of high public expenditures, but no sign of practical economy is to be seen in the appropriations which are actually being voted, and the President has intimated that he is opposed to forsaking the "spending-lending" policy, and has again asked for the \$150 millions which was cut by the Congress from the Works Progress Administration appropriations for the remainder of the current fiscal year, on the grounds that otherwise



400,000 workers will have to be dropped by the Works Progress Administration on April 1st and another 800,000 by June. The Administration has agreed under pressure from Senator Harrison not to ask for any increase in the total debt limit during the present session of Congress, but since the gross debt at present stands at a little under \$40,000 millions, this allows for a further increase of over \$5,000 millions, and does not imply any reduction in the rate of spending, since the legal limit would not in any case be reached before next year's Session is well under weigh. Mr. Morgenthau has had printed and placed on his desk a blue notice reading "Does it contribute towards recovery?" but so far the answer has not been given.

6. Congress has not yet passed a single important measure. As is usual at this period of the Session the various committees are actively engaged in hearings and estimates. A battle has started again on the subject of government reorganisation. It will be remembered that last year the President's attempt to get such a measure passed ended in disaster. This year a much less sweeping bill was introduced and passed the House by 246 votes to 153 on March 8th. The measure as it passed the House empowered the President to submit plans to merge or abolish certain bureaus or eliminate duplications in them and provided that such plans would become effective unless both Houses adopted a concurrent resolution specifically banning the changes within sixty days. The bill also provided for six special assistants to the White House staff with salaries of \$10,000 a year. The features which last year caused so much controversy, namely those abolishing

the Comptroller-General and reorganising the Civil Service Commission under a single commissioner were omitted from the bill. The bill as introduced already exempted seventeen of the more important independent agencies from its operation; various amendments in the House added three other agencies and deducted one from the exempted list. Yesterday the Senate by a majority of one approved Senator Wheeler's amendment to the bill whereby the reorganisation plans drawn up by the President would only become effective after a concurring majority vote of both Houses. If this amendment is maintained, it will mean that, instead of Congress having to bring in bills and pass a negative vote to stop reorganisation plans ordered by the President within sixty days, no plans could go forward without being first submitted to and approved by Congress. This Wheeler amendment, which was rejected last year and has now been passed, in effect wrecks the whole bill. What it means is that Congress is afraid of losing a great deal of useful patronage which at present resides in the numerous independent agencies, many of which would be merged or abolished if the President had his way. The bill is not dead yet, but its prospects are not good, and the rebuff to the President is discouraging to those of his supporters who hoped that he had still enough strength in the Senate to carry important legislation. It would certainly be most unreasonable if the President were denied even the increased White House staff which is so obviously needed. At present he has only three secretaries, two of them, Messrs. McIntyre and Early being former journalists and the third, just appointed,



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a former military officer, Brigadier-General Edwin Watson, who has hitherto been his military aide-de-camp.

7. One of the main subjects which Congress is supposed to tackle this session is that of railway reorganisation. A bill has been introduced in the Senate by Senator Wheeler with the object of setting up a reorganisation court to have charge of railroad reorganisation. The court would be expected to adjust its reorganisation plans to the earning power of the railroad properties rather than to unrealistic and fanciful ideas of the value of such property; to investigate frauds and irregularities, and reorganise the whole financial structure of the nation's railroads, one-third of which are at present bankrupt.

8. The vacancy in the Supreme Court which was created by the retirement of Justice Brandeis has been filled by Mr. William Orville Douglas, the forty-year old Chairman of the Securities and Exchange Commission. Mr. Douglas was born in Minnesota, educated in the Far West and has since lived in Connecticut. He is an ardent New Dealer and has been a Professor of Law at Yale. Although very young for this appointment Mr. Douglas is generally considered to be a first-class lawyer and his nomination is well received and sure to be confirmed by the Senate.

8. I am sending copies of this despatch to the  
High Commissioner for the United Kingdom in Canada,  
the/

File No. 12-243

the Prime Minister of Australia, c/o the  
Dominions Office, and the Department of Overseas  
Trade.

I have the honour to be,  
with the highest respect,  
My Lord,  
Your Lordship's most obedient,  
humble servant,

(SGD) R. C. LINDSAY