

BRITISH EMBASSY,  
WASHINGTON D.C.

July 3rd 1939.

No. 737 E.

My Lord,

I have the honour to inform Your Lordship that the President, taking advantage of an enquiry addressed to him by Senator Byrnes regarding the effect of a House Amendment to the Administration's relief bill, has issued in the form of a letter dated 21st June, 1939, to Senator Byrnes, a new plan to achieve an economic revival in the United States. Copies of the text of the President's letter are annexed to this despatch.

2. Briefly the scheme contemplates, as a permanent policy, the maintenance of a revolving fund, to be fed through the issue of Government guaranteed securities, and used for the purpose of lending money at a low rate of interest for certain types of public improvements described in the letter as "self-liquidating". These comprise water and sewage works, bridges, hospitals, toll roads and special highways, the purchase of railway equipment to be leased to the railways, rural electrification, tenant farm purchases, and loans to foreign governments "for the purpose of promoting our foreign trade." The various schemes outlined are to have a duration of between 2 and 7 years and they provide for loans totalling in all \$3,060,000,000, of which it is contemplated/

The Right Honourable

The Viscount Halifax, K.G.,

INDEX

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-2-

contemplated that loans to an amount of \$870,000,000 should be made in the fiscal year, 1940. The contemplated loans to foreign governments amount to \$500,000,000, of which \$200,000,000 are suggested for 1940. In addition to the above it is proposed to increase by \$800,000,000 the borrowing power of the United States housing authority for the purpose of housing schemes and slum clearance.

3. It is understood that this scheme is to a material extent based on proposals made by Mr. Adolph Berle, the Assistant Secretary of State and a member of the New Deal inner circle, although Mr. Berle's proposals have probably undergone substantial modification in the course of examination by the Administration. It also corresponds to suggestions made in a speech on 16th June by Mr. Eccles, Chairman of the Federal Reserve Board, who also used the inappropriate term "self-liquidating". The scheme is indeed a mere outline in which many details remain to be filled in, for example the rates of interest to be charged by the Government lending agencies. Mr. Berle has, I believe, urged that in certain cases the Government should be prepared to lend funds without interest, while the President's proposal confines itself to the expression "a low rate of interest". Further, it is not clear how this scheme for the lending of money at low rates of interest is to be fitted in with the existing relief programme by which grants are made to local authorities for a proportion (usually 45%) of the cost of public works.

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4. The President has indicated that the Administration is already at work outlining the type of legislation required, and that he will ask Congress to deal with this legislation at its present session.

5. The scheme has met at the outset with a good deal of criticism in the press and in Congressional quarters, mostly of a partisan character. The main criticism is of course against the proposal for additional public borrowing and lending as such, and it is pointed out how, when a budget seems hopelessly unbalanced already, the arguments against still further spending are less effective than when the budget is in balance. Some caustic references are made to the use of the expression "self-liquidating". Doubts are expressed whether the scheme can be confined to projects which are not competitive with private interests, and the history of the Tennessee Valley Authority shows that the Administration will have to watch its step on this side. Senator Borah has come out strongly against the proposal to expand loans to foreign governments, and the press points out that a policy of this kind is somewhat singular on the part of a government which has hitherto given little support to private persons who have made loans to foreign countries, and with a Congress which has adopted such a rigid attitude with regard to war debts. It has, however, been explained by the Administration that the proposed loans are more properly in the nature of export credits, and that the proceeds would be spent in the United States and largely for Latin America.

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The addition of the phrase "to foreign governments" is now admitted to be unfortunate and possibly fatal.

6. So much for the immediate reactions to the President's proposal. If the matter is regarded from outside it must be pointed out that even without this scheme there is plenty of new expenditure in prospect. It is true that it is estimated that the rate of spending under existing relief and other schemes is likely to slow down temporarily to some extent this summer and autumn. But on the other hand, the President's budget for 1940 allows for a deficit of \$3,300,000,000 (as compared with a probable deficit of \$3,500,000,000 for 1939), and there are a number of projected increases. For example, the President's budget provides for only 2,000,000 persons on relief as compared with 3,000,000 in 1939; and the 1940 provision may have to be increased in due course. The Senate has increased the provision for farm parity and surplus commodity payments by over \$300,000,000 and a major part of this increase will probably go through. Amendments to the Social Security Act which are now before Congress may involve increased government borrowing on the market of some \$600,000,000 in 1940, and more in later years. The Senate Commerce Committee has recommended an additional \$300,000,000 expenditure in 1940 for rivers and harbours. One might have thought that with a budget deficit growing in this manner, there was no need for an imposing new scheme of the kind issued by the President. No doubt its issue is to be attributed to a large extent to political considerations/

considerations and to the desire of the Democratic Party for a return of prosperity in 1940 which will float them through the new elections. But apart from this there is no doubt a sincere belief on the part of the President's New Deal advisers that recovery cannot be expected to come from private initiative, that capitalism has reached a static state, and that an increasing substitution of public projects for private enterprises is essential to prosperity. One of the most remarkable points about the President's proposal is that, in describing it as a "permanent policy" of the government, he appears to have committed himself to this view.

7. There are many responsible circles outside the Administration which, while they approve on the whole of the government's spending measures in recent years (including the new scheme) as a necessary interim policy, hold that there are all the factors present now for a substantial revival, which is only held back by the extreme uncertainties of the conditions under which business has to operate. These uncertainties include recurring probes and attacks on particular classes of business, the erratic character of the present Administration's own policy, the uncertainty as to the outcome of the 1940 elections, and the uncertainty arising from the international situation. From this point of view all that is asked for is peace and quiet in order that business may make its calculations on a firm basis.

8. In spite of these uncertainties, a moderate revival of business is expected to continue this year. The fear is

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even expressed that if the Republican party return to power in 1940, they may be too hasty in removing the restrictions introduced by the present Administration, and may find themselves incapable of controlling the ensuing boom.

9. The cleavage between the two views seems at present to be irreconcilable, and it is more than likely that the course of events will never furnish any conclusive proof which group is right. On one hand the President's new scheme may do much less than he thinks to speed up economic activity in the near future. Schemes of the type required will take time to work out, and in many cases it may be that the money spent would have been spent anyhow, and that the only effect will be to lessen the interest charge to the borrower at the government's expense. On the other hand, if the prophets of a business revival prove correct, the New Dealers would always be in a position to claim that the credit must be given to the government and not to the business community.

I have the honour to be,

with the highest respect,

My Lord,

Your Lordship's most obedient,

humble servant,

(SGD) R.C.LINDSAY.

P.S. I am sending a copy of this despatch to the Department of Overseas Trade.