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Political-economic situation 95/30/39

THE Secretary of State for Foreign Affairs presents his compliments to His Majesty's Representative at *Washington* and transmits herewith copy of the under-mentioned paper.

Foreign Office,

Herb. 11th Aug

1939.



Reference to previous correspondence:

299/44. Tel. from Washington No. 329, 22nd July.

Description of Enclosure.

Name and Date.	Subject.
<i>Letter from Herbert Wagg & Co. Ltd.</i>	<i>Conditions in United States.</i>
<i>Mr. Wagg? - + FA MP i.e. Hor</i>	<i>1/5. 25/8 a good summary based 28/8 This must be Harper good?</i>

A similar despatch has been addressed to H.M. Representative Consular Officer at

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18430 (2)

Copy.

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The first of the three questions which I have
asked you to consider is the question of the
effect of the new law on the position of the
various classes of property.

American business largely neglected by the
the majority of the American community in 1914 was
undoubtedly. Unfortunately, the only place where this
was held entirely true is the question of taxation. The
struggle about the proportionality bill has very little to do
with the question of the attitude of the American community towards
the world. It is a purely domestic issue. All the
international questions which are the subject of the
Administration have now come to the fore. The Secretary of
the President before last year's election tried and failed
to "open" relief against this opportunity for recovery
for 1914 and the President is involved in a fight where it will
reach the end.

With the Compliments of
Helbert, Wagg & Company, Limited

41, Threadneedle Street,
London, E.C.2.

It is a well-known fact that the
aim of the bill is to give the people the right of
modification of the present taxation law. The Administration
the division of labor is more efficient in the
Administration in the Foreign Affairs Department of the
which has been the other way in the past. The Administration
the bill for the present session. The bill is the result
of the work of the Committee on the bill. The bill is the
strong body in the House of Commons. The bill is the
a perfect bill which the Administration has not yet
the bill.

Helbert, Wagg & Company, Limited,
41, Threadneedle Street,
London, E.C.2.

New York,

July 17, 1939.

Before going on my summer vacation, which I shall spend in travelling across the American continent, I wish once more to state the present position and the immediate outlook of this country.

I

America remains largely dominated by European events. The sensitivity of the American reactions on European news is undiminished. Unfortunately, the only place where this does not hold entirely true is the Congress in Washington. The struggle about the Neutrality Bill has very little to do with Europe or the attitude of congressional factions towards world events. It is a purely domestic fight. All the accumulated resentments of more than six years of Roosevelt Administration have now come to the fore. The Senators whom the President before last year's elections tried and failed to "purge" relish seizing this opportunity for revenge. For once the President is involved in a fight where he cannot crack the whip.

It is still a minority of not more than at the utmost one third of the Senate that blocks the repeal or modification of the present Neutrality Act. But unfortunately the division of votes is more unfavourable to the Administration in the Foreign Affairs Committee of the Senate which decided the other day to shelve the consideration of the bill for the current session. And even in the whole Senate one third of the membership forms a sufficiently strong body to block an early passage of a modified bill in a parliament which like the American Senate does not permit any gag rule.

There/

There is another fact adverse to the policy of the Administration, and that is the advanced season. The intolerable heat of a Washingtonian July taxes the nerves of the Senators and Congressmen who are growingly eager to go home, and yet are forced to stay in Washington for this one purpose. (The rest of the programme, particularly the new spending-lending programme, would probably offer no obstacle to an early adjournment.)

But the President is stubborn. He knows better than any member of Congress that the matter does not permit any delay. The next few weeks are crucial. In these next few weeks probably the peace of the world will be decided on. It is possibly a fatal now or never. The next few days will tell whether the recent message of the President supplemented by Cordell Hull's impressive memorandum will have any effect on the recalcitrant members of Congress. While the President still appeals to the public at large where his popularity is hardly diminished, Cordell Hull's influence on Congress is at present probably greater than that of the President. For many years Hull has been a member of both Houses and from that time he has retained many personal friends in all camps.

For these complicated reasons the outcome of the struggle is still unpredictable. If Congress adjourns without taking positive action on the Neutrality Bill, the President probably will take the issue before the country which he will traverse immediately after adjournment, and if the country responds favourably, as it probably will, Congress will be recalled for a special session in autumn. One can only devoutly hope that it may not be too late. About the sentiment of the country there can hardly be any doubt, its sympathies are almost undivided on the side of the Western Democracies. And much as it dislikes the idea

of being dragged into another European war, almost everybody is convinced that if war comes sooner or later the United States will be in. This is by far the strongest argument for the President. Undoubtedly his foreign policy cuts party lines and is being admired by many influential Republicans. The pity is that the imminence of the Presidential election in 1940 is for them a serious handicap against expressing their opinion in public.

II

More successful has the President been in his fight for retaining his money power. The alliance in the Senate of the inflationist silverites and ultra-conservative gold stabilizers has brought about a majority which enforced at the same time a lapse of the President's power to devalue the dollar to 50 gold cents, an increase of the domestic silver price from 64.4 cents to 77.6 cents, its fixation by law (hitherto by discretion of the Secretary of the Treasury) and the stoppage of foreign silver purchases. Against this vote of the Senate the President mustered his whole influence. With a narrow margin of four votes the Senate after the short holiday adjournment reversed itself. The President had his power extended to devalue, the foreign silver purchases will be continued and the price for domestic silver has been fixed by compromise halving the price increase to 6.5%.

The last measure is the least important. The American silver production is relatively small and the price increase will probably not cost more than \$5 mill. a year. The two other issues at stake, however, seriously affect America's foreign policy. The President emphasized again that he does not think of making any use of his devaluation power for domestic purposes. The dollar is and remains stabilized, if and as long as no change is forced on the United States by foreign developments. But in a period of

fast/

fast shifting events when the value of the leading world currencies (besides the dollar) is unpredictable even for a short time, the President does not want to be hampered by clumsy legislative machinery in taking protective steps. In other words, if the pound sterling should break the Administration wants to remain free to adjust the dollar to the change of international competitive conditions. It seems to me that the issue has been hugely over-emphasized by the President who is no expert on questions of that sort. During the whole World War when the pound sterling dropped to unprecedented lows the United States did not consider for a moment the devaluation of the dollar, and unless acting under force majeure Great Britain under present political conditions most certainly will avoid anything embarrassing to the policy of the United States.

The question of foreign silver purchases is more involved. It is largely a question of the American policy towards Mexico, Peru, and the Far East. About the Mexican policy of Washington opinions are widely divided. Some people think that Washington is too lenient towards Mexico and that a policy of a strong hand would be more appropriate in view of the confiscation of American land and oil properties, that the Mexican government certainly should not deserve financial support by an outright subsidy to which these silver purchases actually amount. It is of course ridiculous to couch these subsidies in the disguise of purchasing an entirely useless metal at a fancy price. But while the Administration may get a majority in Congress for silver purchases, it probably never could get a majority for a current subsidy to the Mexican or other governments. But there are others who think that in due time the government of Mr. Cardenas will be brought to reason and that particularly the negotiations about the oil situation are making satisfactory progress which must

not be jeopardized. And after all, to judge by past experience, conditions in Mexico could be dangerously worse. Another question is whether the silver policy is of greater help to China or to Japan. There again it would be undoubtedly more reasonable and effective to give China direct help by dollar loans. Since the Japanese have seized Chinese silver in the occupied territories it is hard to prove whether the silver bought in the Far East is not actually benefiting the aggressor. But Treasury and State Department apparently do not think so and Congress has finally acceded.

III

Senate and House have at last worked out a compromise on the Tennessee Valley Authority Bill. The compromise provides for the authorization of the lower amount of \$61.5 mill. voted by the House against \$100 mill. advocated by the Senate. \$61.5 mill. cover the consummation of the Tennessee deal of the Commonwealth & Southern and the negotiated purchases of the part of the Alabama Power and Mississippi Power Companies, both subsidiaries of the Commonwealth & Southern. (The difference to the substantially higher purchase price has to be raised by the municipalities concerned.) But it does not permit another expansion of the T.V.A. The amounts adopted by Congress are earmarked for these special purposes. The geographical delimitation of the T.V.A. which the House wanted to fix by law has been dropped. But the substance of the matter has been retained because from now on the T.V.A. will have to apply for additional funds to Congress, and in its present mood, as the experience with the T.V.A. Bill has shown, it is extremely unlikely that any money will be granted for activities of the T.V.A. outside of its proper territory. The utility industry, therefore, is and has every reason to

be satisfied.

IV

Major troubles have arisen from the changes in the W.P.A. The relief bill which went into force on July 1st (in time for the new fiscal year) provides for an appropriation of \$1,775 mill. of which \$1,477. are for W.P.A., \$100 mill. for National Youth Administration, and \$143 mill. for farm security payments. Against the decision of the House Committee, the final bill deviates only in a few points. The single W.P.A. administrator was restored instead of a three men board, and the limit of building projects was raised from \$40,000 to \$52,000 (the major projects are a matter of P.W.A., Public Works Administration, not the W.P.A., Works Projects Administration).

But the principal bone of contention remained intact: the repeal of the so-called prevailing wage clause. This clause had been inserted two years ago under the utmost pressure of the American Federation of Labour as the representative of the building unions. With the conservative trend predominant now in Congress this wage limitation has been dropped. Workers on W.P.A. projects have to work 130 hours a month (which corresponds to about 30 hours a week) irrespective of whether or not the weekly relief wages would still result in the "prevailing wages". Against this the building unions together with the radical union of the relief workers (there is such a thing!) organized a violent propaganda which led in many places to the amazing experience of a strike of the relief workers against the Government or better against the democratically elected Congress.

This is of course an utterly absurd situation and President Roosevelt himself has not hesitated to qualify it as "impossible". "You cannot strike against the Government", the President declared at his White House press conference.

So/

So far the Administration is firm. All W.P.A. workers who do not return within five days are being dismissed. It remains to be seen whether Congress can yet be prevailed upon to consent to a change of the law. However absurd the strike is, the hostile attitude of the unions is understandable from their own point of view. As the Government is engaged in many construction works which are also being or could be executed by private employment the unions are afraid that the lower wages paid by the Government will curtail their own wage standards for which they fought many years. The situation is of course serious only for the poor unemployed victims of these struggles of vested interests because the pressure exerted on them by the unions is very strong in some places. But unless Congress changes the law the Administration cannot give in and there are at present some indications that the American Federation of Labour may realize the limits of its power.

V

Business, in the meantime, develops according to forecasts. The statistics for the first week of July are distorted because the Fourth of July this year fell on a Tuesday and caused therefore in many cases a longer interruption of business than in other years. As paid holidays are becoming more customary in the United States this calendarian chance has been used by many industries to curtail production and send a part of their employees on vacation. There is little doubt that all indices next week will rebound to the previous level. The next few weeks will probably witness another more important distortion which will come from the advance of the automobile season by about one month. The automobile production of current models will be virtually stopped by the end of this month, substantially earlier than in previous years. But, on the other/

other hand, the production of next year's models started a month earlier than usually. The assembly lines will get into active operations for the new models as early as middle of August which means a strong supporting influence for summer business. Automobile sales in the meantime keep up very satisfactorily. It seems remarkable that steel operations maintained a level of substantially above 50% despite the virtual stoppage of business orders from the automobile industry and railroads. That seems to forebode a rise of operations to 60% and possibly more in the next few weeks. Railroad carloadings and power sales in the meantime reflect the high and rising level of general business activity.

Textile, chemical, paper industry, all industries sensitive towards cyclical changes, report uniformly a rapid increase in incoming orders. Recent copper buying has been on some days among the highest ever recorded. Although undoubtedly purchases of foreign governments contributed heavily to the volume of copper business the bulk of it seems to have been for domestic accounts.

In the present world situation it would be futile to venture a longer term forecast. But unless the European or Far Eastern situation deteriorates dramatically in the next few weeks, the outlook for the current quarter seems to promise a business volume which would correspond to a Federal Reserve Board Production Index of 100 on a three months average.