

No.871 E.

BRITISH EMBASSY,
WASHINGTON D.C.

August 8th 1939.

My Lord,

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With reference to my despatch No.824 E of July 27th, I have the honour to report that Congress adjourned on August 5th. Its last weeks proved that nobody could accuse it of imitating its predecessors as a "rubber stamp" Congress. On the contrary, it ended the Session in open revolt against the Administration. While the Republican leaders were able to maintain complete party discipline the Democratic leaders were never able to count upon more than two-thirds of their nominal supporters to vote for any Administration measure, and as a result the Session has been a grave disappointment to the President and has ended with but few of his aims accomplished. Among the bills enacted the most important have been the Government Reorganization and the Defence Programme, both of which passed comparatively early in the Session. A record peace-time total of \$13 billion has been authorised as appropriations during the Session, but these were not all for the fiscal year 1940. Even so the President did not get as much as he asked for relief, nor did he succeed in pushing through the Works Financing Bill or the new Housing and Slum Clearance Bill, both of which are referred to below. The shelving of

The Right Honourable

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these two important "pump priming" measures during the last week of the Session was the final blow administered by the conservative coalition in Congress, and shows that the New Deal can now no longer count upon a majority for any first class measure. It is not, however, quite clear yet whether the trend towards a conservative policy will be as popular in the constituencies as it has been in Congress. On the whole the Senate, with the exception of its behaviour over neutrality, has been more amenable to the President than has the House, and Mr. Arthur Krock, writing in the "New York Times" considers that it is much too early to proclaim that true economy now dominates the congressional mind. He adds that it is untrue that the President has lost his influence over a majority of the Democrats at the Capitol, and it is not yet demonstrated that the Democratic breach cannot be healed for the purposes of the 1940 election. The President has hitherto restrained himself from showing resentment in public, and his comments at his press conferences are said to have been calm and good-tempered, admitting the right of Congress to deal with legislation as it wishes.

2. A further conciliatory action on Mr. Roosevelt's part has been his signature of the Hatch Political Activity Act referred to in paragraph 4 of my despatch No. 824 E. Many people anticipated that

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Mr. Roosevelt would veto this bill which seems likely to hamper his chances of renomination at the Democratic Convention in 1940. Mr. Roosevelt's behaviour, however, was studiously correct. He signed the bill and at the same time sent a message to Congress explaining what he thought about it. He said that he had consistently advocated the objectives of the bill. It had been suggested that partisan political reasons had entered largely into its passage, but with this he was not concerned, because he hoped that if properly administered the measure could be made an effective instrument of good government. The Attorney General had advised him that the Federal Government might properly require its employees to refrain from taking part in other endeavours which might well consume time and attention required by their duties as public officials: they could not, however, be precluded from the right of free speech or voting. On the other hand if such officials were attacked in public or in the press they had a right to defend themselves against any attack or misrepresentation, provided that they did not make such a reply as part of active participation in political campaigns. It was obvious that the bill was intended to extend to non-civil service Federal employees the provisions of the existing civil service regulations. Government employees would, for instance, be allowed to attend political meetings and to contribute to party campaign funds. Hundreds of questions would be asked regarding the actual administration and enforcement of this bill, and/

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and the President had requested the Attorney General to take steps to make sure that every Government employee was properly protected. Finally Mr. Roosevelt pointed out that the bill did not cover the multitude of State and local employees who were much more numerous than Federal employees. He suggested that Congress ought at its next Session to study the desirability of extending the objectives of the present bill to cover them. Senator Neely promptly tabled a bill to this effect on the following day, but of course it was not discussed during the last days of the Session.

3. The principal financial measures which Congress was obliged to attend to before rising were: (1) The Works Financing Bill, intended to give effect to the President's programme of loans for public works, etc., (2) The increase from 800 million to \$1,600 million of the borrowing powers of the United States Housing Administration for slum clearance and other purposes, (3) The Third Deficiency Appropriation Bill, and (4) the Amendments to the Social Security Act.

4. The scope of the Works Financing Bill (see paragraph 3 of my despatch No. 824 E) had already been cut, by the time the Senate passed it on the 31st July, to about \$1,600 million, little more than half of its original scope. There is, owing to the electoral system, a perpetual majority for the less populous agricultural States in the Senate, and it is only in the House that the thickly populated industrial centres are fairly represented. So the principal items affected

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by the Senate cuts were those benefiting the industrial districts. This action by the Senate so offended the industrial interests in the House that when the bill came before the latter on the 1st August it was given short shrift, the House simply refusing to put the bill on the Agenda. Two days later the same fate befell the bill to increase the borrowing powers of the United States Housing Administration. The President has announced that he intends to press both these bills at the next Session of Congress. Thus though he has failed to carry measures which might have speeded up recovery and assisted the Democrats in the 1940 elections, he is at least in a position, if recovery should be tardy, to put the blame on his opponents.

5. A heated skirmish occurred over the Third Deficiency Appropriation Bill. The House cut down the total from \$204,000,000 to \$54,000,000, the principal item omitted being \$119,000,000 intended to replace the losses of the Commodity Credit Corporation. This action was sharply criticised by the Administration on the ground that it would paralyse the Commodity Credit Corporation and lead to a sharp fall in the prices of home produced agricultural staples. The Senate, however, restored this item, together with one or two others, raising the total thus again to \$185,000,000. To this the House finally agreed on the last day of the Session.

6. The Amendments to the Social Security Act were referred to in paragraph 3 of my despatch No.

691 E of June 20th. The Senate and House had in substance reached agreement, but a final decision had been held up for over three weeks by disagreement on one particular Senate amendment, viz., that of Senator Connally providing for a higher proportion of the cost of old age assistance to be borne by the Federal Government. In the end-of-Session rush the Senate finally gave way on this and the amending bill was passed. Its provisions are shortly as follows:-

(1) Old Age Insurance

The payroll tax for this purpose will remain at 1% for the worker and 1% for the employer during the three calendar years 1940, 1941, and 1942, instead of the 1½% rates previously laid down for those years.

The insurance benefits are considerably liberalised and will start on the 1st January 1940 instead of the 1st January 1942. It is stated that in the long run benefits on the new scales will cost no more than those on the old scales, but this view seems likely to be optimistic.

The classes covered by the Old Age Insurance scheme have been to some extent extended and now include seamen and certain indirect agricultural and domestic workers.

(2) Unemployment Insurance.

Only the first \$3,000 per annum received by an employee will be taxed under the unemployment payroll tax. (This is

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already the case for Old Age Insurance).

Employers who were late in paying their unemployment payroll taxes for 1936, 1937, and 1938 will receive refunds amounting to about \$15 million.

(3) Old Age Assistance.

Provision is made that in assessing the assistance to be given to needy persons, account will be taken of their other resources.

The limit of the individual pension to which the Federal Government will contribute on a dollar for dollar basis is raised from \$30 to \$40 per month.

7. It is estimated that the freezing of the old age insurance payroll tax at 1% for three years will save employers and workers about \$275,000,000 in 1940 and about \$825,000,000 in the three years. The probable reduction of the unemployment insurance tax in certain States may save employers up to \$250,000,000 in 1940. The limit of \$3000 per annum on the wages to be taxed for unemployment insurance purposes will save employers about \$65,000,000 a year. The liberalising of old age insurance benefits and the advancement of the date of their commencement to 1st January 1940 will cost about \$1,200,000,000 more than the present law during the 5-year period 1940-1944; but only about \$42,000,000 is estimated to fall into 1940. No estimate is at present available of the cost of increasing the limit of old age assistance to which the Federal Government contributes on a dollar

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for dollar basis from \$30 to \$40 a month.

8. The total extra cost for 1940 will be upward of \$600,000,000 and this figure will rise materially in later years. It seems that no part of this extra cost will, however, appear in the form of budget appropriations, though the failure to maintain the original statutory rise in the payroll taxes will deprive the Treasury to a certain extent of the opportunity of borrowing from the old age and unemployment reserve funds instead of from the market. But the liberalising of the system will build up liabilities for the future which will have to be met in one way or another.

9. Of the bills which never reached the statute book the amended Neutrality Bill was the most important and the severest blow to the President. Apart from this and the "pump priming" measures referred to above, Congress refused to take any action on proposed amendments to the Wagner Labor Relations Act or to the Wages-Hours Law. The House Labor Committee got itself into a regular tangle over the latter measure, and a week before the Session closed called Mr. John L. Lewis to a hearing. His language appears to the casual reader to have been the result of a sudden fit of temper, but I am told that what he said was quite deliberate. He went out of his way to deliver a virulent personal attack upon the Vice President. He complained that the genesis of the campaign against labour in the House of Representatives was to be found within the Democratic Party; that it ran across to the Senate

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and emanated there from a "labor-baiting, poker-playing, whiskey-drinking, evil old man whose name is Garner". He went on to say that Mr. Garner's knife was searching for the quivering, pulsating heart of labour, and that he, Mr. Lewis was against him now and would be against him in 1940 when he sought the Presidency of the United States. This outburst has on the whole reacted against Mr. Lewis, as the press in sanctimonious horror has held up its hands at such dreadful accusations. Perhaps the real truth is that everybody knows what Mr. Garner's habits are and everybody prefers not to think of them as associated with the Vice President of the United States.

10. Both the House and the Senate passed bills in the course of the Session to help the railroads out of their desperate financial situation, but no compromise was reached between the two houses and by the end of the Session nothing had been done for the railroads.

11. Attempts to tack to various other measures paragraphs repealing the provisions in the 1940 Relief Act which had brought about the strike of Works Progress Administration workers failed of effect. At the end of the Session the bill remained untouched and the situation was as described in paragraph 5 of my despatch No. 824 E. In New York alone, 55,000 men are to be dropped off relief rolls during the present month under the 18-month provision.

12. The Senate spent some of its last hours in a controversy regarding a request of the La Follette Civil

Liberties Committee for a further \$100,000 to continue its investigation of the Associated Farmers of California, and others. It eventually voted \$50,000 for this purpose. In all, Congress appropriated \$845,000 for nine Congressional enquiries, some already active like the Federal Monopoly Committee and the Dies and La Follette Committees, and others newly instituted like the Cole enquiry into the conservation of oil resources and the Bland investigation of Alaska fisheries.

13. Senator Robert A. Taft of Ohio has announced himself as a candidate for the Republican Presidential Nomination in 1940. The announcement at such an early date was apparently necessitated by some provision of the State law and does not necessarily mean very much, although it does mean that Governor Bricker of Ohio intends to stand down in order to allow Senator Taft to run as a favourite son. Senator Tydings of Maryland has ^{also} announced himself as a candidate for the Democratic Nomination. This means even less because Mr. Tydings has no chance whatever of obtaining support from the liberal section of the party.

14. I am sending copies of this despatch to the High Commissioner for the United Kingdom in Canada, the Prime Minister of Australia care of the Dominions Office, and to the Department of Overseas Trade.

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

(for the Ambassador)

(SOS) V.A.L. HALLST.