

*copies sent to
Mr. Com. Genl.
B. K. D.*

*Mr. Blakely
Mr. Spence
Mr. Macdonald
Mr. Rumbold
Mr. Plunkett
Mr. Swinton*

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No. 25 E

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R. H.

My Lord,

The 76th Congress met on January 4th to hear the President read his annual message. I am writing in detail on the foreign policy aspect of this message in a separate despatch, but Mr. Roosevelt succeeded so skilfully in basing his appeal for national unity for internal reconstruction upon the argument that the storm signals from across the seas necessitated putting the American house in order that in all probability foreign and domestic issues will interlock throughout the forthcoming session. If this is so the process of educating the public towards an intelligent appreciation of America's position in the modern world may well be considerably advanced this year. Whether the increased interest in foreign affairs which undoubtedly exists throughout the country will tend towards greater or less enthusiasm for complete isolation is one of the problems which the session may help to solve. The debate will be stimulated at the outset by a message which the President is about to send to Congress on the subject of national defence. It will further be stimulated at a later date by an attempt to repeal or modify the Neutrality Act. It is thought likely that this subject, which bristles with prejudices and antagonisms, may be left over for a month or two yet to give time for the

Administration/

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

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Administration to sense the general feeling of the Legislature. Meanwhile there is ample matter for discussion in the Budget message suggesting appropriations of \$8,996 millions for the fiscal year 1939-40, as well as an additional \$875 millions for relief during the remaining months of the current fiscal year, in the suggestion that nearly \$500 million in new taxes will be desirable to prevent abrupt curtailment of spending on relief and national defence, in the problem of elaborating a satisfactory bill to rehabilitate the railways, and in a fresh attempt to reorganise the machinery of Government in order to provide the President with the administrative powers for which he asked in his message.

2. The mood of the new Congress will be less subservient than that of its predecessor and yet the last Congress on two vital occasions, those of the Supreme Court Bill in 1937 and the Executive Reorganisation bill in 1938, proved itself recalcitrant to the extent of rejecting the President's proposals. Underlying the mood of Congress is undoubtedly the traditional suspicion of the powers of the Executive, which all Mr. Roosevelt's strictures against dictatorship have failed to allay. The "New York Times" recently suggested that one of the most useful things that this Congress could do would be to reconsider in the light of present needs the various emergency powers which the President has accumulated during the past five years. Under existing law the President can again devalue the dollar at any time that he chooses to do so; he can issue three billion dollars in notes at his discretion; he can introduce a bimetallic standard by a stroke of the pen by decreasing the unlimited coinage of silver; he can fix the value of the silver dollar at any ratio to gold that he sees

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fit; he can prescribe the rules and regulations under which gold can be held and acquired, transported, melted or traded, imported or exported; he can through the Treasury operate a stabilisation fund of two billion dollars; he can suspend trading on any stock exchange for a period of 90 days; he can under the trade agreements act raise or lower tariffs by 50%; he can spend, subject only to certain broad limitations, funds for relief, farm benefits, etc. amounting to more in a single year than was entrusted in the aggregate to the discretionary powers of all the Presidents before him in the history of the country. On the whole it is admitted that the President has used these vast powers with moderation, and in such instances as the trade agreements act with skill and tact. Nevertheless, if Congress is in a mood for economy and retrenchment, as it is reported to be, there will certainly be severe criticism of the semi-dictatorial powers of which the President can avail himself.

3. Mr. Roosevelt may succeed in carrying his programme of spending for prosperity. His argument regarding the present unemployment of capital and the need to attain a total turnover of business, or total national income of 80 billion dollars a year, may prove persuasive. It was notable that during the reading of his message a passage which evoked great applause was one in which he indicated the alternative course of reducing the present activities of Government by one-third and cutting down expenditure to that extent. But the applause was less vociferous when he pointed out that in order to do so Congress would have to take the responsibility of drastic reductions in expenditure upon assistance to farmers, veterans pensions, flood control, highways,/

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highways, waterways and other public works, grants for social security, Civilian Conservation Corps, relief for the unemployed or national defence. Such drastic curtailments might easily provoke the resentment of an electorate which has learned to believe that the public purse is bottomless. The alternative pointed out by Mr. Roosevelt is to maintain government activities and expenditure and even to increase them, to stimulate private enterprise to employ its capital by putting men to work and thereby in a very short time raise the national income to 80 billion dollars, at which point it should suffice without increased taxation to yield enough to balance the budget.

4. Thus the President has not turned his back upon the New Deal. He has, however, made it clear that he does not propose any drastic fresh legislation but rather the amendment and perfecting of existing legislation on social security and labour relations. He does however ask once more for executive reorganisation to enable the administration to make the best use of the vast machinery under the New Deal, and promote greater government efficiency. In his Jackson Day party speech on January 7th he stressed once more his view that the Democratic Party must be a liberal party and that those who were too faint-hearted to go along with him on this road had better join the Republicans. By this of course he indicated that he considered the Republican Party unregenerate and reactionary, as it had always been since Lincoln with the possible exception of a few years under Theodore Roosevelt. Some of those present at the Jackson Day dinner came away with the impression that Mr. Roosevelt was making

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a bid for a third term of office for himself. Others felt that he was mainly concerned with an attempt to stimulate the conservative minded Democrats of the Southern States to a realisation that if they faltered in their allegiance and refused to vote for liberal measures the Party must ultimately be split.

5. As anticipated in my despatch No. 1141 E of December 23rd last Mr. Harry Hopkins has been appointed Secretary of Commerce and Colonel Harrington has succeeded him at the head of the Works Progress Administration. Mr. Frank Murphy, a former Governor-General of the Philippines and more recently Governor of Michigan, has been appointed Attorney General. He is forty-five years old and described as an ascetic, an idealist, an able lawyer and administrator. His governorship of Michigan was marked by severe strikes in which his critics complained he adopted too complaisant an attitude towards the strikers, although his supporters claim that by so doing he averted very serious bloodshed. Another important nomination is that of Professor Felix Frankfurter to the vacant Bench in the Supreme Court. It seems generally agreed that Professor Frankfurter is a highly suitable nominee to carry on the liberal traditions of the late Justice Cardozo. He is a Jew, like his predecessor, and was born in Austria but has lived in the United States since he was twelve. All these three nominations have got to run the gauntlet of confirmation by Congress but they will almost certainly not be rejected. The three men are all of them liberals and New Dealers, and the reconstituted Cabinet will reflect the President's point of view more accurately than before. There is however

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no reason to believe that as a result the tendency will be further towards the Left; on the contrary, the restraining influence of the moderates in Congress and the great authority over that body exercised by the Vice President will if anything impart a rather more conservative flavour to the legislation.

6. The Sheppard Committee of the Senate, has issued its report on the Works Progress Administration. It has detailed various abuses whereby Democratic candidates availed themselves of the Works Progress Administration for ^{electoral} ~~cultural~~ purposes, one of the offenders being Senator Barclay, the Senate Leader, although the Committee found nothing to show that he himself had any personal knowledge of the activity of persons who solicited contributions from Federal employees on his behalf or of political activity in the ranks of the Works Progress Administration personally working in his interests. The Committee has made 16 recommendations mostly dealing with the methods for extending and tightening the present provisions of the law against soliciting contributions to party funds by Federal employees. Other recommendations require a fuller accounting of funds and a limitation of the amounts which may be contributed on behalf of candidates seeking election. It is also recommended that candidates be prohibited from promising work, employment, money or other benefits not connected with public relief. The Committee found that there had been in several States unjustifiable political activity in connection with the work of the Works Progress Administration and it believed that funds appropriated by

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Congress for relief had in many instances been diverted to political ends. Congress will probably turn its mind to the problem of getting relief out of politics, a difficult task in the absence of a proper Civil Service. The promotion of the highly political Mr. Hopkins will perhaps help in this. It certainly seems time that the tax-payer at least can feel sure of getting value for money spent. The President has just asked Congress for a deficiency appropriation of \$875 million for the next five months of the Works Progress Administration an amount which exceeds the total expenditure of the Federal Government for the entire year before America's entrance in the World War. This means that the Works Progress Administration has succeeded in spending the last penny allowed by a generous Congress even in the event of "some extraordinary emergency which could not be anticipated". The emergency obviously never actually arose, because the bill authorising the money which has now been spent was passed in June at the bottom of the depression, since when the index of industrial production has risen from 77 to 103 and the Labour Department's index of factory employment has risen from 82 to 91. Actually the expenditure by the Works Progress Administration tended to rise until November 5th, since when it has been falling. Men have been leaving relief for private employment, but an average of three million workers are expected to be dependent upon the Works Progress Administration in February and March with a reduction by June to 2,700,000.

7. Another Congressional Committee which has issued its report is the Dies Committee on un-American activities. The report, regarding which I shall have

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the honour to address Your Lordship in a separate despatch, is vitiated by the unbalanced and unproven accusations in which it abounds, including charges against members of the Cabinet. It aims at proving the revolutionary character of the American Communist Party, and also at showing that Nazi and Fascist groups with their own special techniques are aiming at the destruction of free institutions in this country. The hearings of the Committee have undoubtedly served to focus public attention on such groups and their operations, and it may well be that Congress will either reconstitute the Committee or appoint a better one to follow up the clues which it has revealed. The present report is otherwise of little interest or value, and the Committee has in the words of the "New York Times" "Boleantly listened to a great deal of obviously hysterical tosh".

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

(SGB) V. A. L. MALLETT

H.M. Chargé d'Affaires.