

*17/4*  
*Brumby*  
*Revised*  
*Plan*  
*13/4*  
*12/4*

BRITISH EMBASSY,  
WASHINGTON, D. C.,  
April 6th, 1939

No. 393 E

My Lord,

*95/14*

When I wrote in paragraph 6 of my despatch No. 336 E of March 22nd that the prospects of the Government Reorganisation Bill passing Congress were not good I was, as it turned out, unduly pessimistic. The very next day in fact the Senate reversed its previous decision on the Wheeler wrecking amendment and passed the bill more or less in the form in which it had reached them from the House of Representatives. On March 30th after a conference of both Houses the House of Representatives accepted such amendments as had been introduced into the bill and sent it up to the President for his signature. The bill authorises the President to group and coordinate government agencies, with twenty-one exceptions, as nearly as may be according to their more important purposes, to reduce the number of agencies by consolidating those which have similar functions, to abolish those not necessary to the efficient conduct of government, and to eliminate over-lapping and duplication. Any plan submitted to Congress automatically becomes effective unless both Houses within sixty days adopt a concurrent resolution rejecting it. The bill also authorises six additional White House Secretaries, and there is much speculation/

The Right Honourable

The Viscount Halifax, K.G.,

etc., etc., etc.

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speculation as to how these selfless paragons are to be discovered. It would be easy enough if a higher grade civil service existed: as it is, people are already wondering whether Mr. Corcoran, Mr. Cohen and other bright young brain trusters will get these jobs, and I cannot help thinking that Mr. Berle may. The bill itself is a mere shadow of what the President asked for and failed to get last year, and it is unlikely to result in any serious economies, but it should if wisely applied enable the President to promote greater efficiency in those government agencies which are independent of Cabinet Ministers' control, and perhaps lead to greater reforms in the future.

2. Congress has also, as reported in my despatch No. 363 of March 28th, passed an emergency bill authorising expenditure of \$358 millions on the Army. On March 27th the Senate approved the largest peace-time appropriation for the War Department, amounting to \$513 millions, without a dissenting vote. On the other hand, the next day the Senate reduced from \$102 millions to \$42 millions an estimate for building up a stock of "strategic and critical materials" not produced in the United States. As the authorisation was anyhow to cover a period of four years, and as the sum at present voted is likely to be more than can be spent in the current year, this vote is probably not of great importance.

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3. The President's request for an extra \$150 millions for the Works Progress Administration, referred to in paragraph 5 of my despatch No. 336 E, is encountering difficulties. The House has reduced the sum to \$100 millions and has thereby once more shown its

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desire for economy. This vote followed upon a strong criticism by Representative Woodrum, Democrat, of Virginia, in which he declared that the whole system of relief administration needed drastic overhauling, that the actual administrative overhead costs of the Works Progress Administration were more than \$60 millions a year and that money was being wasted quite recklessly. The House has named a committee to investigate the expenditure of funds by the Works Progress Administration, which is expected to formulate a policy which will guide Congress when further appropriations are asked for. On the actual additional sum at present under discussion the Senate will no doubt have a good deal to say, and it is always possible that they may restore the \$50 millions cut out by the House. The President's supporters will however have great difficulty in achieving this result because of the split in the Democratic Party which shows no signs of healing.

4. A further sign of the strength of the movement for economy in the House was a division which took place on March 28th which cut from the Department of Agriculture's Supply Bill for 1940 the sum of \$250 millions intended for farm price parity payments. Ever since the war the United States Government has been wrestling with the farm problems raised by over-abundant crops, shrinking foreign markets, accumulating surpluses and diminishing prices. The New Deal, although thwarted by the Supreme Court, has aimed at restoring parity between the prices of agricultural products and manufactured products. Parity prices on crops were defined in the Act of 1938 as those which will give farmers the average purchasing power they

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had from 1909 to 1914. The Government programme has sought to restore parity through a complicated system of acreage reduction, loans on crops, crop insurance, and disposal of surplus commodities at subsidised cut rates both at home and abroad. Last year Congress voted \$212 millions for direct payments to wheat, maize, cotton, rice and tobacco growers to make up part of the difference between their selling prices and the parity prices, such payments being additional to and not in substitution of any other payments authorised by law. The Administration had left parity payments out of the 1940 budget submitted to Congress in January but the House Appropriations Committee had inserted a sum of \$250 millions for this purpose in the annual Agriculture Department Supply Bill. It was this sum which was rejected on the floor of the House, but it is quite conceivable that the Senate will restore the sum to the estimates.

5. The cotton situation has been under discussion by Congress for weeks but no agreement is in sight on the numerous measures before the Agricultural Committees of both Houses. On March 28th the President produced his own "cotton plan", which contemplates a small payment to producers to induce them to release to the market the cotton they have pledged to the Government against a loan of 8.3 cents a pound and a subsidy estimated at 2 or 3 cents a pound on all cotton exported after the plan goes into operation. Import quotas on cotton manufactures and payments on exports were proposed to compensate domestic manufacturers for the cheaper price at which foreign manufacturers would buy subsidised American cotton. The President's plan

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has so far been ignored where it has not been opposed in Congress and the Senate proceeded to pass the Bankhead bill under which 3,000,000 bales of loan cotton would be delivered to producers for sale to the market on payment of 5 cents a pound and an undertaking to reduce further their production by that amount during the current year, the Government losing the difference between 5 cents and the amount of the loan and storage charges. There is no likelihood of the Bankhead bill being accepted by the House, where Mr. Marvin Jones, Chairman of the Agricultural Committee has a subsidy plan of his own. The State Department informed a member of my staff that, much as they dislike the prospect, they have to face the probability that Congress will pass an export subsidy for cotton in some form or other and their efforts will have to be directed to minimising as far as possible any prejudicial effects on other countries and on the trade agreements policy.

6. The struggle over both general expenditure policy and tax amendment has continued in an inconclusive manner. As regards the spending policy Mr. Eccles made a further statement before a Senate Committee in which he opposed the theory that greater economic activity could be brought about by the issuance of additional currency, arguing that such currency would not stay in circulation and would only add to the present huge excess of bank reserves, and that accordingly what should be done is to encourage private industry to set to work the "great surplus of idle funds, idle men and idle resources which we have in this country today", but that since private

enterprise/

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enterprise is unable or unwilling to do this government expenditure must take its place. Mr. Eccles went on to say that apparently a great majority of people thought that business confidence would be restored by budget balancing, and that while he was convinced that such a policy under present conditions would have disastrous results, "we live in a democracy and therefore I believe that the viewpoint of the majority should be made effective", and that this could be done by Congress at once reducing expenditures to the level of receipts. "In order to do this Congress would have to reduce substantially practically all of the large items in the budget such as work relief projects, Civilian Conservation Corps camps, roads and public works of all kinds, veterans benefits, all farm benefit payments and national defence". This mocking challenge of Mr. Eccles' has received a rather bad press since it is of course obvious that steps towards budget balancing must be taken gradually and must be taken by agreement between the Administration and Congress. Despite the loud protestations of desire to reduce the deficit by members of Congress the appropriations are in fact running at present at least as high as those called for in the President's budget message, and in view of the opposition to making drastic cuts in individual appropriations there seems little reason to believe at present that the move for economy will end in reducing the deficit much, if at all, below that suggested by the President. As regards the question of tax revision the only definite further step which has been taken is a proposal on the part of the Secretary of the Treasury that the Social Security payroll taxes, which were due

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to be increased by one-half of one per cent on both employers and employees at the beginning of the calendar year 1940, should, in order to lighten the tax load on business, be kept at their present level or at least be increased by a lesser amount. As a corollary of this proposal it was proposed that the full reserve which was to have been built up against future Social Security payments and which was calculated to reach some \$47 thousand millions by 1960, should be dropped and a reserve created of only the amount of two or three years' payments. These payroll taxes have been the subject of considerable criticism by business and the proposal is one which I should expect to go through, although, unless some other tax is substituted, its effect will of course be to increase the actual cash deficit of the budget.

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7. The Joint Congressional Committee which has sat for nine months investigating the Tennessee Valley Authority and which was last referred to in paragraph 2 of Mr. Mallet's despatch No. 1072 E of December 7th last, has at length issued a long report in which the majority of investigators declare that the charges of dishonesty brought by the former Chairman Dr. Arthur Morgan against his two colleagues were without foundation, not supported by evidence and made without due consideration of the available facts. The report commended the other members of the Board for acting with dignity and forbearance but added that this could not be said of Dr. Arthur Morgan. The minority report signed by three Republicans attacked the Tennessee Valley Authority for being wasteful and inefficient and recommended complete reorganisation. The report evidently does not

serve to enlighten Congress very much, because both majority and minority have reported on purely partisan lines.

8. The move to impeach the Secretary of Labor which was referred to in my despatch No. 101 E of January 26th, has been killed by a report from the House Judiciary Committee which found that there was no evidence of conspiracy to prevent the deportation of Harry Bridges.

9. The Supreme Court on March 27th over-turned a long-standing precedent by deciding that there is nothing in the Federal Constitution to prohibit the Federal or State Governments from taxing the income of a State or Federal employee. That is to say that a Federal employee can be called upon to pay State income tax in the State in which he resides on the salary he receives from the Federal Government, and a State employee can be called upon to pay Federal income tax on his income received from a State. One result of this may be that an income tax may be introduced for the District of Columbia where previously it was thought impracticable owing to the fact that nearly everybody living in Washington is a Federal employee.

10. The Neutrality hearings are about to begin in Committee, but it is impossible to forecast when the question of amending the existing bill will reach the floor of either House. It is generally expected that this must occur before May 1st, when Section 2 (the cash and carry clause) of the present law expires automatically. Meanwhile a ridiculous bill was introduced by Senator Bone to tax war profits. The measure would impose a 99% income and surtax on all taxable income



over \$20,000 and has many other entirely impracticable provisions which are not worth going into at this stage. Fifty Senators backed the bill but when the press began to mock at it and enquiry was made of the Senators it was discovered that only ten of them had read it. It will no doubt be discussed in committee along with many other proposals but nobody seems to be afraid of its getting very far.

11. 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,

(SGD) R. C. LINDSAY