

2. Developments on the financial and economic side have not been encouraging. The hoped-for improvement in business hangs fire, and the President is evidently deeply disappointed and embarrassed by the failure of the new spending campaign of 1938 to stimulate private business. Some progress has been made regarding tax reform. A programme of amendments, mainly to the Corporation taxes, and designed to remove impediments to business, was worked out by Mr. Hanes, Assistant Secretary of the Treasury, under Mr. Morgenthau's direction. This programme at first received a chilly reception from the President who declared that he would not agree to the abolition or reduction of the tax on undistributed profits unless equivalent revenue was obtained from the same group of corporations and steps were taken to prevent tax evasion by retention of profits by corporations. He appears further to have refused to allow the Treasury plan to be put forward as an Administration proposal. His hand has, however, been to some extent forced by the determination of Congress leaders to take the initiative themselves even at the cost of prolonging the session. After much coming and going it was arranged that Mr. Morgenthau shall give evidence before the House Ways and Means Committee on the 27th instant. A large part of the Secretary's statement dealt with general problems, the improvement of Congress procedure, and future taxation policy. But he made some specific suggestions and it is generally anticipated that the outcome will be the expiry of the undistributed profits tax; the raising of equivalent revenue by placing a flat rate of perhaps

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18% on Corporation incomes above \$25,000 and a graduated rate of perhaps 12½% - 18% on lower incomes; the removal of the \$2000 limit on the carry forward of losses; permission to carry forward losses for two or three years instead of one only; and certain other amendments. The excise duties which expire in June or July and produce \$400,000,000 per annum will probably be renewed. But Congress is likely to postpone action on the President's proposal, repeated by Mr. Morgenthau, that Government securities issued in future should not be exempt from income tax; this is controversial and affects the relations of the Federal and State Governments.

3. Meanwhile, in spite of the defeat of the bill providing for export subsidies on cotton, the Senate has increased the appropriations for the Department of Agriculture by some \$375,000,000, which would probably enable the Government to introduce the export subsidies as an administrative measure. It seems probable that these increases will be accepted, in spite of opposition, by the House and by the President. The President is, however, reported to have observed that if Congress wished to vote this extra expenditure they ought to have provided additional revenue for the purpose.

4. The President's attitude on this matter seems in contradiction with rumours which are in circulation to the effect that the Administration will advance a new spending programme as a cure for the failure of the last. This rumour seems at present very doubtful. The President, though he vigorously defended his policy in a recent speech, gives rather

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the impression of being afraid to make any definite move, either in favour of more deficit spending or in favour of economy and a reduction of the deficit, for fear that either move might be the wrong one. A more probable indication of the President's thoughts seems to be given by a message which he recently sent to the Temporary National Economic Committee (commonly called the "Monopoly Committee" and composed of Congressmen and officials, set up last winter to consider the question of trusts and free competition) suggesting that they should enquire into the reason why capital remains idle. The Securities and Exchange Commission, which has given evidence before this Committee, has been staging a demonstration that the large Corporations are self-sufficient as regards capital and that idle money can only be mobilised e.g. by a system providing loans for small businesses. It is possibly in the direction of Government guarantees for private loans that Mr. Roosevelt will seek the way out from the impasse which his present policy has reached.

5. The reform of the old age pension provisions of the Social Security Act continues to be discussed without any definite progress. It is believed in some quarters, however, that the Administration would be in favour of retaining the present level of the payroll taxes instead of raising them by 1% in 1940 as originally provided, and further making the old age benefits available in 1940 instead of 1942. This would enable the Administration to reap the political harvest of this measure in time for the 1940 elections, the shadow of which evidently lies darkly over all financial and economic moves at the present time.

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6. The session has so far proved that Congress is only ready to take prompt and effective action in one matter of importance, namely national defence. On the other two major issues, foreign policy which involves neutrality legislation, and domestic recovery, there has been nothing but delay, disunity and deadlock. The American Constitution is not in any event ideally designed to promote close and continuous confidential communication between the Executive and Congress. Mr. Roosevelt's dominating personality and the too frequent inadequacy and unpopularity of his principal executive assistants have undoubtedly served to accentuate the lack of harmony between his Administration and the legislature. The President is accused of failing to take Congress into his confidence, especially in matters affecting foreign policy, and Congress is equally open to the criticism that it has failed to create an atmosphere in which the President could prudently take it into his confidence. On the other hand the Republican opposition have not been playing their cards particularly well. They are even now paying lip service to economy in what they have been pleased to declare "National Debt Week", a week in which Republicans throughout the country are expected to call attention to the prodigal and unproductive financial undertakings sponsored by the New Deal. Yet on May 12th the Senate gratuitously added nearly \$400 millions to the agricultural appropriation for the next fiscal year, or a 45% addition to the appropriation asked for by the Administration. The Republicans have equally got themselves into a considerable tangle over the

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Neutrality Act in which they are quite as unable to present a united front as are the Democrats. All this is in the long run encouraging for Mr. Roosevelt and his liberal ideas, and the talk of a third term for him in 1940 is increasing again. He has shown in his recent utterances that he is unrepentant. In a speech on May 22nd to the Retailers National Forum he made it clear that he intended to follow up all the principal policies of the Administration, especially that of deficit spending, although he assured his hearers that a continuation of deficits was not a permanent part of the Government's plans. He invited the retailers, over whose counters he calculated that more than 50 cents of every Federally spent dollar passes, to cooperate with him in improving their business methods, but added that they must first approve the purposes lying behind his policy. The Secretary of Commerce before the same audience stated that there must not, and would not be any compromise with the underlying principles of the New Deal's social and economic reforms. The Administration recognised however the necessity of fair business profits as an essential basis for increasing employment and private investment. The President has also had a word to say at his press conference on the subject of public utilities. Approving the plan just presented by the New York Power Authority to the Governor of that State, which suggested a new line of approach to the problem of coordinating Government power enterprises with private power systems, Mr. Roosevelt said "the Power Authority's report is obviously drafted to test the willingness of the private utilities/

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utilities to cooperate with government agencies in a programme of expansion in order to make possible the widest possible use of electricity at the lowest possible cost".

7. The Secretary of Agriculture announced on May 15th that there would be no wheat marketing quotas under the Agricultural Adjustment Act this year and consequently no referendum on this question by wheat farmers. The present estimate of the crop is not such as to necessitate a quota. The wheat acreage allotment for 1940 will be 62 million acres, an increase of 7 million acres over the present year.

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8. The coal strike referred to in paragraph 4 of my despatch No. 507 E ended, as the result of the President's intervention, in a victory for Mr. John L. Lewis insofar as the principle of the closed shop was conceded. A new agreement has been signed with the coal owners providing that henceforth in the bituminous coal industry no miner will be employed until he joins the United Mine Workers, and the anthracite miners have just obtained a similar contract with their employers. This will render it unnecessary for the National Labor Relations Board set up under the Wagner Act to hold any elections in either the hard or soft coal industries to decide which unions are to bargain with the employers. The strike has however been unpopular in the country at large and the upset in other industries caused by it may not in the end improve Mr. Lewis' authority with other trade unions. A few thousand miners in Harlan County, Kentucky at first refused to go back to work and the troops had to be called out, but eventually the miners succeeded even there/

there in obtaining a closed shop contract. The Congress of Industrial Organisations seem also to have gained a tactical victory in the textile industry by successfully resisting the American Federation of Labor's attempt to win back the United Textile Workers of America. This group decided to amalgamate with the Congress of Industrial Organisations Textile Workers Organising Committee and thereby form a group which claims a membership of 325,000. Nothing further has been heard of the peace parley between the rival organisations.



9. 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