

BRITISH EMBASSY,

WASHINGTON, D. C.,

December 28th, 1939

No. 1465 E

My Lord,

The holiday season and the extent to which the war in Finland and the various naval and air engagements have engrossed public interest have combined to push internal questions into the background. In any case, there has been less happening than usual worthy of report since I had the honour of addressing to you my despatch No. 1369 of December 6th. But now that Christmas celebrations at the White House and throughout the land are over, the President is reported to have started work on the first draft of his annual message to Congress, which he will probably read in person to that body when it convenes on January 3rd, advising it on "the state of the Union" and making such recommendations for legislation as he deems advisable. With the New Year and the meeting of Congress there will be a rapid revival in interest in internal affairs.

2. Meanwhile there have been two changes in the senior posts of the Administration. One is the appointment of Joseph E. Davies, United States Ambassador to Belgium as a special assistant to the Secretary of State, to deal with war emergency problems and international trade negotiations. The other is the resignation of Mr. John Hanes, Under Secretary for the Treasury. Mr. Hanes, although he has only held his office in the Treasury for 18 months has long wished to return to private business and has only stayed on

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The Right Honourable

The Viscount Halifax, K.G.,

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in the Treasury until now on Mr. Morgenthau's persuasion. Though the President only last summer began to appreciate his qualities in full, his position as a moderate Democrat, his non-partisan attitude, and the serious and objective work he has done on questions of taxation, have been valued by the business world and by Congress. He is one of the few higher officials of the Treasury who have resigned for reasons other than disagreement with the Government's policies. Mr. Daniel W. Bell, an official of long service in the Treasury, is to succeed him, but can hardly replace him.

3. The question of who is to contest next Presidential elections continues to be a principal item of discussion. On the Republican side Mr. Dewey, whose candidature I reported in my last despatch, has opened his campaign, at Minneapolis, by a speech in which he declared the "New Deal" to be imbued with defeatism and a philosophy of despair after a seven years' attempt to solve the problems before the nation. He expressed his belief that the New Deal had "sincerely attempted" to fulfil its social obligations, but added that this is "only half the job", saying: "The other half is to maintain, to encourage the economic system which supports the Government and makes performance of social obligations possible". He then laid down the first principle which he believed must be maintained if the country were to solve the grave problems in agriculture, in labour, in business, in unemployment, in finance which faced it, namely to "make up our minds whether we believe in the continued growth/

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growth of this country, or whether we believe we have reached our economic limit." On the Democratic side on December 16th the Vice President Mr. Garner announced himself to be a candidate and by his action seems to have ranged himself against a third term for the President with whom he has served two terms. Politically, and especially in the Democratic Party, this public assertion has shattered any favourable results which might have come from recent pronouncements of Cabinet members, Ambassadors, and other officials in favour of a third term for the President who have received their commissions from Mr. Roosevelt and whose tenure is subject to his pleasure. Unless the President is willing to split his party in 1940 and turn the forthcoming session of Congress into a cockpit where useful things must perish and only destruction survive, he cannot become an active candidate against Mr. Garner. The spectacle of the two chiefs of the American State, the two outstanding leaders of the party, engaged in a struggle for delegates would disperse every factor of cooperation and harmony at a time when outside conditions require their presence as much as possible. Mr. Garner has a large and enthusiastic following in and out of Washington among affiliated members of the party, and these will offer resistance to any White House pressure, and so inevitably produce opposing Roosevelt and Garner groups in Congress on controversial New Deal projects. But this condition will be mild in comparison to what would follow an open fight for delegates between the President and the Vice President.

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The President's hopes for cooperation have been manifested by a generally conciliatory attitude toward Democratic Moderates and Conservatives since the special session began. On his behalf it has been frequently put forth that no more New Deal "reforms" would be attempted. And, save for the inspired third-term declarations and the continuation of inner New Deal tactics toward "Wall Street", the President's radical group has been pretty well kept in the background. Mr. Roosevelt has also expressed the hope that the 1940 session of Congress would be brief. All hope of this would end if the President and the Vice President should engage in a contest for convention delegates. The hope will be imperilled enough if Mr. Roosevelt puts the Administration backing behind one of Mr. Garner's rivals, as many Democrats expect him to do. Unless the "draft Roosevelt" strategists can find a Democrat of equal standing to offset Mr. Garner, he has crippled their effort. If Secretary Hull or Postmaster General Farley could be induced to endorse a third nomination for the President, the counterbalance would be provided. Except for Mr. Hull and Mr. Farley it is difficult to name any Democrat in a category of popular or party strength approximating Mr. Garner's. Unless their friends are mistaken, neither Mr. Hull nor Mr. Farley favours a third term. The general impress<sup>ion</sup>/now is that the President himself does not want a third term. But in the long run the issue will be determined by the foreign situation. If there is an acute international crisis this spring or summer the popular demand that horses be not swapped in mid stream may be irresistible both for the President himself and for his/

his party.

4. The Temporary National Economic Committee continues its slow enquiry into the alleged prevalence of monopolistic practices in business. It has recently been investigating investment trusts and investment banking. Evidence has been given by some of the partners in J. P. Morgan and Company and Morgan Stanley and Company, and the opportunity has not been missed of bringing these firms once again under fire. It was, however, refreshing to hear Mr. Leffingwell, one of the senior partners in J. P. Morgan and Company, declare that one of the great troubles was the belief of many people that the national economy was old or dead. "To my mind", he said, "it's a juvenile economy".

5. The National Labour Relations Act which, more than any other law in recent years, has involved the National Government in many problems of administration, bearing intimately upon the personal fortunes of as many men in as many different localities, and having in the aggregate as large an influence on the development of industrial relations, is the subject of an enquiry by a special committee of the House of Representatives. The evidence given to the Committee has tended to draw a distinction between the law and its administration. A member of the Labour Relations Board as described the act as "a good law" not in need of amendment in any important respect, necessitated in its enactment by the opposition of many employers to the practice of collective bargaining and capable of being enforced efficiently with cooperation on their part. He then pointed out

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what seem to be grave weaknesses and blunders in its administration. Meanwhile the act, already the subject of attack both by employers and by the American Federation of Labour, has now drawn the fire of the Committee for Industrial Organisation, hitherto its one defender, and it has demanded various amendments designed to put an end to a situation which, in its opinion, has frustrated to some extent the efforts of organised labour to secure the protection to which it is entitled.

6. The recent Congress of American Industry adopted a "platform" which was only mildly critical of the New Deal policy when it stated that: "If regulation goes beyond the prevention of abuses and the protection of the rights of citizens and moves into a field of affirmative control and direction, it becomes a serious obstacle to the effective functioning of enterprise. In the efforts to overcome the depression, political policies and measures have been adopted which, however good the intention, have defeated the objectives they were expected to meet. Obviously, if industry is to do its full part in promotion of the national welfare, some existing laws should be altered or repealed, and especially labour legislation should be so modified as to ensure fairness to the employer, the employee and the public. A determined effort should be made to so reduce the expenses of government that income would not be exceeded, and this desirable achievement effected at the earliest possible time."

7. The State of Ohio has been passing through a crisis regarding the relief of its unemployed which is said to threaten seriously the chances of election in his own State of Senator Taft, one of the Republican

Presidential candidates, and the political reputation of Mr. Bricker, the Republican Governor. Owing to a provision in the State Constitution the large cities of the State, such as Cleveland, Toledo and Akron, where business is thriving and mills and factories running close to capacity, are unable to increase local taxation sufficiently to find the sums necessary to support the more than a million people in the State who are dependent on some form of relief. The result is hunger, fear, insecurity and threats of riot in a State third in the Union in point of wealth and fourth in point of population.

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,

(SGD) LOTHIAN