

FRENCH DEBT SETTLEMENT

HEARINGS
BEFORE
THE COMMITTEE ON FINANCE
UNITED STATES SENATE
SIXTY-NINTH CONGRESS
FIRST SESSION
RELATIVE TO THE
FRENCH DEBT SETTLEMENT

JUNE 9, 10, 11, AND 18, 1926

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FRENCH DEBT SETTLEMENT

WEDNESDAY, JUNE 9, 1926

UNITED STATES SENATE,
FINANCE COMMITTEE,
Washington, D. C.

The committee met at 10.30 o'clock a. m., pursuant to call, in the hearing room of the committee in the Senate Office Building, Senator Reed Smoot (chairman) presiding.

Present: Senators Smoot (chairman), McLean, Curtis, Watson, Reed of Pennsylvania, Wadsworth, Simmons, Jones of New Mexico, Gerry, Bayard, and George.

Also present: Hon. Andrew W. Mellon, Secretary of the Treasury; Mr. F. G. Blair, war loan staff, Treasury Department; and Mr. Chester Lloyd Jones, commercial attaché of the United States in Paris.

The CHAIRMAN. The committee will be in order. The Secretary of the Treasury is here this morning by request to testify before the committee and answer any questions that may be asked by any member of the committee regarding the French debt settlement. The Senator from Mississippi, Mr. Harrison, desired the Secretary to be here to-day, and I was in hopes that he would be here.

Senator SIMMONS. Did you have him telephoned?

The CHAIRMAN. Yes; I have had the secretary telephone to his office, and he is not there.

Senator JONES of New Mexico. I should like to inquire about the probabilities of the French Parliament ratifying the settlement?

The CHAIRMAN. They report that they have hopes that it will be ratified.

Senator WATSON. Is it desirable that we ratify it before the French do?

The CHAIRMAN. Not unless it becomes necessary. It has been my thought that we should not submit it to the Senate until the French ratify it.

Senator WATSON. I thought that was the understanding.

The CHAIRMAN. That was the understanding at the time.

Senator SIMMONS. It was my understanding, and I have stated several times that we would take no action until the French have ratified it.

The CHAIRMAN. Senator Simmons, that was the understanding, and it was the understanding with the Debt Commission, and I do not think it will be changed unless there is some good reason why that policy should be changed, and then the committee will be advised of it, if it is.

Secretary MELLON. The latest advice we have had here was to the effect that they are expecting to take the matter up about the 15th.

The CHAIRMAN. The 15th or the 16th.

Secretary MELLON. Yes.

Senator WATSON. You would not advise action here, would you, Mr. Secretary, before they have acted?

The CHAIRMAN. No; not unless we know more than we do at the present time.

Senator REED of Pennsylvania. What is your thought, Mr. Secretary?

Senator WATSON. That is your view, is it, Mr. Secretary?

Secretary MELLON. That was the view we came to after we discussed the matter in the commission. I do not think there is any change, and I may say there is none with reference to having the French approval. Some members of the French Parliament have said that it would facilitate the disposal of it there if it were approved here, and we naturally concluded it would; but I do not think that is substantiated.

The CHAIRMAN. That was the substance of the last statement.

Senator WATSON. But, on the other side, is it not true that it would facilitate it here if it were passed by them there?

Senator GERRY. Do you think it could be acted on before the 1st of July?

Secretary MELLON. Yes; I think it will be taken up in a few days.

Senator GERRY. And acted on before the 1st of July?

The CHAIRMAN. Oh, undoubtedly. They will act on it very quickly.

Secretary MELLON. Yes; in a few days; and in view of that I think it would be well to carry the proceedings on, because the vote could be delayed.

The CHAIRMAN. Yes; we could get ready to report it, and then the vote would be delayed. That was the object of the hearings, to report the bill any time we desired to report it after the hearings.

Senator SIMMONS. That is what I understood to be the policy.

The CHAIRMAN. That is the policy now, Senator, and unless something we do not know now happens that policy will be carried out.

Senator SIMMONS. I think Senator Harrison's desire with reference to further hearings concerning the French debt was based upon the idea that the committee ought to present to the Senate further information, if it could get it, as to the ability of France to pay. We had heard the Secretary when Senator Harrison made his remark. We had only heard the Secretary, however. That was the only testimony.

Mr. BLAIR. Mr. Mellon has not testified about the French debt yet.

The CHAIRMAN. Nobody has.

Mr. BLAIR. Nobody has testified on the French debt yet.

The CHAIRMAN. He is here for that purpose now.

Senator SIMMONS. Yes; Mr. Mellon was to come.

The CHAIRMAN. Yes; he is here now for that purpose.

Senator SIMMONS. Yes; and Mr. Harrison's position was that we should have the additional statements of experts in the department or outside of the department who had made the investigation with reference to the ability of France to pay, so that we might have an opportunity to question them as to the basis of that finding.

The CHAIRMAN. The representative of the Department of Commerce and the Department of State will be here just as soon as he gets through with the Secretary.

Senator SIMMONS. Well, that is all right.

The CHAIRMAN. Now, Mr. Secretary, if you will proceed.

STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY AND CHAIRMAN OF THE WORLD WAR FOREIGN DEBT COMMISSION, ACCOMPANIED BY F. G. BLAIR, WAR LOAN STAFF, TREASURY DEPARTMENT

Secretary MELLON. There is a copy of the proceedings before the House committee, in which I made a statement, and in which I answered questions that were asked on it, and it is, I think, a very full exposition of all of the elements entering into the settlement.

The CHAIRMAN. That was as to the French and Yugoslavian debt settlements?

Secretary MELLON. Yes, sir.

The CHAIRMAN. Did you cover both of them there?

Secretary MELLON. Yes; they are both covered in this hearing.

The CHAIRMAN. There is no need of having that printed in the record again, is there, because we can all get copies.

Senator SIMMONS. Will the Secretary refer to that so that we may know what it is?

The CHAIRMAN. I will see that every member of the committee is furnished with a copy of the House hearings.

Secretary MELLON. This covers, I think, everything.

Senator SIMMONS. Give the number of that House document.

Senator REED of Pennsylvania. There is a copy in front of you there, I think, Senator.

Senator SIMMONS. Yes; I have it now, Senator.

The CHAIRMAN. Has each Senator a copy, Mr. Eccles?

Mr. ECCLES (clerk of the committee). Yes, sir.

The CHAIRMAN. Every Senator that has not one or is not present, will be sent one to-day by mail, or it will be delivered to his office.

You may comment on the hearings, if you desire, Mr. Secretary.

Senator SIMMONS. Before you do that, Mr. Secretary, did anybody appear except yourself as representing the department, as to this settlement, before the House committee?

Secretary MELLON. There was Mr. Crisp, and Mr. Burton, members of the commission, and they made statements, which are printed in this hearing, I think. They are included in this copy of the hearings.

Senator SIMMONS. They are the only ones that appeared?

Secretary MELLON. Yes; excepting Mr. Blair, who is here with me.

Senator SIMMONS. Well, there was no person who had to do with the gathering of the information upon which the finding as to the French capacity to pay was heard, was there?

Secretary MELLON. No.

The CHAIRMAN. Senator, I will try to get extra copies of that statement that was submitted by France, in which she presents her ability or capacity to pay. I think I can get extra copies, and I will send a copy to each member of the committee.

Senator SIMMONS. Will the Senate accept the statement of France without question?

The CHAIRMAN. No, certainly not; but it can be checked up here.

Secretary MELLON. We had the search upon the part of the Department of Commerce, and then all the information that our people could gather from many sources, and I think our debt commission made a separate study of this matter.

Senator SIMMONS. Now, do I understand you to say, Mr. Chairman, that you will ask the Department of Commerce to send up here to appear before us the persons who made this recent investigation?

Secretary MELLON. Well, the Debt Commission has all of that. That was furnished to our commission, and we have that and can produce it.

The CHAIRMAN. But I would just as soon have someone from the Department of Commerce.

Senator SIMMONS. Let us have both; the evidence that the Debt Commission has, as supplied them by the Commerce Department, and the persons who made the recent investigation.

Secretary MELLON. I can say there was a good deal of it. I had all of these papers last summer, all of the reports which we had. I spent two whole afternoons, and I suppose I spent what would have been more than two full days in going over the report.

Senator SIMMONS. We all have the greatest confidence in this commission, of course—

Secretary MELLON (interposing). But the matter of stating the account—

Senator SIMMONS (interposing). But I think we might as well recognize the fact that there is a serious disagreement in the Senate with reference to this debt and that the Senate does want all the information it can get, particularly with reference to the particular basis upon which you have made the settlement, namely, the French ability to pay.

Now, the Department of Commerce, collaborating with the French Government, has studied that question, and I think in addition to the report of the Department of Commerce to the Debt Commission as given in there, I think we ought to have the people who did that research work and that investigation work by the department, so that we may cross-examine them, so as to get any information we can, either confirming the accuracy of their conclusions or—

The CHAIRMAN. (interposing). We have the man here from the department now.

Senator SIMMONS. I understood you to say you would bring him.

The CHAIRMAN. He is here now, but there will be others. I do not know whether Mr. Hoover wants to come up personally, or whether he wants Mr. Jones to present the case.

Mr. BLAIR. A good many of the reports the commission has contain matters of a confidential nature on the debt settlement—

Senator SIMMONS. (interposing). We will take care of that, not to include anything of a confidential nature.

The CHAIRMAN. I have a few matters here that I have gone over and studied, Senator, that you can have if you want to go over them.

Senator SIMMONS. I do not want them.

The CHAIRMAN. That is a little that I have kept.

Secretary MELLON. There is much too that came to the Government, outside investigation.

Senator SIMMONS. Well, if we knew who made that outside investigation we would like to have them.

Mr. BLAIR. The Institute of Economics is the one that made an investigation. Mr. Moulton is the head of it.

Senator SIMMONS. If you will give us their names——

Mr. BLAIR (interposing). The National Industrial Conference Board made another.

Senator SIMMONS. Will you not furnish us the names of those people who made those studies?

Mr. BLAIR. I would be glad to, because the commission had them before them when they began to study the question.

Senator SIMMONS. I think Senator Harrison wants all these people, who made this study, before the committee. I do not mean the subordinates, but the responsible heads.

Senator McLEAN. That means a postponement of any action by the Senate for several weeks, if we are not going to rely largely on the report of the commission; if we are going to check back their report to the foundation, it means very likely, Senator, that we can not act on it at this session, does it not?

Senator SIMMONS. I have not made any suggestion that we check back, but to get the basis upon which they reached their conclusion. I do not think there is any information about this that is available that ought to be concealed.

Senator McLEAN. I do not think there is any effort to conceal it.

Senator SIMMONS. The French have not acted on it yet, and it is generally understood we are not going to act before they do act, and there is nothing in the way, so far as time is concerned. It is not going to take any time. It will not take the Secretary of the Treasury long to make his statement, and probably this gentleman who is to come up here from the Department of Commerce and these other gentlemen will not take long.

The CHAIRMAN. Do you want to ask the Secretary any questions?

Senator SIMMONS. No; I am perfectly willing to let the Secretary go on and make a statement.

The CHAIRMAN. He offers, as a part of his statement this morning, the hearings before the House committee.

Secretary MELLON. I made a very comprehensive statement, which is before the committee in these hearings; and then I was examined by members of the committee very generally, and that is all in this report of these proceedings.

Senator GERRY. The secretary would then really repeat the things he has already said in the House committee?

Secretary MELLON. Yes; I do not know of anything further that I could say, unless something might be asked which would not be covered in this hearing.

The CHAIRMAN. That is the reason I asked you to be here this morning, Mr. Secretary.

Senator McLEAN. You do say you think action by the Senate would hasten action by the French Parliament?

The CHAIRMAN. Some people do.

Senator McLEAN. The French people do?

The CHAIRMAN. Yes.

Senator McLEAN. What do you think of that, in the state of mind of the French Parliament?

Secretary MELLON. I doubt whether it would have any particular influence.

The CHAIRMAN. Mr. Herrick, the ambassador, thinks it would.

Senator McLEAN. Thinks it would hasten it?

The CHAIRMAN. Yes; that the action here would hasten it.

Senator SIMMONS. I do not think we will pass it before they do. I do not think the Senate would permit you to pass it before.

Senator McLEAN. That is what I want from the Senator, a frank statement.

The CHAIRMAN. But we do not want to do anything here that would hamper France in getting a ratification of the agreement. In other words, if a collapse should come in their financial system and the franc would go the same as the German mark did, we do not want to be in any way responsible for it at all. They are doing the best they can. I want to say to the members of the committee that they are having a very serious time.

Senator McLEAN. That is evident.

Secretary MELLON. There is a fair prospect that this will be taken up, possibly at the end of the week.

The CHAIRMAN. The last cable which came, day before yesterday, as I remember, was that the ambassador thought that it would be taken up in France on the 15th or 16th of the month.

Well, if there is anything else, Mr. Secretary—

Secretary MELLON (interposing). I think not, Mr. Chairman.

The CHAIRMAN. Mr. Jones, can you be here tomorrow morning?

Mr. JONES. Yes, sir.

Senator SIMMONS. I understand, Mr. Secretary, before the House you stated everything that you could state here, and nothing else transpired since to change the matter?

Secretary MELLON. I endeavored to cover the ground in my statement, and then I answered questions from various members of the committee, and that is all set forth in this copy of the proceedings.

Senator SIMMONS. Nothing has occurred since to cause you to change your views?

Secretary MELLON. No; I do not know of anything I could add to this, unless something would occur in the discussion here.

The CHAIRMAN. I would like to ask each member of the committee to read this, and then if any member of the committee would like to ask the Secretary any questions we will ask him to come up again, and he will be glad to come back.

Secretary MELLON. Yes, sir.

The CHAIRMAN. And in the meantime, if I can get extra copies of this statement by France, I will send a copy to each member of the committee.

Then, if there is nothing further to-day, the committee will stand adjourned until 10.30 to-morrow morning.

(Whereupon, at 11.55 o'clock a. m., on Wednesday, June 9, 1926, the committee adjourned till the following day, Thursday, June 10, 1926, at 10.30 o'clock a. m.)

FRENCH DEBT SETTLEMENT

THURSDAY, JUNE 10, 1926

UNITED STATES SENATE,
COMMITTEE ON FINANCE.
Washington, D. C.

The committee met at 10.30 o'clock a. m., pursuant to adjournment on yesterday, in the hearing room of the committee in the Senate Office Building, Senator Reed Smoot (chairman) presiding.

Present: Senators Smoot (chairman), McLean, Curtis, Watson, Reed of Pennsylvania, Shortridge, Simmons, Jones of New Mexico, Gerry, Harrison, and George.

Also present: Mr. Chester Lloyd Jones, commercial attaché of the United States in Paris; and Mr. F. G. Blair, War Loan Staff, Treasury Department.

The CHAIRMAN. The committee will come to order. Mr. Jones, we will be glad to hear from you this morning.

STATEMENT OF MR. CHESTER LLOYD JONES, COMMERCIAL ATTACHÉ OF THE AMERICAN EMBASSY AT PARIS, FRANCE

The CHAIRMAN. Mr. Jones, your full name.

Mr. JONES. Chester Lloyd Jones.

The CHAIRMAN. Mr. Jones, what position do you hold in the Department of Commerce?

Mr. JONES. Commercial attaché of the American Embassy at Paris.

The CHAIRMAN. How long have you been there?

Mr. JONES. I have been there four years.

The CHAIRMAN. What are your duties?

Mr. JONES. My duties are to report on the general economic conditions in France; and also on the possibilities of the extension of American trade there.

The CHAIRMAN. And you report to the department monthly, or—

Mr. JONES (interposing). I report currently. We report weekly on current conditions, and we have also a monthly report. On the opportunities for the extension of American trade we report as often as we think there is any possibility.

The CHAIRMAN. Mr. Jones, will you proceed and inform the committee?

Mr. JONES. On what point do you wish me to proceed? What point do you wish me to take up?

The CHAIRMAN. As to your reports, whether you have any here touching the ability of France to pay this debt.

Mr. JONES. I have a number of them here.

The CHAIRMAN. Her capacity to pay.

Mr. JONES. I have reviewed the various estimates made by various authorities in Europe—Italian, British, French—and we have checked over those estimates in relation to the information that we ourselves were able to secure. I can give you the summary results of the comparison, or I can give you a rather detailed statement which we have checked against that information as we have been able to obtain it, which seems to set out the condition in France, so far as the income of the country is concerned.

The CHAIRMAN. I think perhaps that would be the best way to proceed, then, and if you have it in order we would like to have you present it.

Senator HARRISON. Mr. Jones was used, was he not, by the commission with reference to this matter?

The CHAIRMAN. Mr. Jones has furnished all of these facts to the Department of Commerce, you know, and he is here representing the Department of Commerce.

Mr. JONES. Do you wish me to read in detail this summary?

The CHAIRMAN. Yes; you may. I think that would be the best way.

Mr. JONES. The report I will read will bring out a substantial agreement with the average of the various estimates that have been made. These seem to show that the income of the French people at the present time is about one hundred and twenty-five to one hundred and thirty billion francs per year.

Senator REED of Pennsylvania. You are speaking in gold francs now?

Mr. JONES. No; I am speaking in paper francs.

Senator SHORTRIDGE. In what?

Mr. JONES. In paper francs. That question brings out one of the great difficulties in making an estimate of the national income based on the franc, for, obviously, in 1924 when the franc varied from 29 plus to 14.90 within two weeks, it is very difficult to make any estimate of what the income or the national wealth is on the gold basis. Obviously the wealth does not change within two weeks by 50 per cent.

In order to divide the income that comes from the various sources in France into groups which can be studied by themselves, I want to take up the income from capital, the income from labor, and the mixed income arising partly from capital and partly from labor; that is, the mixed income from labor and capital together.

Senator HARRISON. What is the estimated wealth of France, now, say?

Mr. JONES. The estimated wealth of France has not been officially determined since the war. The pre-war estimates even, vary very greatly. I will give you some of those which have been brought out as a preliminary to the discussion of the present wealth and income of the country. Andre Liesse, one of the most well-thought-of French economists, estimates that the entire wealth of the country in 1912 was 230,000,000,000 gold francs. Andre They estimated the wealth at 243,000,000,000 gold francs in 1892. He made an estimate also as of 1912 considerably larger than that made by Mr. Liesse, the total being 302,000,000,000 francs. The same authorities

estimate that in 1914 the national wealth had shrunk to 280,000,000,000 francs.

Senator HARRISON. When was that?

Mr. JONES. In 1914. The wide range, even for this period, shows that any estimate is one in which a large element of error must necessarily enter.

The income from the entire wealth of the country was estimated in 1913 by the French officials of the department of agriculture at \$6,950,000,000—gold dollars—computed at the then existing rate of exchange. And in 1914 they made an estimate of \$6,675,000,000—gold dollars. In passing, it might be well to point out, however, that in making the estimate of the agricultural wealth of France in these calculations the French authorities had to rely on the last agricultural census. The agricultural censuses began in 1840 and were continued, in 10-year periods, until 1892, when the last one occurred. That is, they were not made regularly in decennial periods, but substantially that. Therefore, the only basis that you can go on, even at the present time, for the agricultural wealth, is a census taken in 1892 and those estimates in subsequent years have had to multiply the bases on which the farm properties were valued in that year by an assumed coefficient. There, also, you can see there is a large element of error that might creep in.

Senator HARRISON. Was this wealth estimated on the whole industrial situation, or just the agricultural?

Mr. JONES. No; I am giving an illustration on agriculture to show how error might creep in. This figure I have given was for the industrial, and agriculture, including labor.

Senator REED of Pennsylvania. No; Senator Harrison asks you about this income, the \$6,000,000,000.

Senator HARRISON. That is what I meant.

The CHAIRMAN. Is that the total income?

Mr. JONES. The total income.

Senator REED of Pennsylvania. From all sources?

Mr. JONES. From all sources, including labor.

Senator SHORTRIDGE. As of what year is that total income?

Mr. JONES. 1913 and 1914.

Senator SHORTRIDGE. Averaging that?

Mr. JONES. No; I gave two years; I gave two totals.

Senator REED of Pennsylvania. That was not the Government income.

Senator HARRISON. No; that was the actual income.

Mr. JONES. Yes; that was the actual income, from the various industries and individuals.

Senator REED of Pennsylvania. That is a per capita income of about \$150?

Mr. JONES. Something like that.

I take then income from capital, and in the first class is income from transferable capital, or transferable securities. In order to estimate the income from French transferable securities we have to take the statistics from the registration authorities relative to the yield of the tax on the income from such securities, or we can also take, if we wish, the income on the basis of stock quotations. It does not make much difference which you use, the total works out about the same.

In order to get the income from transferable securities we might take first those listed on the stock exchange, and then ascertain their nominal capital, and the dividend and interest payments over a number of years. It might be argued that that would be a better basis for calculating, but with the franc fluctuating so rapidly you get so many variables you do not know where you stand. We therefore make the calculation on one year only—1923.

For securities not listed, there is no precise basis available. There was formerly collected a stamp tax; in fact, there is still collected a stamp tax; the records formerly classified the stamp tax income from listed and unlisted securities, separately and in those years you can make an estimate of the total of the two classes from the tax returns thereon. At the present time, however, the registration officials list the tax returns of the securities paying stamp taxes all in one group, so that the only way you can calculate now is to take the percentage of the listed to unlisted securities as formerly reported and use that now.

Senator REED of Pennsylvania. Will not that be misleading, on account of the fact that so much of the external ownership of France has been defaulted on? I am thinking of the Russian bonds, for instance.

Mr. JONES. Yes; it will, Senator. I do not know of any way by which we can get a proper adjustment of that matter.

The CHAIRMAN. It is the best estimate anybody can make.

Mr. JONES. It is the best estimate anybody can make.

The CHAIRMAN. Even the French authorities?

Mr. JONES. Yes, sir.

Senator SIMMONS. What was that estimate which was used?

Mr. JONES. I will come to that in a moment. Knowing the value of the listed securities we can estimate the value of those unlisted, in the method I have just spoken of. To obtain the present nominal capital and yield from unlisted securities we had to use as a base of calculation the percentage of unlisted and listed securities in 1913.

For French transferable securities this method shows a nominal capital of 314,420,437,710 francs, and a yield of—I am giving only the round numbers—of 17,000,000,000 francs, in 1913.

Senator REED of Pennsylvania. That is paper francs again, is it?

Mr. JONES. In 1913, francs in gold.

Senator HARRISON. Explain the difference between the gold franc and the paper franc, so that we can get that into the record. You spoke a while ago of the gold franc, and now of the paper franc.

Mr. JONES. Before the war there was no difference; the gold franc was worth the same as the paper franc—or, the other way around, the paper franc was worth the same as the gold franc, just as the paper dollar is with us. Now, since 1913 there have been issued different amounts of paper on the credit of the country. Those amounts now total about 58,000,000,000 francs. They have back of them only the guarantee of the French Government.

The CHAIRMAN. The Bank of France?

Mr. JONES. The Bank of France.

Senator HARRISON. Then they have issued no gold francs since 1913?

Mr. JONES. No; they have not. Well, they have issued paper francs, but they have back of them only the guaranty of the government.

The CHAIRMAN. They are all paper francs, but they had the gold back of them?

Senator HARRISON. That is what I say, now they they have no gold back of them?

Mr. JONES. There are deposits in the Bank of France which are in effect at the disposition of the Government of France. At the present time they would not attempt to match paper by gold francs.

Senator HARRISON. There are some gold francs still out?

Mr. JONES. There are some, but they are all in hoarding.

Senator HARRISON. Have they declined, the gold francs, at all?

Mr. JONES. No; but to get this situation before you——

The CHAIRMAN (interposing). They have no gold to pay on demand.

Mr. JONES. No, sir.

Senator HARRISON. The paper franc is vacillating?

Mr. JONES. Yes, sir.

Senator HARRISON. And unsteady?

Mr. JONES. Yes, sir.

Senator HARRISON. You say they are in hoarding. What do you mean? Certain people have control of them and have taken them out of circulation?

Mr. JONES. Exactly. When the war broke out the Government made an appeal to the people to turn over their francs to the Government, and many of them did it; they were very patriotic. But there were a large number that remained in the woolen sock, and that did not come out.

The CHAIRMAN. I think, Senator, a great number of those are held by the little banks throughout France. They hold those as a gold reserve, just as they would the gold itself. And if they hold those, it is counted as gold on the necessary reserve which, under the laws of France, they must hold.

Senator HARRISON. Now, in that connection and at this point would it not be well to put in, if you have the figures, how many gold francs are outstanding?

Mr. JONES. It is impossible to do that, Senator. It is impossible to give you the number. I can give you the number of francs that the Bank of France keeps in its vaults; but how many there are outstanding in all, it is impossible to tell. How many have been melted down, or how many there are in private vaults, it is impossible to say.

Senator HARRISON. Can you tell how many there are in the Bank of France?

Mr. JONES. Yes; I have a statement here of the gold reserve in the Bank of France from 1913 down to 1925.

The CHAIRMAN. I think it would be well to put that in the record.

Mr. JONES. I will put it in the record at this point.

(The table referred to is as follows:)

FRENCH DEBT SETTLEMENT

Gold reserves of the Bank of France

[Principal source: Memorandum on currency and central banks, 1913-24, League of Nations]

Dec. 31	Millions of francs		Abroad	Dec. 31	Millions of francs		Abroad
	Total	In France			Total	In France	
1913.....	3,517	3,517	-----	1920.....	5,500	3,552	1,948
1914.....	4,158	4,158	-----	1921.....	5,524	3,576	1,948
1915.....	5,080	5,080	-----	1922.....	5,535	3,671	1,864
1916.....	5,083	3,490	1,59%	1923.....	5,540	3,676	1,864
1917.....	5,350	3,313	2,037	1924.....	5,545	3,681	1,864
1918.....	5,478	3,441	2,037	1925.....	5,548	3,684	1,864
1919.....	5,578	3,600	1,978				

Senator HARRISON. How many of those gold francs are still in the Bank of France, as compared to the total amount still outstanding, if you have any idea about it?

Mr. JONES. That would be so much of a guess, Senator, that I would not want to say.

The CHAIRMAN. They do not know any more about that than we do here—how many gold pieces of a certain kind there are outstanding.

Senator HARRISON. You would know whether it is 1 per cent or 99 per cent.

Mr. JONES. I would hazard a guess it was not 1 per cent.

Senator HARRISON. That is what I want to get, if I can.

Mr. JONES. I can not hazard a guess. If you ask me the amount of paper francs issued, I have here a table of the amount of paper francs and the number given to the State for its own purposes at various dates, if you would like to have that in the record also.

Senator REED of Pennsylvania. I think that should be made a part of the record, Mr. Chairman.

The CHAIRMAN. Yes; that may be made a part of the record, without objection.

(The table referred to is as follows:)

FRANCE—CURRENCY

Subject: Circulation and advances to the State of France.

PARIS FRANCE, *December 18, 1925.*

(Refer to special report under same title, November 16, 1925)

The steady rise in the amount of fiduciary currency and of the advances by the Bank of France to the state is one of the outstanding features of French financial developments.

Since 1919 the authorized note circulation has gone steadily upward—slowly at first and then more rapidly, rising between July 17, 1919, and December 4, 1925, from 40,000,000,000 francs to fifty-eight and one-half billion, an increase of over 46 per cent. In the same period the authorized advances to the state were brought down to 27,000,000,000 in 1919 to 22,000,000,000 on January 1, 1925, only thereafter to lose all the advantage gained and reach thirty-nine and one-half billion under the law of December 4, 1925—almost 50 per cent rise over the 1919 level and almost 100 per cent rise over the beginning of the year.

Legal limits of advances and circulation in France, shown in billions of francs

(Interpellation, Journal Officiel, Chamber of Deputies, Dec. 14, 1925)

	Advances	Circulation
July 17, 1919, to Dec. 31, 1921.....	27
July 17, 1919, to Dec. 28, 1920.....		40
Sept. 28, 1920 (decree under law of July 31, 1920), to Apr. 15, 1925.....		41
Year 1922.....	25
Year 1923.....	24
Year 1924.....	23.2
Jan. 1 to Apr. 7, 1925.....	22
Apr. 15 to June 27, 1925.....		45
Apr. 7 to June 30, 1925.....	26
June 30 to Nov. 23, 1925.....	32
June 27 to Dec. 4, 1925.....		51
Nov. 23 to Dec. 4, 1925.....	33.5
Dec. 4, 1925.....	39.5	58.5

Senator HARRISON. Has the French Government any idea what the amount outstanding is in proportion to the amount in the Bank of France?

The CHAIRMAN. I doubt whether it can be learned.

Senator SIMMONS. Do you mean the amount in francs outstanding, as—

Senator HARRISON (interposing). As compared to the amount in the Bank of France.

Senator SIMMONS. Could we not get it this way: Do you know how much gold the Bank of France carries?

Senator REED of Pennsylvania. Those figures have just been put in.

The CHAIRMAN. Yes; from 1913 down to date.

Senator HARRISON. Ought there not to be a certain amount of gold in the treasury compared to the amount outstanding? Do they not issue so much—

Senator REED of Pennsylvania (interposing). You mean a gold franc in the denominations of 20 or 25 francs.

Senator HARRISON. Yes; and it goes into circulation.

Mr. JONES. You can find the amount that had been minted, but that has no necessary relation to the amount outstanding.

Senator SHORTRIDGE. The total amount of gold francs that have been minted, do you know that?

Mr. JONES. I have not that here, Senator. That can be secured, but would not be of any importance, I think, Senator, to determine this question.

The CHAIRMAN. I was going to say that it would not be of any importance.

Senator SHORTRIDGE. That is one fact that it might be well to learn.

The CHAIRMAN. You can not tell where they are. They are held all over the world as souvenirs.

Senator HARRISON. But it is assumed they are held very largely in France, and that would be some idea of the wealth of the country. Here is a gold franc, worth dollar for dollar, and if you get that it would show something of the wealth of the country.

Senator SIMMONS. If you have these gold certificates, if they are all paid off at one time, there is no way to show the amount of issue.

Senator REED of Pennsylvania. The situation is pretty well shown by the table put into the record. There were 58 billions of promises to pay last December outstanding by the Bank of France, and that bank then held five and one-half billions, or less than 10 per cent, of the paper circulation in its vaults, in gold.

Senator SIMMONS. The question now, as I understand it, is whether the gold certificates have the first lien on that.

Senator REED of Pennsylvania. There are no gold certificates.

Mr. JONES. May I make a statement there? I think I can clear that up.

Senator SIMMONS. You said the gold certificates.

Mr. JONES. Before the war there was the same relation between the gold franc and the paper franc as exists here between the gold dollar and the paper dollar.

Senator SHORTRIDGE. You mean it was at par?

Mr. JONES. It was at par. Now, in 1914, when the war came on, they had to have a lot of extra currency, and they issued paper currency. Then the Government passed a law that the redeemable feature should be suspended, and they have kept these gold francs, and any others they could get hold of, but the issue has gone on increasing, as is shown by the table I have put into the record. As consequence—

Senator SIMMONS (interposing). Suppose every one of those holders of a gold franc should come to the bank and demand payment in gold, would they have to pay it?

Mr. JONES. No; for in 1916 the redeemable feature was suspended.

Senator HARRISON. I am a little confused by what Senator Reed said. Is the franc made out of the gold metal or is it a gold certificate?

Senator REED of Pennsylvania. No; it is a paper currency. Let me restate that. It probably was confusing. The paper of France is issued much as what we call greenbacks in this country. It is a promise to pay so many francs, not in any particular metal. That is protected by gold reserve, which is bullion or minted coin, which amounts to five and a half billion francs, held by the Bank of France. At the present time the greenback issue which is now outstanding is more than ten times as much as the bullion reserve held by the Bank of France.

Mr. JONES. That is correct.

Senator REED of Pennsylvania. And the privilege of exchanging these outstanding greenbacks for gold coin has been suspended for 10 years, and there is no present prospect of its being revived.

Senator SIMMONS. There is no money outstanding now that has any precedence over the other so far as redemption is concerned.

The CHAIRMAN. No, sir.

Senator HARRISON. But the paper franc is paper?

Senator REED of Pennsylvania. Yes.

Senator HARRISON. The gold franc has not depreciated any?

Mr. JONES. No; not the gold franc. It is in gold.

Senator SIMMONS. What you meant was a franc actually made of gold and not a gold certificate?

Mr. JONES. No.

Senator SIMMONS. I thought you meant a gold certificate?

Mr. JONES. No, sir.

Senator HARRISON. In your estimates you have not taken into consideration the actual outstanding gold in France?

Mr. JONES. There is no way of estimating the outstanding gold in France.

Senator HARRISON. So you have not taken that into your figures at all?

Senator REED of Pennsylvania. Necessarily you have, if they are in the assets of the bank.

Senator HARRISON. But he says he has not.

Senator REED of Pennsylvania. You can not tell how much there is hoarded and held in the hands of the people.

The CHAIRMAN. No more than you can tell the number of \$5 gold pieces here.

Senator SIMMONS. That has not shrunk their gold?

The CHAIRMAN. Not at all.

Senator SIMMONS. It is only the bar gold or the franc gold that makes the reserves?

The CHAIRMAN. Yes.

Senator SIMMONS. And not that in the hands of the individual.

The CHAIRMAN. You may go on.

Mr. JONES. I had said that these transferable securities were about 314,000,000,000 francs, and that they were estimated to yield about 17,000,000,000 francs. There may be some overlapping, in what I shall say here, but it will be a sort of summary. That is the maximum figure, as we may assume that there are some double uses with regard to the receipts of consortiums, or holding companies, as we would call them, which do not show up here.

The method of estimating the value of foreign transferable securities differs, depending on whether they are listed or unlisted on the stock exchange.

A list of the foreign securities inscribed on the stock exchange, showing the number of shares and bonds which each company is authorized to negotiate, is published every six months, and in making the estimate that I am about to give we used the list of January 1, 1923, which took in 531 companies. I say "we"; as a matter of fact, I checked this over against an estimate previously made. The nominal capital of shares of this sort was six and a half billion francs. The real value of the shares it is hard to estimate. The general policy used by those who have made the estimates is to take the real value at three times their nominal value, and the average yield is 5.75 per cent. Accordingly, the real value of listed transferable shares was 19.5 billion francs, and their yield was 1.1 billion francs.

Senator REED of Pennsylvania. When you talk of francs in post-war years, I think you should tell us whether you mean gold or paper francs.

Mr. JONES. Always paper.

Senator REED of Pennsylvania. Always paper?

Mr. JONES. Always paper, after 1913.

Now, the percentage of those foreign shares held in France which is held by Frenchmen you can not tell. We have taken as a basis the percentage relating to securities deposited in a large credit establishment, and on this basis 6 per cent of the foreign listed shares

were held by Frenchmen, the yield being 675,000,000 francs. But, taking into account the depreciation of the franc since the beginning of 1923, we must increase the yield by 20 per cent, making a total income of 810,000,000 francs.

On a similar basis we can estimate the foreign listed bonds owned by Frenchmen at about 4.9 billion francs, with a yield of 245,000,000 francs, or of 295,000,000 francs, if we take into account this depreciation which I just spoke of, which has occurred since 1923.

Now, take the unlisted securities and public securities. We have used as a basis of calculation for this yield the tax on the income from those securities, published annually by the registration authorities. In the year 1924 the yield was 186,000,000 francs, and since the tax on the securities was 14.40 per cent, the income may be estimated at 1,300,000,000 francs. And again if we take the franc depreciation that has occurred since 1924 at about 10 per cent, the income on the unlisted securities was 1,400,000,000 francs. The total income from transferable securities was—French securities—17,000,000,000; foreign listed securities, 1.1 billion; foreign unlisted securities, 1.4 billion, or a total of 19.5 billion paper francs.

Secondly, you have to consider the credits, deposits, surety bonds, and some other sorts of securities. The tax on credits, deposits, and surety bonds in 1924 brought in 207,000,000 francs, corresponding to an income of 1.7 billion francs, the tax rate being 12 per cent. The total income from transferable capital, adding this last item to the ones I cited a moment ago, would be 21.2 billion paper francs. Here again I ought to say, taking double uses of capital by holding companies, the total maximum would not be, perhaps, greater than 21,000,000,000 francs.

So much for the income from the transferable securities.

Now, the estimated income from landed property. I have already pointed out one of the difficulties that surrounds the estimate of the value of farm lands in France. But landed property, take first the income from buildings. Here we have yearly statistics that show the gross values of buildings, which serve as a basis for levying the tax on landed properties. The rental value of houses in 1924 was estimated at 3,593,000,000 francs, and of factories at 502,000,000. However, this figure does not represent the present actual income, as the latest estimated of property values was made before the war. On that account there is a loss, and a large coefficient of increase must be applied, which is not the same for residences and factories.

For residences the law authorizes an increase of rentals of 75 per cent above the pre-war basis; in practice the increase amounts to about 100 per cent. That is, there is an increase greater than that authorized by law.

The CHAIRMAN. Is that increase payable in paper francs?

Mr. JONES. Paper francs entirely.

The CHAIRMAN. Then they are not making much out of it?

Mr. JONES. No, sir.

The CHAIRMAN. Not enough to pay their taxes.

Mr. JONES. No; that is a common subject of protest by the landlords.

The CHAIRMAN. It must be.

Mr. JONES. The rental values in the country have not increased as much as this percentage that I have quoted, but, on the other

hand, there are many long-term leases which have not expired, in the cities, and on which they get lower rates than they would now.

These rules that I have just been speaking of apply only to apartments, which are not furnished. Now, what the landlord does when any of his leases run out is to take in a few pieces of furniture and call it a furnished apartment, and then he leases it at a higher rate. He does that to escape the law, if he can.

Senator SIMMONS. The living costs are about the same as in America?

Mr. JONES. It would average about the same.

Senator JONES of New Mexico. I have no doubt a Frenchman is able to live for less.

Mr. JONES. There is no doubt of that.

Senator SHORTRIDGE. Is the matter of the payment of rents there fixed by the Government or the municipalities, or is it the subject matter of individual contract?

Mr. JONES. It is fixed by laws fixing a maximum beyond which the proprietors can not charge. However, buildings for commercial purposes are not regulated by law, nor are the leases or rents on new buildings, and that is where most of the foreigners go.

Senator SIMMONS. Well, do they pay a municipal or local land tax just as we do here, or are all taxes imposed by the Government?

Mr. JONES. The local taxation in France is very much less important than it is in this country. The different departments and the cities attach to the Government tax a certain number of centimes. That is, if you pay $4\frac{1}{2}$ per thousand to the Government, the Department may add 2 centimes per thousand to that, or 10 centimes, but the central Government officers collect that with the Government tax and return it to the local political divisions.

The CHAIRMAN. And when collected they credit it to the cities?

Mr. JONES. Yes, sir.

Senator SIMMONS. The Government imposes the tax, and the locality may impose a smaller or different tax, but when the Government collects the total tax it subtracts from the tax the amount of the local tax?

Mr. JONES. Yes; the same officials collect the central Government tax and the local tax and remit the percentage which is added on it.

Senator SIMMONS. Does the Government fix the amount of the local tax?

Mr. JONES. No, sir.

Senator JONES of New Mexico. May I ask, if you happen to know, what the tax in the Department of the Seine is?

Mr. JONES. No; I do not know. In the Department of the Seine the taxation by the local Government tax is higher than in most other departments.

For factories the situation is somewhat different, as their rentals are not regulated by law.

Senator SIMMONS. Let me ask you, how would the entire land tax imposed in France compare with the amount of tax imposed in this country?

Mr. JONES. It is difficult for me to answer that, because I do not know what the land tax in this country should be assumed to be. I assume it varies greatly in different parts of a State, and in the different States.

Senator HARRISON. It is pretty hard now, because of the new schoolhouses, and the roads, and so on.

Mr. JONES. The coefficients of increase adopted in order to adjust the pre-war to the present rentals we have assumed, as 2.5 in the case of house rentals, and 3 in the case of factories, and the rental values work out, on that basis, as follows: For residences, 3.5 billion times 2.5, total 8.9 billions of francs; for factories, 502,000,000 times 3, equal to 1.5 billions of francs, or a total of 10.4 billions of francs.

I will now take up the income from lands. According to the 1923 statistics of direct taxes the taxable income from land not built on was 1.6 billions, corresponding to a rental value of about 2,000,000,000. This rental value is based on the pre-war property values and must be multiplied again by some coefficient. The coefficient adopted is 2.5.

Senator SIMMONS. Are you talking about the entire land taxes?

Mr. JONES. The income on the land not built on.

Senator SHORTRIDGE. How much?

Mr. JONES. Revenues from lands not built on is thus estimated at 5,000,000,000 francs. Revenue from buildings estimated on a similar basis is 10.5 billion francs, or a total of 15.5 billion francs.

Now, passing to the income from labor. There are no statistics which can be used to obtain an exact estimate of income from labor. The number of taxpayers inscribed on the lists relative to the taxes on wages, salaries, pensions, and professional fees, as well as the total taxes collected are the only figures that you can take to make any estimate here.

Now, as to wages and salaries, the number of persons listed on the tax sheets of 1924, representing the tax of 1923, was 800,000, and their total earnings were 10.5 billion of francs. According to the census of 1911, the latest statistics giving such information, there were 10,000,000 persons working on a wage or salary basis; and that figure probably holds good, since the population has not changed much, the immigration into the country making up, practically, for war losses.

The CHAIRMAN. That is, in the southeastern part?

Mr. JONES. Yes; and the Poles also have come into the mines.

Senator SHORTRIDGE. What is the total estimated population?

Mr. JONES. Thirty-nine million two hundred thousand.

Senator HARRISON. Do you not find that the women are laboring now more than they did in 1911?

Mr. JONES. The women in France have always worked. There are more women in the factories now than there were before. The women take an active part in the field work as they did before the war. The working people in France may be slightly differently distributed; that is, the distribution by professions is perhaps slightly different. Since the war there has been an exodus from the country to the city, and the number of Government workers has increased, perhaps to the detriment of other lines of work.

Now, taking the total number of wage earners, 10,000,000 in round numbers, and subtract the number of those listed as subject to payment of taxes—800,000—and we have about 9,200,000 persons who are exonerated from salary tax payments. By reason of the rigorous system applicable to declarations there is practically no fraud.

Senator SIMMONS. About 9,000,000 people are exempted from salary tax payments?

Mr. JONES. Yes, sir.

Senator SIMMONS. What is the amount of exemption?

Mr. JONES. It is 7,000 francs for a man, unmarried and without children and below 30. The rate increases in case a man is over 30 and is married, with children. If he is married, he gets 3,000 francs more exemption. If he has one child, he gets an additional 2,000 francs more exemption.

Senator JONES of New Mexico. What is that in dollars to-day?

Senator REED of Pennsylvania. About \$200 exemption for a bachelor, and about \$300 for a married man without children.

Senator HARRISON. How long has that law been applicable?

Mr. JONES. It was passed not long ago. The last modification, by which childless men were taxed higher was about two years ago, I think.

Senator SIMMONS. Do you mean to say there are 10,000,000 laborers, and less than 1,000,000 are subject to tax on account of this exemption?

Mr. JONES. Yes, sir.

The CHAIRMAN. That have no exemption.

Senator SIMMONS. That would mean that nearly 9,000,000 of these do not earn over \$200.

Mr. JONES. Yes, sir.

The CHAIRMAN. Yes; that is what my figures showed before when I spoke on the matter.

Senator HARRISON. What was the exemption before, when this went in?

Mr. JONES. The income tax really went into effect in July, 1917. It was passed in 1914, but never went into effect until then.

Senator HARRISON. So they never have had an income tax in France until 1917?

Mr. JONES. No, sir.

Senator HARRISON. You say this particular law went into force only about two years ago?

Mr. JONES. It has been modified several times since it went into force and effect; in the case of unmarried and childless men the tax has been made higher.

Senator HARRISON. Can you give for the record what the exemptions were with reference to the income tax and the modifications?

Mr. JONES. Would you mind repeating that question?

Senator HARRISON. When the income tax first went in—they have had several modifications, you say?

Mr. JONES. Yes, sir.

Senator HARRISON. Can you tell, for the sake of the record, what those modifications were, with reference to the income tax and the exemptions?

Mr. JONES. Yes; bachelors over 30 years of age have their income tax increased by 25 per cent. Married men over 30 years of age, without children, have their tax increased by 10 per cent.

Senator HARRISON. That is, from 1917 up to two years ago that is the changes?

Mr. JONES. That was the change two years ago.

The CHAIRMAN. There have been two or three changes with increases since 1917?

Mr. JONES. Yes, sir.

Senator HARRISON. Do you know what it was in 1917?

Mr. JONES. In 1917 the exemption was 7,000 francs for an unmarried man, and 10,000 for a married man.

The CHAIRMAN. And that was when the franc was 14 or 15 cents?

Mr. JONES. Yes, sir.

Senator HARRISON. And how long did that operate?

Mr. JONES. Until about two years ago, when this change I have spoken of occurred. The amounts collected on the income tax have increased steadily.

Senator SIMMONS. I would like to ask you about another matter in connection with this \$200 or \$300. Where less than 1,000,000 out of 9,000,000 earn less than that amount, that strikes me with great force, but I would like to inquire with reference to the purchasing power of that \$200 or \$300 then and now invested in the necessary things of life; what would be its purchasing power in the markets of Paris, as compared with the purchasing power in this country invested in the necessary things of life?

Mr. JONES. It is hardly fair, Senator, to speak of this average and put it in Paris.

Senator SIMMONS. Let us just take it in France, now. In France, you say, a man who would earn \$300 in American money, he would earn how many francs?

Mr. JONES. With the franc at 30 to the dollar, he would earn 30 times that.

The CHAIRMAN. Nine thousand francs.

Senator SIMMONS. Now, what would be the purchasing power of those 9,000 francs invested in the necessaries of life, as compared with the purchasing power of \$300 invested in this country in the same kind of necessaries?

The CHAIRMAN. It would be one-sixth of 300.

Senator SIMMONS. I am not talking of that. I am speaking of the relative market conditions. A franc may buy in Paris more than that amount converted into dollars would buy in this market. I want to find out if that is so.

Mr. JONES. Let me see if this meets your question, Senator. It may sound indirect, but I think it will give an answer to your question. Forty-nine per cent of the people in France live on small farms, that they, themselves, cultivate, and, like all farmers, they get a great amount of their support from their own crops, and the taxable income which they would have to pay upon is, in fact, brought down by the fact that the farmer can charge against his gross income the wages of himself and his wife and children.

Senator HARRISON. They can not do that in this country.

Mr. JONES. No. That accounts for the lack of income taxes from about 49 per cent of the people.

Senator SIMMONS. That accounts largely for it.

Mr. JONES. Yes, sir.

Senator SIMMONS. Now, can you give us the same statistics for those who do not live on farms, but live in the cities and have to have recourse to their wages for living expenses, without any deductions?

Mr. JONES. No; I can not give you those statistics.

Senator REED of Pennsylvania. Let me put this question to you: The average pay of a bank clerk in Paris to-day is about \$25 per month.

Senator HARRISON. In American money?

Senator REED of Pennsylvania. At the present rates of exchange. He can live on that about as well, on the whole, as he could live in America on a salary of \$50 a month, and no better.

Mr. JONES. That is true.

The CHAIRMAN. Yes; that is true.

Senator SIMMONS. Then that goes largely—I do not know that it answers it entirely, or does answer the question I asked you, but that means this: That his wages at that, which represent only about \$25 in American money, would have to buy him \$50 worth?

Senator REED of Pennsylvania. That is what I was trying to express.

The CHAIRMAN. With the depreciated franc.

Mr. JONES. With the depreciated franc, and the difference in the standard of life that he would have to assume there.

Senator JONES of New Mexico. But you should not overlook this fact, that if the franc should become stabilized at its present value the cost of living would be greatly increased.

Mr. JONES. It certainly would. There are hard times ahead for those who have small salaries in France.

Senator JONES of New Mexico. It is while the franc is depreciating that these unstable conditions are present, but if the franc becomes stabilized at its depreciated value, then living costs will be greatly increased?

Mr. JONES. Yes, sir.

The CHAIRMAN. Whenever depreciation comes no one wants to hold it.

Senator JONES of New Mexico. You mean when it is depreciating?

The CHAIRMAN. Yes; that is what I say.

Senator JONES of New Mexico. But when it once gets down and becomes stabilized, that is what makes difficult times.

Senator SHORTRIDGE. What is the value of the franc to-day?

Mr. JONES. About 3 cents.

Senator SHORTRIDGE. Instead of the normal—

Mr. JONES (interposing). Instead of the normal, about 20 cents.

Senator HARRISON. Let me get that clear. The illustration of Senator Reed is very good. Suppose in this country there is a party working in the city and getting \$300 a year; but in France another party is doing the same kind of work and getting \$300 a year. That is all exemption, the 9,000 francs. Could that party, buying his basket of provisions, buy as much in France as the party in America could buy for his \$300?

The CHAIRMAN. No, sir; he could not.

Mr. JONES. No, sir; he could not. Let us take a specific case, of a stenographer or a bank clerk who gets \$50, in both cases. The man in France would have to take living conditions—he would have to live in a room and live on victuals that no American man would live on.

Senator REED of Pennsylvania. As a matter of fact, he would live on horse meat, would he not?

Mr. JONES. Yes, sir.

Senator REED of Pennsylvania. He never would eat the meat of a cow?

Mr. JONES. No, sir; and of that meat which he did have he would have a very poor cut, and maybe only once or twice a week.

The CHAIRMAN. Many of them would not have horse meat but once a week.

Senator SHORTRIDGE. The vegetarians get on fairly well.

Mr. JONES. Yes; but we should not like to be compelled to be vegetarians.

Another illustration of the difference in the standard of life that may be interesting is this: We can get, for \$40 or \$50 a month, stenographers who speak both English and French, and who can take dictation in both languages.

Senator GERRY. What did you say the exemption was for an unmarried man?

Mr. JONES. 7,000 francs for an unmarried man.

Senator SIMMONS. And 10,000 for a married man?

Mr. JONES. 10,000 for a married man.

Senator HARRISON. Along that same line, you are not familiar with Italy and those other countries that we have settled with, are you?

Mr. JONES. No, sir.

The CHAIRMAN. Italy is imposing a little heavier taxes than they are in France.

Senator HARRISON. I did not know but I would ask him some questions about that, but if he does not know I will not ask him.

The CHAIRMAN. You may go ahead.

Mr. JONES. If we estimate at 4,000 francs, the average income of the nontaxpayers, the total income exempt from taxation would be 4,000 times 9,200,000, or 36.8 billions of francs of income.

In justifying this figure of 4,000 francs as the average annual wage of 9,200,000 persons who pay no taxes, it is to be remembered that in 1921, 2,732,420 of the wage earners were distributed as follows: In communes of less than 50,000 inhabitants, tax exemption up to 4,000 francs, 1,129,724; in communes of over 50,000 inhabitants, tax exemption up to 5,000 francs, 823,761; Paris and suburbs, tax exemption up to 6,000 francs, 716,640; pensions, 62,925, or a total of 2,732,420. So that you have a very large proportion of these people who are exempt who live in small towns. That is the point I made awhile ago in reply to Senator Simmons.

Senator SIMMONS. Now, you have been there since before the war?

Mr. JONES. No; I have been there for four years.

Senator REED of Pennsylvania. Mr. Jones, as we are going to have to adjourn very soon, I think it might be well to have an explanation that what you are talking about as income tax is the tax which runs up, with surtaxes, to about 40 per cent. Now, in addition to the general income tax there are a number of special income taxes?

Mr. JONES. Yes; on noncommercial professions, industrial profits, commercial profits, and salaries, I believe, and one other class. I have not the list at the moment.

Senator SIMMONS. Can you summarize for us the taxes that the French citizen is expected to pay?

Mr. JONES. Yes, sir.

Senator SIMMONS. Just give that, will you?

Senator HARRISON. The right fellow, and the poor man—

Senator REED of Pennsylvania (interposing). Just let me put this in, please. There are what are called cedulary taxes, which supplement the general income taxes. Thus, in 1925, the tax on income from improved real estate was 18 per cent in addition to the regular income tax.

Senator HARRISON. That is an average, or graduated tax?

Senator REED of Pennsylvania. No; this fixes so many centimes per franc.

Senator SIMMONS. Are there any deductions, or is it net income?

Senator REED of Pennsylvania. This is on the net income from that source?

The CHAIRMAN. It is an additional tax, Senator. The original exemption was granted him, and then he paid his regular income tax, but this is an additional income tax.

Senator REED of Pennsylvania. Precisely. On unimproved real estate there is a supplementary tax of 14 and a fraction per cent.

Senator HARRISON. Does that apply to farms, too?

Mr. JONES. Agricultural profits are taxed separately.

Senator REED of Pennsylvania. I beg your pardon. The first figure I gave is on both improved and unimproved real estate. The industrial profits tax, there is a supplementary tax of 14.40 per cent; and on agricultural profits a supplementary tax of 10.80 per cent. On salaries and noncommercial professions there is a supplementary tax of 10.80 per cent.

Senator HARRISON. On agricultural profits, did you say?

Senator REED of Pennsylvania. Yes. On agricultural profits, and on salaries and noncommercial professions, there is a supplementary tax of 10.80 per cent.

Senator HARRISON. Now, when was this put in vogue?

Senator REED of Pennsylvania. The percentages were originally smaller; they were increased in 1924, and another increase in 1925.

Senator HARRISON. Now, can you not in those figures tell us when they first began, and how they were increased?

Mr. BLAIR. It was in 1917 and 1918.

Senator REED of Pennsylvania. Yes; originally they were much smaller. The percentages were increased. On improved and unimproved real estate the original tax was 10 per cent; now it is 18 per cent. On industrial and commercial profits originally it was 8 per cent, now it is 14.40 per cent. In agricultural profits, and salaries, and noncommercial professions, originally it was 6 per cent; now it is 10.80 per cent.

Senator GERRY. Then, there are a great many special taxes?

Senator REED of Pennsylvania. Yes; and of course a great many excise taxes. The French have always preferred indirect taxes.

Senator GERRY. I mean, every time they transfer a piece of property there is a tax on it?

Mr. JONES. Yes, sir.

Senator HARRISON. They are in no worse shape than we are on that. We do that.

Senator REED of Pennsylvania. They do it to a greater extent. Every time you pay your hotel bill there is a tax.

Senator HARRISON. You should state what they are. Those figures should be in the record.

Senator REED of Pennsylvania. Those figures can be secured.

Mr. BLAIR. Yes; they can be secured.

Senator HARRISON. We ought to know when they were reduced, or, rather, increased. I guess they were not reduced.

Mr. BLAIR. The last increase was April 4, 1926.

Senator REED of Pennsylvania. If Senators will look at pages 89 and 90 of the books before them, called "France and Her Capacity to Pay," they will see a list of the indirect taxes of all sorts imposed.

Senator HARRISON. This gives it, though, as it was in the last law. It does not state when it was.

Senator REED of Pennsylvania. It gives the tax from those sources in 1913 and 1925. And then on pages—

The CHAIRMAN (interposing). If you want them up to date, I have them here to 1926. On improved and unimproved real estate, the original was 10 per cent; in 1924 it was 12 per cent; in 1925 it was 18 per cent; in 1926, 12 per cent.

The next is industrial profits. The rate was originally 8 per cent. In 1924 it was 9.6 per cent. In 1925 it was raised to 14.4 per cent; and in 1926 it is at 9.6 per cent.

And the next is agricultural profits. In 1917 it was 6 per cent; in 1924 it was increased to 7.2 per cent, and in 1925, 12.6 per cent, and 1926, 7.2 per cent.

The next is salaries; was originally 6 per cent; then 7.2 per cent; and in 1926, 7.2 per cent.

The next is noncommercial professions. Originally it was 6 per cent; then in 1924, 7.2 per cent; in 1926, 9 per cent.

Senator HARRISON. Now, have you got any figures there or any information as to whether or not any tax has been taken off by the law since 1917 that had existed before that time?

Mr. JONES. No.

Senator HARRISON. What taxes that have followed 1917 have since been taken off or repealed?

Mr. JONES. There is only one tax that might come under that, and that is an exceptional tax that was collected to make up a deficit in the 1925 budget. That was a very exceptional tax, collected to make up the deficit in that year's budget.

Senator HARRISON. How much did they get out of that?

Mr. JONES. They got 3,000,000,000 francs out of the increase. That is a temporary tax.

Mr. BLAIR. That 3,000,000,000 francs they are getting this year?

Mr. JONES. Yes.

Mr. BLAIR. Taxes have not decreased. They increased taxes by special act in December, 1925, to provide for the 1925 deficit.

Senator HARRISON. Then you state absolutely there has been repealed no tax law in France since 1917?

Mr. JONES. No; unless it was replaced by higher ones.

Mr. BLAIR. And the last law was in April, 1926, which made some changes.

The CHAIRMAN. We will stand adjourned now until to-morrow morning at 10.30.

(Whereupon, at 12 o'clock noon, on Thursday, June 10, 1926, the committee adjourned until the following day, Friday, June 11, 1926, at 10.30 o'clock a. m.)

FRENCH DEBT SETTLEMENT

FRIDAY, JUNE 11, 1926

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met at 10.30 o'clock a. m., pursuant to adjournment on yesterday, in the hearing room of the committee in the Senate Office Building, Senator Reed Smoot (chairman) presiding.

Present: Senators Smoot (chairman), Curtis, Watson, Reed of Pennsylvania, Jones of New Mexico, Harrison, and Bayard.

Also present: Mr. Chester Lloyd Jones, commercial attaché of the United States in Paris, and Mr. F. G. Blair, war loan staff, Treasury Department.

The CHAIRMAN. We will go on. Mr. Jones, will you proceed where you left off yesterday?

STATEMENT OF MR. CHESTER LLOYD JONES, COMMERCIAL ATTACHÉ OF THE DEPARTMENT OF COMMERCE, AMERICAN EMBASSY, AT PARIS, FRANCE—Resumed

Mr. JONES. When the session closed yesterday we were talking about the income from certain classes of capital and labor, and I was about to take up the income from the noncommercial professions. This, like a number of other items in the total of French income, can be reckoned from the tax receipts. The tax on incomes of noncommercial professions reached in 1924, on the profits of 1923, some 70,000 people, and a taxable income of one and one-half billion francs.

According to the census of 1911, the last one giving complete returns on this subject, there were about 155,000 persons in noncommercial professions. On this basis the number of those who did not pay the income tax in this class was about 85,000. If we estimate the average income of those who did not pay taxes at 7,000 francs, it seems that about 600,000,000 francs income escaped in this class from taxation. Adding these revenues which were not taxed to those which were taxed, we have a total of about 2.1 billion francs. There should be added also the 3,000,000,000 francs paid as war pensions.

A summary of the income in all classes of labor would, therefore, give income from—

	Francs
Salary	47, 000, 000, 000
Noncommercial professions.....	2, 000, 000, 000
War pensions.....	3, 000, 000, 000
Total.....	52, 000, 000, 000

That leaves one class still to be discussed, the one involving mixed revenues.

Senator WATSON. How many dollars would that last amount be, at the present rate of exchange?

Mr. JONES. The rate of exchange was near 25 when the estimate was made—that would be about \$2,000,000,000.

In certain classes of activity it is impossible to make a close differentiation between the income that comes from labor, and the income that should be considered as returning to the capital employed in the enterprise. This is particularly true in industrial and commercial profits, and in agricultural profits. But taking the figures published by the tax authorities for the year 1923, the number of taxpayers falling in these two classes was about 1,540,000, and their income reached about 20,000,000,000 francs. After we make adjustments there for overlapping, due to the fact that some companies are engaged in industrial and commercial activities and are taxed twice, and due to the fact that certain operators escape taxation, it appears that those in industrial and commercial pursuits have an income of about 16.8 billion francs. That is on the industrial and commercial activity.

The income tax on agricultural profits is raised from about 300,000 people, representing a taxable income of about 1.4 billion francs. There are about 5,000,000 farmers listed by the Government, so it appears that 4,700,000 do not pay this tax—do not pay any agricultural profits tax.

Senator HARRISON. That is largely due to the exemption, is it not?

Mr. JONES. That is largely due to the exemption and the small holdings.

If the average income of those who do not get struck by the tax is put at 4,000 francs, there would be a total of about 19,000,000,000 francs that escape the income tax.

As I pointed out yesterday, this last item is not at all satisfactory, because all the tax returns from the agricultural population in France are on a basis which does not allow you to make a very definite estimate as to what their income is. The basis of the agricultural tax levy is the census made in 1892 and the tax returns are not a fair indication of the actual revenue from farm lands.

There is one other sort of income—

Senator WATSON (interposing). Have you the impression, from your study of the whole question, that they pay taxes in proportion to their income?

Mr. JONES. No; they do not. The farmers do not pay as they should.

Senator HARRISON. In proportion to the taxes in this country, taking into account every kind of tax, do they pay as much as our farmers over here pay?

Mr. JONES. I can not answer that question. That would run on a State basis.

Senator HARRISON. Yes; and county and road taxes, and school taxes, our farmers pay.

Mr. JONES. Yes; but I can not estimate that.

The CHAIRMAN. Our farmers pay very little to the Government.

Senator HARRISON. They do in my country.

Senator JONES of New Mexico. Not in income tax.

Senator HARRISON. No; but in road and school taxes, etc.

The CHAIRMAN. I am speaking of that paid directly to the Government.

Senator HARRISON. As I understand, the farmers over there in the local departments, or districts, do not pay taxes as we do. They have exemptions that apply to the local as well as to the central Government.

Mr. JONES. That is not quite exact. The central Government establishes so much per thousand, and then the local Government, the cantons and departments, can say "We will add so many hundredths to what the central Government collects, for our government." The central government collect all the taxes and then the local units have their shares returned to them.

The CHAIRMAN. That is over and above the central government tax?

Mr. JONES. Yes, sir.

The CHAIRMAN. What we are talking about here are taxes that are paid to the central government. What are paid to the local governments are over and above the tax we are talking about now, taxes paid to the general government.

Senator HARRISON. I wish we could get some figures on the local taxes, because that is a matter that enters into it.

The CHAIRMAN. They are not as high as here.

Senator WATSON. Let me ask you this—I do not want to deflect this investigation, if I am doing that by these questions.

The CHAIRMAN. No; that is all right. They are right in line.

Senator WATSON. In this country, when we build a highway through a community the farmers pay the cost of that highway, with some little Federal aid, but of no consequence, in comparison with the great cost. Is that the way they do it in France?

Senator REED of Pennsylvania. There are no highways being built in France now. Their system is complete.

Mr. JONES. They have to be maintained. There are three sorts of highways. The national routes are maintained entirely by the Government; the departmental roads by the department, and so on.

Senator HARRISON. How about the schools?

Mr. JONES. The schools are run on a national basis, but there can be local taxes for them.

Senator HARRISON. The local tax is a small item?

Mr. JONES. Yes, sir.

Mr. BLAIR. May I ask a question?

The CHAIRMAN. Certainly.

Mr. BLAIR. Is it not true that out of a total of 36,000,000,000 for taxes, national and local, about 6,000,000,000 represents local taxes?

Mr. JONES. Yes, sir; I believe above that proportion.

Senator REED of Pennsylvania. The statement is that 4,306,000,000 were raised in taxes in 1924.

Mr. JONES. Yes, sir.

Senator HARRISON. Now, can you tell how much is raised out of the cities, and how much out of the urban population?

Mr. JONES. No; I can not.

Senator HARRISON. I can understand why the city taxes might be a good deal and the rural taxes not so much.

Senator REED of Pennsylvania. Where you are considering taxes paid by the farmer, it is right that you take into consideration their indirect taxes. They have taxes on everything, on vinegar, on sugar, on candles, on soap, and on everything they use.

Senator HARRISON. So do the other people.

Mr. JONES. There is one small item I want to put into this mixed-income total, and that involves the share of the earnings of French companies which is turned over to the administrators before dividends are given to the common stockholders. It is a regular practice there to pay, at the end of a fiscal year, 5 or 10 per cent of income earned during the year to the board of administrators, even before there is any provision made for the common or preferred stockholders.

The CHAIRMAN. That has been the policy there since long before the war.

Mr. JONES. That is the regularly accepted practice. That brings in about 0.2 billion francs.

A summary of the mixed income would give, from industrial and commercial profits, 17.8 billion francs; agricultural profits, 23 billion francs; managers' shares, 0.2 billion francs, or a total of 41,000,000,000 francs.

We are now in a position to make a general summary of all of these classes we have been discussing. The total income of private concerns and individuals in France, according to this review, stands as follows:

	Francs
Income to capital.....	21,000,000,000
Income to real estate.....	15,500,000,000
Income to labor.....	52,000,000,000
Mixed income.....	41,000,000,000
Total.....	129,500,000,000

Now, there is no mathematical exactness in this estimate, obviously. It runs roughly at about the estimates made by a number of other authorities. The review is made chiefly on returns made for taxes for the year 1924, referring to the year 1923. That is the latest year for which any complete statistics are anywhere near available.

Senator HARRISON. Are all those figures based on continental France?

Mr. JONES. Yes, sir.

Senator HARRISON. Not on any of her possessions?

Mr. JONES. No; the possessions do not bring in anything of importance.

Senator HARRISON. They do not bring in much?

Mr. JONES. No, sir.

The CHAIRMAN. In fact, take all of the possessions of France, I think it is a little expense to them.

Senator HARRISON. You take into consideration Alsace-Lorraine?

Mr. JONES. Yes; the figures after 1913 include Alsace-Lorraine.

The total is 129.5 billion francs, as nearly as we can estimate it. I think probably that is a little low. There are some items that have

to be calculated on the basis of tax returns which, themselves, are based on values which are out of date; and there is a considerable degree of tax evasion, in certain taxes, as the French themselves admit. But how much allowance we ought to make for those items no one can tell.

Now, the point comes as to what this means, the 129.5 billion francs. And with the rate of exchange varying as rapidly as it does, it is very difficult to give a satisfactory shift of that over into dollars. If you change it into dollars at the average exchange rate in 1923, averaging all the days of the year, you change that amount over with the franc worth \$0.06081, which is a little more than 6 cents. That would give a national income of \$7,770,000,000. On the other hand, if you take the average exchange rate of 1924, which was \$0.05237, or a little more than 5 cents, the national income would be \$6,534,000,000.

Senator HARRISON. How much is it if you take it at the present exchange rate?

Mr. JONES. If you took it at the present exchange rate it would be about \$4,200,000,000.

Mr. BLAIR. The franc was 2.90 this morning.

Senator HARRISON. If you take it before they got into the war, in 1913 say, what would it be?

Mr. JONES. Then you would have—

Senator JONES of New Mexico (interposing). You would divide it by five.

Mr. JONES. But then it would not be fair to take this number of francs, because we calculate this on the tax returns, when the value of the franc is depreciated. If you took it on the estimates made on the French income in pre-war times I gave, I believe at the beginning of our session yesterday—I have not the figures now but I think it was 6,675,000,000; something substantially like that.

Well, that is all the information I have on the French income.

Now, there was a number of items, other items, if you care to have them appear in the record.

Senator HARRISON. If we could get into the record right there—I do not know that Mr. Jones has it—but if we could get into the record there the income on these various things in the United States so that we can make a comparison of the proposition at the same time, I think it would be of some value.

The CHAIRMAN. Senator, I am quite sure that the income in the United States on identical items compared with the income in France would show that the United States was at least ten times as much.

Senator HARRISON. I understand; and then I should like to see it followed up by the amount of taxes that the whole population over there bears at this time, and how much they bore a few years ago, and how much the American taxpayers bear at this time.

Mr. JONES. So far as the French figures are concerned I have them here. I brought them with me. I thought they might be of interest to you.

Senator HARRISON. I was speaking about a comparison. I thought the Department of Commerce might have those figures.

Senator REED of Pennsylvania. Those are easily obtainable. They can be had from the Department of Commerce. Give us the French figures.

(The figures referred to were afterwards furnished by Mr. Jones, and are as follows:)

RECEIPTS IN RECENT FRENCH BUDGETS

The attached table indicates the classes of taxes from which the French treasury receives its income and the income from exceptional sources turned into the French treasury:

French tax collections, 1921-1925

RETURNS FROM NORMAL AND PERMANENT SOURCES IN GENERAL BUDGET

[000 omitted]

	1921	1922	1923	1924	1925
Direct taxes:					
Classified income taxes, including the property tax in principal, and general income tax.....		2,650,742	3,791,581	5,464,236	5,954,736
Direct taxes, deducting the property tax in principal and assimilated taxes.....		232,148	287,317	308,872	330,222
Back dues on the rolls for direct taxes, assimilated taxes, and taxes on revenues.....		247,176	64,354	34,159	8,431
Total of taxes collected by the administration of direct taxes.....	2,196,000	3,130,066	4,143,252	5,807,268	6,293,390
Indirect taxes and monopolies:					
Registration taxes.....	2,705,416	2,960,455	3,390,752	4,606,127	5,118,405
Stamp taxes.....	503,326	615,490	606,948	894,796	1,070,987
Bourse operations.....	19,425	26,095	52,590	92,629	148,254
Taxes on revenue from securities.....	926,425	1,017,853	1,165,938	1,683,539	1,936,931
Luxury tax (sales between nonmerchants).....	13,114	20,438	14,953	19,485	19,930
Business turnover tax.....	1,897,457	2,280,266	3,015,801	4,090,482	4,535,118
Customs.....	1,192,966	1,610,952	1,609,366	1,604,082	1,485,863
Indirect taxes.....	2,404,415	2,606,545	2,885,446	3,347,420	3,695,523
Colonial merchandise, coffee substitutes, and vanilla.....	177,184	183,075	185,615	208,686	221,375
Salt.....	32,376	36,016	34,802	37,532	39,898
Sugar.....	352,045	564,140	515,878	494,634	425,570
Gasoline and kerosene.....	166,705	234,617	3,533	355,244	423,733
Benzol.....	13,097	12,475	13,399	16,804	16,270
Monopolies (indirect taxes and receipts from miscellaneous sources).....	1,703,563	1,782,934	1,971,095	2,251,702	2,587,117
Total for monopolies, registration, customs and indirect tax services.....	12,167,514	13,951,360	15,829,128	19,703,162	21,724,979
Public domains.....	104,381	165,552	229,546	324,260	339,578
Total of all receipts from normal and permanent sources.....	14,467,895	17,240,978	20,201,925	25,834,690	28,357,047

RETURNS FROM EXCEPTIONAL SOURCES AND FROM POSTAL, TELEGRAPH, AND TELEPHONE SOURCES

Receipts from exceptional sources:					
Extraordinary tax on excess war profits.....	(1)	2,066,064	1,333,520	1,330,544	703,900
Liquidation of stocks.....	1,501,000	480,023	200,365	53,223	52,447
Miscellaneous proceeds.....	1,173,000	935,612	440,909	356,700	373,944
Total.....	2,674,000	3,481,699	1,974,794	1,740,467	1,130,291
Receipts from postal, telegraph, and telephone services (included in annex budget).....	1,061,389	1,136,586	1,318,911	1,483,731	1,689,590

¹ Includes old and assimilated taxes, 551,000,000 francs, and tax on incomes, 1,645,000 francs. (Source French Public Finance, published by Bankers Trust Co.)

² Up to Dec. 31, 1921, the tax on war profits brought in 7,578,383,000 francs.

Mr. JONES. Would you like to have the French debts at the present time?

The CHAIRMAN. Yes.

Mr. JONES. That is obviously one of the elements that must be considered in connection with this matter.

The CHAIRMAN. Yes; I think that should be put in.

Senator WATSON. Will you read it, so that we can have it in mind?

Mr. JONES. The total debt on December 31, 1913, in gold francs, was 33,637,000,000 gold francs, the equivalent of about \$6,500,000,000.

Senator WATSON. The franc being then at par?

Mr. JONES. The franc being then at par; yes, sir.

Now, on December 31, 1925, the internal debt—that is, the debt in paper francs, was 286,000,000,000 francs; and the external debt, which, in the French figures, is always quoted at par was 36,500,000,000 francs. After all, it is just about as well to leave that at par because with the exchange rate fluctuating as much as it does it goes up and down ten or twelve billion a day.

The CHAIRMAN. What was the franc this morning?

Mr. BLAIR. 2.90.

The CHAIRMAN. That is the lowest it has been. You may put that paper in, Mr. Jones.

(The paper referred to is printed in full, as follows:)

FRENCH DEBTS

Along with the estimate of the national wealth there must be considered, of course, the public indebtedness if an estimate is to be obtained of the French economic position. The growth of the public debt is shown in the statement I have in hand showing the debt totals on December 31 of 1913 and 1925.

French public debt totals on December 31, 1913

	Gold francs	Dollars (at \$0.193)
Long and short term.....	31,556,559,978	6,090,416,076
Floating.....	2,080,883,424	401,610,501
Total debt.....	33,637,443,402	6,492,026,576
Total charges.....	958,000,000	184,894,000

Situation of the French public debt as of December 31, 1925

INTERNAL DEBT

[In thousands of francs]

(1) Perpetual and long term debts:	
Rentes 3 per cent, amortizable.....	2,740,583
Rentes 3 per cent.....	19,740,419
Rentes 3½ per cent, amortizable.....	11,954
Rentes 5 per cent, 1915 and 1916.....	18,855,852
Rentes 4 per cent, 1917.....	9,003,799
Rentes 4 per cent, 1918.....	20,595,253
Rentes 4 per cent, amortizable (exclusive or amortization premium) ¹	15,725,512
Rentes 6 per cent, 1920.....	27,510,637
Rentes 4 per cent, 1925.....	5,928,775
Rentes of Alsace and Lorraine.....	73,452
Capital of the annuities served by the State.....	11,250,094

¹ These figures include the rentes which have been turned in in payment of the extraordinary contribution on war profits, those bought back on the Bourse, and those received as subscriptions to the 6 per cent 1920 loan. These rentes are entered in the name of the Treasury and will not be annulled except with the series to which they belong.

FRENCH DEBT SETTLEMENT

(1) Perpetual and long term debts—Continued.	
Bonds of the State railways-----	1, 634, 850
Long-terms issues of the Credit National-----	17, 509, 389
Capital corresponding to the annuities titles (or certificates) remitted to the war sufferers (law of July 31, 1920)-----	9, 929, 873
Permanent advances of the Bank of France-----	200, 000
Total -----	160, 709, 442
To be deducted: Rentes 6 per cent, of which mention is made in the note below-----	4, 498, 782
	156, 212, 660
(2) Short-term debt:	
National-defense obligations—	
1919 six years (including those remitted to the war suffer- ers in 1921)-----	391, 000
1919-1929, ten years, first issue, 1919-----	118, 000
1919-1929, ten years, remitted in payment of war damages-----	7, 092, 000
1922-1932, ten years, remitted to the banks in Alsace and Lorraine-----	254, 000
1925-1931, six years, remitted in payment of war damages-----	2, 063, 000
Treasury bonds of three and five years-----	4, 322, 000
Treasury bonds of 3, 6, and 10 years—	
First series-----	6, 653, 000
Second series-----	6, 189, 000
Treasury bonds of 10 years, 1924 (exclusive of reimburse- ment premium)-----	4, 819, 000
Short-term issues of the Credit National-----	4, 579, 671
	36, 480, 671
(3) Floating debt:	
Ordinary treasury bonds-----	2, 393, 554
National-defense bonds (bills)-----	45, 735, 000
New advances of the Bank of France-----	35, 950, 000
Special funds for the general treasury department:	
Bureaux; assets of various treasury correspondents (épôts de fonds à la Caisse Centrale, dans les Trésoreries générales. Actif des divers correspondants du Trésor)-----	8, 776, 046
Balance of the postal-checks accounts-----	832, 400
	93, 687, 000
Total of the internal debt -----	286, 380, 331

EXTERNAL DEBT

[In thousands of francs]

(1) Debt to allied governments (at par):	
Advances by the American Treasury-----	15, 193, 645
Treasury bonds remitted to the British Treasury (including the capitalized interests)-----	16, 016, 387
	31, 210, 232
(2) Commercial debt (at par) -----	5, 228, 421
Total of the external debt -----	36, 438, 653
Internal debt -----	286, 380, 331
Total public debt -----	322, 818, 984

Based on unofficial documents, statement furnished to the Office of the Commercial Attaché, American Embassy, Paris, March 25, 1926, by Mr. A. Aupetit, secretary general of the Bank of France.

Public debt of France

Dates	Domestic debt (in millions of francs)	Exterior debt (in millions of par francs)		Dates	Domestic debt (in millions of francs)	Exterior debt (in millions of par francs)	
		Political	Commercial			Political	Commercial
Dec. 31, 1913.....	32,504			Dec. 31, 1920.....	215,192	29,192	6,767
Dec. 31, 1914.....	39,428		510	Dec. 31, 1921.....	237,284	29,564	6,091
Dec. 31, 1915.....	58,911	725	1,245	Dec. 31, 1922.....	250,084	29,996	5,448
Dec. 31, 1916.....	78,397	3,355	4,098	Dec. 31, 1923.....	270,708	30,470	5,255
Dec. 31, 1917.....	103,896	14,479	5,559	Dec. 31, 1924.....	280,637	31,048	5,431
Dec. 31, 1918.....	140,794	23,074	6,208	Dec. 31, 1925.....	286,380	31,210	5,228
Dec. 31, 1919.....	181,872	25,892	7,674				

Mr. JONES. Against that are some credits that France has in some of the other foreign countries. These credits are large on paper but not worth much, most of them. I have here a list of the claims France has against various countries, 12 or 13 of them, totaling 15,000,000,000 francs. But 6,000,000,000 of these are debts of Russia under the old régime, and they never will be paid; and several others seem unlikely to be paid.

The CHAIRMAN. That may be made a part of the record also. (The statement referred to is printed in full, as follows:)

FRENCH CREDITS IN FOREIGN COUNTRIES

As a partial offset to the French debt, there is to be considered the money owed to France by foreign governments. The amounts owed are set out in an inventory by the French Minister of the Treasury, Mr. Clementel, in a statement of June 30, 1924, as follows:

	Francs
Russia (old régime).....	6,023,300,000
Russia (different governments).....	490,000,000
Belgium.....	3,067,295,000
Yugoslavia.....	1,738,566,000
Rumania.....	1,132,000,000
Greece.....	537,514,000
Poland.....	895,400,000
Czechoslovakia.....	542,200,000
Italy.....	350,273,000
Portugal.....	9,000,000
Esthonia.....	3,500,000
Latvia.....	9,000,000
Lithuania.....	2,300,000
Hungary.....	800,000
Austria.....	331,926,000
	<hr/>
	15,133,074,000

Mr. JONES. I have also a statement of the budget deficits since the war—

Senator WATSON (interposing). Take the revenues and the expenses of France, is the French Republic able to raise enough to pay expenses right along?

Mr. JONES. That is the next item I have here, Senator.

Senator WATSON. I beg your pardon. Go right along.

Mr. JONES. I have the current deficits during and since the war. These deficits reached their high point during the war, when they

totalled, in 1918, 41,000,000,000 francs. Since that time the deficit has been reduced fairly steadily and in 1925 it was reported that the budget was balanced. It turned out at the end of the year that there was a 3,000,000,000 francs deficit.

The CHAIRMAN. Necessitating a special tax imposed in 1925 to clear the budget.

Mr. JONES. Again in 1926 it is claimed that the budget is balanced and even that there is a credit item—

Senator WATSON (interposing). What do you mean by credit balance item?

Mr. JONES. That they have receipts over expenses.

Senator REED of Pennsylvania. But you must understand that they take in many items which we would not include as expenses.

Mr. JONES. The estimates for the 1926 budget were drawn up in April, 1925, when the franc stood at 25 to \$1, and it has had a bad slide since, so the whole basis on which the budget was made has been upset. It seems, on the basis of the information available at this time, that there will be a deficit this year also.

Senator WATSON. Has there been any effort made at a settlement with Great Britain?

Mr. JONES. There have been efforts.

Senator WATSON. Are there any negotiations on now?

Mr. JONES. I do not know whether there are at this moment. They have been current.

I will put in this statement then of the total receipts and expenses entering into the French budget in the years since 1913.

The CHAIRMAN. Yes; that may be made a part of the record.

(The statement referred to is as follows:)

FRENCH BUDGET DEFICITS

The weak financial position of France is indicated by the continued deficits which have characterized her budgets, particularly in the postwar years.

Total receipts and expenses entering into the French budget

[In million francs]

Year	Receipts	Expenses	Yearly deficit	Year	Receipts	Expenses	Yearly deficit
1913.....	4,907	5,046	139	1920.....	20,130	39,523	19,393
1914.....	4,196	9,981	44,785	1921.....	22,840	35,603	12,763
1915.....	4,130	19,009	14,870	1922.....	22,903	34,586	11,683
1916.....	4,932	29,997	25,065	1923.....	24,200	32,583	8,383
1917.....	6,186	37,597	31,411	1924.....	32,228	34,775	2,547
1918.....	6,791	48,584	41,793	1925 ¹	33,150	33,137	13
1919.....	11,586	35,345	23,759	1926.....	37,400	37,237	200

¹ Budget items.
² The Budget of 1925 proved to have a deficit of over 3,000,000,000 francs.
³ Normal.
⁴ Approximate Budget entries, whether actually balanced remains to be seen.

Senator WATSON. Has any attempt at settlement with the Government of Great Britain ever been published?

Senator REED of Pennsylvania. The newspapers have published it.

The CHAIRMAN. That is all that we have, the newspaper publications.

Senator REED of Pennsylvania. That is all.

Senator JONES of New Mexico. In connection with these balances of the budget, do you intend to put in a statement of the international balances also?

Mr. JONES. The balance of accounts?

Senator JONES of New Mexico. The international balances.

Senator REED of Pennsylvania. The export and import balances.

Mr. JONES. Yes; I have a statement of that, and can put it in, if you wish.

The CHAIRMAN. Put it in at this point.

(The statement referred to is printed in full, as follows:)

THE FRENCH BALANCE OF TRADE

The French commercial balance is regularly one showing an excess of imports over exports. Since 1872 the French trade returns have never shown a favorable balance, except in 1924 and 1925. In the attached table are shown the commercial balances for 1913 to 1925.

1. FOREIGN TRADE BALANCE

The following gives the situation, before and after the war, of France's commercial balance, in millions of francs:

Years	Ex-ports	Im-ports	Excess of im-ports	Excess of ex-ports	Years	Ex-ports	Im-ports	Excess of im-ports	Excess of ex-ports
1913.....	6,880	8,421	1,541	-----	1920.....	26,805	49,905	23,010	-----
1914.....	4,809	6,402	1,533	-----	1921.....	19,773	22,068	2,295	-----
1915.....	3,937	11,036	7,099	-----	1922.....	21,379	23,930	2,551	-----
1916.....	6,215	20,640	14,425	-----	1923.....	30,433	32,689	2,256	-----
1917.....	6,003	27,554	21,541	-----	1924.....	41,454	40,132	-----	1,322
1918.....	4,723	20,306	17,583	-----	1925.....	45,413	43,980	-----	1,433
1919.....	11,880	75,799	23,919	-----					

FRANCE—BALANCE OF PAYMENTS

The calculation of the French balance of payments is obviously a problem involving to an unusual extent items which can not be ascertained with mathematical exactness. The Banque Nationale Francaise du Commerce Exterieur published figures for 1923 tending to show that the adverse balance was only some 100,000,000 of francs. Other authorities estimated it as high as 733,000,000 francs.

In subsequent years no detailed estimates have been issued by French authorities though it has been frequently stated, even by ministers of finance, that the balance has become favorable.

The invisible items are more than usually difficult to calculate in recent years. The shipment of capital abroad has been steady and must have reached large totals in spite of the legislation intended to stop it. On the other hand tourist expenditures in France and expenditures by resident foreigners have markedly increased measured in paper francs or even in gold. These expenditures are estimated as high as 6,000,000,000 paper francs a year. Reparations payments also have been greater than the expenses of occupation by the French army by several billions of francs.

Though even an approximate estimate of the balance of accounts can not be made, some foreign banking interests as well as the French authorities referred to conclude that especially in view of the favorable balance of trade the balance payments was in 1924 and 1925 certainly favorable.

INFLUENCE OF THE BALANCE OF TRADE

The French people and the French Government have taken great satisfaction in the returns of the balance of trade for 1924 and 1925. These were in fact much more favorable than those in preceding years, and marked a steady

improvement from 1919 when the adverse trade balance was nearly 24,000,000 francs. Taken as units each of these years showed a favorable trade balance of about 1,500,000,000 francs, a circumstance the more acceptable since an adverse trade balance is usual in France even in normal times.

The returns for the two years past and for the first months of 1926 are set out below in thousands of francs:

	Imports	Exports	Excess of exports (+) excess of imports (-)
1923.....	32,688,804	30,432,585	-2,256,219
1924—January.....	2,687,921	2,699,833	-118,088
February.....	3,713,800	3,918,279	+204,479
March.....	3,662,604	4,354,695	+732,091
April.....	3,292,151	4,027,041	+734,890
May.....	3,177,313	3,360,148	+182,835
June.....	3,178,807	2,922,304	-256,503
July.....	3,099,976	3,013,713	-86,263
August.....	3,071,943	2,967,146	-104,797
September.....	3,156,070	3,184,332	+27,362
October.....	3,397,608	3,531,896	+134,288
November.....	3,414,967	3,432,683	+17,716
December.....	4,118,454	4,042,067	-76,387
Total.....	40,132,574	41,454,137	+1,321,563
1925—January.....	3,172,571	3,562,615	+390,044
February.....	3,346,369	3,595,061	+248,692
March.....	3,306,700	3,762,244	+455,544
April.....	3,050,968	3,567,744	+506,776
May.....	2,968,672	3,040,187	+671,515
June.....	2,991,243	3,500,034	+515,291
July.....	3,038,569	3,484,373	+450,824
August.....	3,297,316	3,258,311	-39,005
September.....	4,317,029	3,849,870	-467,140
October.....	4,476,245	4,374,751	-101,494
November.....	4,574,119	4,193,243	-380,876
December.....	5,445,725	4,628,013	-817,112
Total.....	43,980,506	45,413,565	+1,433,049
1926—January.....	4,483,033	3,868,345	-614,688
February.....	5,244,535	4,408,921	-835,614
March.....	5,095,370	490,316	-135,054

¹ Revised final figures published in the Journal Officiel of Jan. 22, 1926, and the monthly statistics No. 12 for the year 1925, show the total exports in the year 1924 as 41,408,360,000 francs and the total imports as 39,928,002,000 francs, leaving an excess of exports of 1,540,358,000 francs for the year in question, instead of 1,321,563,000 francs as given in the monthly statistics from which the above table was compiled; revised figures for each month of 1924 are not yet available. Compiled from official monthly statistics.

Examined in detail these statistics of the trade returns are not as encouraging as at first sight appears. The favorable balance of 1924 was clearly the result of the rapid fall in the value of the franc which occurred during the first half of that period. In 1925 there was a fairly steady decline in the value of the franc, which was reflected in the figures of the balance of trade for the year. During the first seven months of the year the balance was favorable, but it had already reached its most favorable point in May and thereafter became steadily less favorable and resulted in an adverse balance in August and in all the succeeding months of the year.

In the period from August, 1925, throughout March, 1926, the adverse trade balance was 3,378,000,000 francs, a deficit greater than the very favorable trade balance built up in the seven months previous. From December, 1925, to February, 1926, the returns were particularly discouraging, giving an adverse balance of over two and one-fourth billions francs.

Encouraging as the trade returns for the past two years, when considered as units, have been, the developments in the last 10 months and particularly the last 8 months, have been far from satisfactory and seem to indicate that the balance of trade has turned against France in spite of the continued weakness of the franc in exchange.

To the degree therefore that the balance of payments in France depends on the balance of trade, the outlook has in recent months become increasingly discouraging.

Arguments based on French trade statistics are not, it is true, entirely satisfactory, because a change was made in August, 1925, in the manner of calculating the values of exports and it is uncertain whether or not the new practice may have made inaccurate any comparisons for the months following August with the results previous to that time.

BALANCE OF TRADE ON A WEIGHT BASIS

In order to check the results of a comparison based on reported values, one based on weights is useful.

1. *Exports.*—The weight of raw materials exported showed a marked increase in 1925, but one confined to the first part of the year. The last part of the year, in spite of continued weakness of the franc, showed totals much below those in 1924. The early months of 1926 continued to show low levels of shipments.

In manufactured articles, the most valuable of French exports, the year 1925 showed an increase in weight of 570,418 tons. The shipments rose fairly steadily throughout the year 1925 under the influence of the weakening franc.

Foodstuffs exports fell off in weight in 1925 by over a quarter of a million tons, and the first months of the year 1926 showed a continued weakness.

2. *Imports.*—Imports of raw materials fell off in weight in 1925 as compared to 1924 by over 8,000,000 tons, due chiefly to adjustments in the coal trade. Raw materials not including coal fell off by 1,401,114 tons and in early 1926 were maintaining about the level of 1925.

Imports of manufactured articles month by month were less in 1925 than in 1924 making a total for the year, less by 240,017 tons. In the first three months of 1925 imports were, however, heavier than in the same period in 1925.

The weight of foodstuffs imported fell off in 1925 by 568,855 tons, but showed a tendency in early 1926 to improve upon the 1925 level.

In short then, judged by weights, exports did not maintain themselves except in manufactured articles. In these, values are comparatively high and the change in the method of valuation may seriously affect the nominal trade balance. The uneven returns of exports of raw materials are subject to varying interpretations. So far as they represent shipments of goods not needed by French industry, the heavy shipments of the first half of the year were encouraging, but to the degree to which they were of goods sold abroad under the impulse of the declining exchange rate but which would normally have gone to French manufacturers the movement was unhealthy though it temporarily sustained the trade balance. Similarly the falling off of these shipments in the second half of 1925 is subject to two interpretations.

In imports, the failure to keep up the former level in manufactured articles and to some extent in foodstuffs, though it reflects the reduced purchasing power of the franc, may be a not unacceptable development in the balance of trade. The same can not be said, however, in the case of raw materials for many of which French industry is heavily dependent on foreign sources of supply. A falling off in the chief lines in this class of imports would ultimately bring a slowing down of manufacturing, and therefore of exports. Up to the present, however, the trade figures do not show clearly that a weakness of this sort has developed. Under these conditions, it is not established that the figures of weight of foreign trade movement indicate as discouraging a position as appears from a study of values.

It remains true, however, that, taken as a whole, the reported values in the trade balance have for almost a year been less favorable and became increasingly unfavorable after August when the new basis for calculating the value of exports was adopted. Consequently it is safe to conclude that the trade balance is becoming less encouraging even if it is not as heavily negative as the figures of value indicate.

As above indicated the adverse trade balance between August, 1925, and the end of March, 1926, was over 3,378,000,000 francs. In order to make the balance of payments favorable in this period of eight months the invisible items would have to bring a favorable balance of an equal amount.

The unfavorable invisible items of greatest importance arise in the excess of foreign imports in the colonial trade, the payments made on foreign debts

public and private, the interest on foreign balances in France, expenditures abroad by French officials and tourists, remittances by the large number of foreign laborers to their home countries, new investments abroad, the export of capital which must have reached large amounts, and the expenditures of money abroad on account of military operations in Morocco and Syria. These items, with the exception of the last, were estimated as making an unfavorable showing of some 6,200,000,000 francs for the year 1923.¹ While no official estimates of even an approximate character have since been made, it seems safe to conclude that the adverse items of the invisibles have appreciably risen.

The chief invisible items on the credit side are tourist income, the balance of reparations receipts over the cost of the army of occupation in Germany, the interest on foreign investments, postal exports, and the ocean freight earnings. The total favorable invisible items plus the exports to Indo-China were estimated in 1923 at 6,400,000,000 francs. This amount has doubtless increased markedly in subsequent years.

How much the advance is in individual items, favorable and unfavorable, can not even be approximated. A Swiss authority² estimated that for the year 1925 the balance of trade plus the invisible favorable items would give a total of about 16,000,000,000. On this basis, the favorable invisible items are credited with 14,400,000,000 francs.

The unfavorable invisible items plus imports from Indo-China were estimated at 6,200,000,000 francs in 1925.

If it be assumed that the relative position of the unfavorable items was in 1925 about the same as in 1923, they would total for the former year 9,600,000,000 francs, and give a favorable balance in the invisibles of 4,800,000,000 francs. There is obviously a large percentage of error in any such calculation. It is evident, however, that if the figures are approximately correct and continue to reflect the facts in the invisible items at the present time, then the balance of payments for the eight months last past must be unfavorable. The invisibles would yield a favorable item for such a period of some 3,200,000,000 francs while the adverse balance of trade was about 3,378,000,000 francs.

Mr. JONES. I have here a statement showing receipts of various classes of taxes from 1921 to 1925, showing the origin of the money which finds its way into the French treasury.

Senator WATSON. That would be interesting.

Senator REED of Pennsylvania. Is that the same as is given in the French pamphlet?

Mr. JONES. It may cover more years.

The CHAIRMAN. I think it has a later date.

Senator HARRISON. You have covered everything in there, have you?

Mr. JONES. Yes; everything by classes.

Senator HARRISON. When did they increase their tariff duties the last time?

Mr. JONES. The last general tariff was passed in 1911, but during the war there were a number of exceptional measures passed to try to keep up the return on imports, and after the war, with the fall of the franc there obviously had to be adjustments in order to keep any adequate protection, particularly in the specific duties, and most of the French duties are specific. They would have now only one-seventh of the protection they had before the war if they did not make such adjustments. So the Government for a while allowed

¹ This figure and the ones below referring to the balance of payments in 1923 are compiled from a statement issued by the Banque Nationale Française du Commerce Extérieur.

² Societe de Banque Suluse.

the ministry of commerce to make any change it wanted. There was a constant adjustment of rates going on.

Senator HARRISON. When did they permit that?

Mr. JONES. That was from shortly after the war until two years ago. Then freedom of action by the ministry of commerce ceased, and now all changes must be made by Parliament.

Senator HARRISON. They have regular rates, do they not?

Mr. JONES. Yes; they have the regular rates; but the Government had given the ministry of commerce authority to apply a coefficient to the rates previously given, in order to keep up the revenues from the imports.

Senator HARRISON. Now they have stationary rates?

Mr. JONES. Yes; but using the last coefficient that the ministry of commerce had used. Say, that on chairs there was a rate of 10 francs per kilo, and the department of commerce put in a coefficient of 3, that coefficient remains for chairs—three times 10 francs.

Senator HARRISON. How do these last rates, which you say were fixed stationary, compare with before the war?

Mr. JONES. They are lower.

Senator HARRISON. Lower?

Mr. JONES. Yes; that is because of the depreciation of the franc. The increase by adoption of coefficients has not fully compensated for the fall in the value of the franc.

Senator HARRISON. If there had been no depreciation in the franc, then, presumably the rates would have been the same?

Senator REED of Pennsylvania. No; presumably they would not have increased them.

Mr. JONES. Yes; presumably the rates would not have been increased.

Senator REED of Pennsylvania. If the value of the franc were not at par their present import duties would be many times as great as before the war.

The CHAIRMAN. Yes; they would be. They would have to change the basis of value.

Senator JONES of New Mexico. I have noted in the last few days there has been an agitation of the question of preventing imports, or doing something there to prevent the quantity of import which they had been receiving.

The CHAIRMAN. I think that is mostly propaganda, Senator.

Senator JONES of New Mexico. And that is directed to food products principally?

The CHAIRMAN. She only imports just what she is absolutely compelled to import now.

Senator JONES of New Mexico. We realize that they can use domestic products instead of some foreign products which they are now receiving; or rather that they can get along with less foreign products than they are now using, and I understand that there is at the present time agitation to do that.

Mr. JONES. Yes, sir. There is a desire to do something to cut down imports, and that has been going on right along since the war.

For instance, in the making of common bread it has been required at times that there be put in a certain amount of rye. They are trying to cut down their importations of certain things to make the trade balance more favorable.

Senator REED of Pennsylvania. Mr. Jones, in making up the balance of international payments, have you taken account of this phenomenon that they themselves call "the flight of the franc"? That is, the reinvestment in foreign countries in foreign securities by French citizens who have lost confidence in the franc?

Mr. JONES. I have mentioned that. That is one element you can not make any good guess at even. French officials have been disposed up to about a year ago to deny that there was any serious flight of the franc. There is no doubt, however, that large amounts of French capital has been going abroad ever since the passage of the law forbidding it. In fact, the passage of the law encouraged the people to think it would be a good thing to do for their own protection, for if there was not grave danger the Government would not have passed such a law. During the last year there has been a regular shuttle service, so-called, developed across the Swiss border and the Belgian border, by which people take 5,000 francs to-day and come back and get another lot to-morrow. So there is a large amount of capital going abroad. In addition, exporters do not always bring back the money which they receive for goods sold abroad.

Senator HARRISON. Can you put in the exports and imports?

Mr. JONES. Yes; I have a tabulation of that kind.

The CHAIRMAN. Put it in here, then.

(The tabulation referred to is as follows:)

BUREAU OF FOREIGN AND DOMESTIC COMMERCE,
ROMANCE SECTION, EUROPEAN DIVISION,
May 24, 1926.

INCREASES IN FRENCH TRADE IN 1913 AND 1925

The development of import and export with the principal sources and markets, as compared with 1913, is as follows:

	1913	1925	Increase
IMPORTS			
United States.....	\$173,000,000	\$304,000,000	\$131,000,000
Great Britain.....	215,000,000	280,000,000	65,000,000
Belgium.....	107,000,000	146,000,000	39,000,000
Germany.....	200,000,000	112,000,000	88,000,000
Italy.....	48,000,000	82,000,000	34,000,000
Brazil.....	33,000,000	65,000,000	32,000,000
Netherlands.....	22,000,000	61,000,000	39,000,000
EXPORTS			
Great Britain.....	281,000,000	427,000,000	146,000,000
Belgium.....	214,000,000	362,000,000	148,000,000
Germany.....	107,000,000	179,000,000	72,000,000
United States.....	82,000,000	146,000,000	64,000,000
Switzerland.....	78,000,000	139,000,000	61,000,000
Italy.....	59,000,000	105,000,000	46,000,000
Spain.....	29,000,000	68,000,000	39,000,000
Netherlands.....	16,000,000	58,000,000	42,000,000

¹ In 1925 Belgo-Luxemburg Economic Union.

² Decrease.

FRENCH FOREIGN TRADE

In all the accompanying tables, the following exchange rates are used:

1905-1913.....	\$0. 193000	1923.....	.060811
1919.....	.136820	1924.....	.052368
1920.....	.070400	1925.....	.047670
1921.....	.074554	1926 (average of first three	
1922.....	.082013	months).....	.036760

French total foreign trade, 1905-1925

[All figures in millions]

	Imports			Exports		
	Metric tons	Francs	Dollars	Metric tons	Francs	Dollars
1905 ¹	26.69	4,778.9	922.3	11.62	4,866.9	939.3
1910 ¹	35.72	7,173.3	1,384.5	15.51	6,233.8	1,203.1
1911 ¹	40.43	8,065.8	1,556.7	16.91	6,076.9	1,172.8
1912 ¹	39.75	8,230.8	1,588.5	20.33	6,712.6	1,295.5
1913 ¹	44.22	8,421.3	1,625.3	22.07	6,880.2	1,327.9
1919 ²	38.45	35,799.3	4,897.3	5.56	11,879.6	1,652.1
1920 ²	30.54	49,904.9	3,513.3	12.86	26,894.9	1,893.4
1921 ²	40.66	22,067.9	1,696.5	16.04	19,772.5	1,474.1
1922 ²	51.42	23,930.3	1,990.8	22.54	21,378.9	1,753.4
1923 ²	54.86	32,688.0	1,987.8	24.90	30,432.6	1,850.6
1924 ²	56.49	40,132.6	2,101.7	29.39	41,454.1	2,171.0
1925 ²	47.42	43,980.5	2,096.5	30.22	45,413.5	2,164.8
1926 (first 3 months) ³	11.72	14,822.9	544.6	7.94	13,237.5	486.6

	Excess of imports		Excess of exports	
	Francs	Dollars	Francs	Dollars
1905.....			88.0	17.0
1910.....	939.5	181.4		
1911.....	1,988.9	383.9		
1912.....	1,518.2	293.0		
1913.....	1,541.1	297.4		
1919.....	23,919.7	3,245.2		
1920.....	23,101.0	1,619.9		
1921.....	2,295.4	222.4		
1922.....	2,551.4	237.4		
1923.....	2,255.4	137.2		
1924.....			1,321.5	69.3
1925.....			1,433.0	68.3
1926 (first 3 months).....	1,585.4	58.2		

¹ Annuaire Statistique, 1922.

² Statistique Mensuelle du Commerce Exterieur, December, 1924.

³ Department of Commerce files.

FRENCH DEBT SETTLEMENT

French monthly trade, January, 1924-1925

[Figures in millions]

	Imports		Exports		Excess of—			
	Francs	Dollars	Francs	Dollars	Imports		Exports	
					Francs	Dollars	Francs	Dollars
1924								
January.....	2,887.9	135.7	2,699.8	126.9	188.1	8.8		
February.....	3,713.8	163.4	3,918.3	172.4			204.5	9.0
March.....	3,622.6	170.3	4,354.7	204.7			732.1	34.4
April.....	3,292.2	204.1	4,027.0	249.7			734.8	45.6
May.....	3,177.3	184.3	3,360.1	194.9			182.8	10.3
June.....	3,180.5	168.6	2,890.5	152.7	300.0	15.9		
July.....	3,100.0	158.1	3,013.7	153.7	86.3	4.4		
August.....	3,071.9	169.0	2,907.1	163.2	104.8	5.0		
September.....	3,157.0	167.3	3,184.3	168.8			27.3	1.5
October.....	3,397.6	170.7	3,531.8	183.7			134.3	
November.....	3,415.0	181.0	3,432.7	181.9			17.7	
December.....	4,118.5	222.4	4,042.1	218.3	76.4			
Total.....	40,132.6	2,101.7	41,454.1	2,171.0			1,321.5	69.3
1925								
January.....	3,172.6	171.0	3,562.6	192.0			390.0	21.0
February.....	3,346.4	176.7	3,595.1	189.8			248.7	13.1
March.....	3,306.7	171.3	3,782.2	194.9			455.5	23.6
April.....	3,051.0	158.3	3,557.7	184.6			506.7	26.3
May.....	2,908.7	153.2	3,640.2	187.8			671.5	34.0
June.....	2,991.2	132.7	3,506.5	167.3			515.3	24.0
July.....	3,033.5	144.6	3,484.3	166.0			450.8	21.5
August.....	3,297.3	157.2	3,258.3	155.3	39.0	1.8		
September.....	4,317.0	205.8	3,849.9	183.5	467.1	22.2		
October.....	4,476.2	203.4	4,374.7	208.5	101.5	4.8		
November.....	4,574.1	218.0	4,193.2	199.9	380.8	18.1		
December.....	5,445.7	259.6	4,628.6	220.6	817.1	39.0		
Total.....	43,980.5	2,096.5	45,413.5	2,164.8			1,433.0	
1926								
January.....	4,483.0		3,808.3		614.7	22.0		
February.....	5,234.5		4,408.9		835.6	30.7		
March.....	5,095.4		4,960.3		135.0	4.9		
Total.....	14,822.9		13,237.5		1,585.3	58.2		

French foreign trade by commodity groups by weight

[Thousands of metric tons]

	1913	1919	1922 ¹	1923	1924	1925	1926 (first quarter)
IMPORTS							
Foodstuffs.....	5,551.9	6,981.4	5,090.5	5,690.5	5,672.9	5,118.3	1,255.7
Raw materials.....	37,160.7	29,637.7	44,686.7	47,702.5	49,342.2	41,072.2	10,041.4
Manufactured goods.....	1,547.7	1,828.0	1,601.0	1,471.8	1,476.7	1,234.9	423.7
Total.....	44,220.3	38,447.1	51,418.29	54,864.68	56,491.79	47,425.4	11,720.8
Gold and silver.....	2.8	.3	.19	.16	.19	2.26	(¹)
Grand total.....	44,223.1	38,447.4	51,418.48	54,864.84	56,491.97	47,427.6	11,720.8
EXPORTS							
Foodstuffs.....	1,456.7	529.9	957.4	1,313.0	1,633.2	1,386.6	344.4
Raw materials.....	18,299.2	4,156.4	19,083.4	20,487.4	24,106.4	24,607.5	6,486.6
Manufactured goods.....	2,283.3	861.1	2,584.0	3,080.3	3,608.2	4,189.9	1,110.6
Parcels post.....	35.4	16.9	28.0	32.0	38.0	41.8	(¹)
Total.....	22,074.51	5,564.36	22,642.85	24,901.69	29,385.80	30,225.8	7,941.6
Gold and silver.....	2.31	.17	.25	.37	.99	1.5	(¹)
Grand total.....	22,076.83	5,564.53	22,643.11	24,902.06	29,386.79	30,227.3	7,941.6

¹ Not available.

French foreign trade by commodity groups by value

[Millions of francs and dollars]

	1913	1919	1922	1923	1924	1925	1926 (first quarter)
IMPORTS							
Foodstuffs.....	Franks 1,817.0	Franks 10,704.5	Franks 5,833.9	Franks 7,498.3	Franks 8,905.8	Franks 9,116.1	Franks 2,630.9
Raw materials.....	4,946.7	14,753.2	14,044.5	20,514.0	26,138.4	29,462.0	10,333.4
Manufactured goods.....	1,658.0	10,341.6	4,052.0	4,376.6	5,088.4	5,402.2	1,858.7
Total.....	8,421.3	35,799.3	23,930.3	32,688.8	40,132.6	43,980.3	14,823.0
Gold and silver.....	975.0	176.1	125.2	65.6	115.9	149.6	(1)
Grand total.....	9,396.3	35,975.4	24,055.5	32,754.4	40,248.5	44,129.9	14,823.0
Total in dollars.....	\$1,813.5	\$4,942.2	\$2,001.1	\$1,991.5	\$2,107.4	\$2,103.6	\$544.9
EXPORTS							
Foodstuffs.....	838.9	1,190.4	1,882.0	3,190.1	3,996.4	3,620.2	1,112.7
Raw materials.....	1,858.1	2,444.3	5,807.2	9,342.7	10,532.6	12,563.1	3,783.3
Manufactured goods.....	3,617.0	7,387.6	12,271.6	16,238.9	24,861.2	26,975.8	8,336.6
Parcels post.....	566.2	857.3	1,418.1	1,660.9	2,064.0	2,248.4	(2)
Total.....	6,680.2	11,879.6	21,378.9	30,432.6	41,454.1	45,413.5	13,237.6
Gold and silver.....	431.4	36.6	77.4	82.8	240.2	13800	(1)
Grand total.....	7,311.6	11,916.2	21,456.3	30,515.4	41,694.3	45,545.8	13,237.8
Total in dollars.....	\$1,411.1	\$1,657.1	\$1,750.4	\$1,855.3	\$2,183.1	\$2,171.3	\$460.6

¹ Not available

² Included among manufactured articles.

French foreign trade by countries

[Millions of francs]

Foreign countries	Imports			Exports		
	1913	1919	1922	1913	1919	1922
Great Britain.....	1,115.1	8,800.9	3,256.0	1,453.9	2,116.1	3,960.5
United States.....	894.7	9,217.8	3,845.0	422.6	892.8	2,006.8
Belgian-Luxemburg Economic Union.....		¹ 1,187.0	¹ 1,780.2		¹ 1,597.1	¹ 4,193.9
Belgium.....	556.3			1,108.5		
Argentina.....	369.3	1,613.8	990.7	199.9	176.3	314.2
Italy.....	240.5	1,017.2	773.7	305.8	677.7	797.1
Germany.....	1,068.8	755.3	1,440.1	866.8	1,569.5	1,969.8
Netherlands.....	113.8	235.0	661.2	82.7	234.5	308.8
Saar.....		86.4	837.1		124.8	366.8
Brazil.....	174.3	956.3	485.3	86.4	118.4	158.4
Spain.....	281.6	1,464.2	365.9	151.2	387.6	518.1
Switzerland.....	135.2	737.8	488.0	406.2	713.1	1,001.7
Sweden.....	110.8	258.7	370.0	25.3	123.0	65.6
Czechoslovakia.....		48.4	300.3		46.1	62.6
Japan.....	124.4	365.3	375.2	15.2	32.8	100.5
Norway.....	37.2	164.0	127.4	10.6	81.0	41.2
French colonies and protectorates:						
Algeria.....	330.8	1,223.7	984.5	552.6	958.6	1,716.3
Indo-China.....	104.4	275.7	240.0	85.6	49.7	257.6
Tunis.....	81.5	437.4	244.1	100.1	166.5	265.6
Senegal.....	96.2	358.1	206.4	54.7	46.0	94.8
Madagascar.....	30.7	154.7	74.7	38.3	30.5	84.8
Morocco.....	20.4	327.4	83.5	78.8	233.4	487.8
All other countries and colonies.....	2,535.3	6,114.2	5,995.0	835.0	1,514.1	2,520.0
Grand total.....	8,421.3	35,799.3	23,930.3	6,880.2	11,879.6	21,378.9
Millions of dollars.....	\$1,625.3	\$4,897.3	\$1,990.8	\$1,327.9	\$1,652.1	\$1,753.4

¹ Combined figures for Belgium and Luxemburg.

FRENCH DEBT SETTLEMENT

French foreign trade by countries—Continued

[Millions of francs.]

Foreign countries	Imports			Exports		
	1923	1924	1925	1923	1924	1925
Great Britain.....	5,272.1	4,876.4	5,803.3	6,154.6	7,854.0	6,957.3
United States.....	5,049.0	5,750.9	6,382.9	2,490.6	3,142.0	3,058.1
Belgian-Luxemburg Economic Union.....	2,404.1	2,663.4	3,082.3	5,805.8	7,138.7	7,596.5
Argentina.....	1,271.0	1,825.5	1,651.3	612.6	656.3	824.0
Italy.....	1,223.7	1,512.1	1,729.4	1,181.3	1,464.3	2,209.0
Germany.....	1,048.3	2,017.2	2,372.6	1,085.5	3,777.8	3,754.1
Netherlands.....	1,002.2	1,167.3	1,279.9	630.5	1,160.5	1,319.9
Saar.....	711.4	1,046.7	(?)	87.1	1,370.5	(?)
Brazil.....	691.3	1,062.5	1,370.2	211.9	369.1	460.9
Spain.....	607.9	845.5	834.3	97.3	1,157.7	1,423.5
Switzerland.....	661.6	667.8	785.7	2,113.0	2,598.7	2,921.5
Sweden.....	424.3	578.2	654.6	128.5	151.8	143.2
Czechoslovakia.....	209.3	198.4	182.3	53.6	100.2	175.2
Japan.....	208.8	455.8	338.8	176.3	220.6	243.7
Norway.....	166.0	182.7	265.0	68.9	96.4	88.8
French colonies and protectorates:						
Algeria.....	1,225.0	1,636.4	1,623.0	2,068.7	2,503.7	2,910.8
Indo-China.....	331.5	322.4	612.5	415.9	677.9	769.8
Tunis.....	301.4	299.1	393.3	426.4	541.3	553.3
Senegal.....	275.6	388.4	542.0	194.8	314.8	433.5
Madagascar.....	150.2	281.6	293.8	113.1	174.3	355.2
Morocco.....	122.0	226.1	186.8	486.2	688.3	843.7
All other countries and colonies.....	9,309.8	12,088.5	13,587.9	33,823.9	5,369.7	6,475.9
Grand total.....	32,608.0	40,132.6	43,980.5	30,431.5	41,468.3	45,413.5
Millions of dollars.....	\$1,987.8	\$2,101.7	\$2,096.5	\$1,850.6	\$2,171.6	\$2,164.8

* Trade with the Saar assimilated with French domestic trade after 1924.

It is particularly interesting to note that in 1925, as compared to 1913, Germany more than doubled her exports to France and trebled her imports from France. Another interesting development is in the South American trade, the 1924 totals of both imports and exports with Argentina and Brazil together being almost six times its 1913 figures. In 1925, as in 1924, the United States led as the chief source of French imports, a position lost in 1923 to Great Britain, who had held it before the war. Great Britain and the Belgian Luxemburg Economic Union lead easily in purchasing French exports, as they did before the war.

Comparative positions in French foreign trade

	1913	1919	1922
Imports:			
First.....	Great Britain.....	United States.....	United States.
Second.....	Germany.....	Great Britain.....	Great Britain.
Third.....	United States.....	Belgium-Luxemburg.....	Belgium-Luxemburg.
Fourth.....	Belgium.....	Argentina.....	Germany.
	1923	1924	1925
First.....	Great Britain.....	United States.....	United States.
Second.....	United States.....	Great Britain.....	Great Britain.
Third.....	Belgium-Luxemburg.....	Belgium-Luxemburg.....	Belgium-Luxemburg.
Fourth.....	Argentina.....	Germany.....	Germany.
	1913	1919	1922
Exports:			
First.....	Great Britain.....	Great Britain.....	Belgium-Luxemburg.
Second.....	Belgium.....	Belgium-Luxemburg.....	Great Britain.
Third.....	Germany.....	Germany.....	United States.
Fourth.....	United States.....	United States.....	Germany.
	1923	1924	1925
First.....	Great Britain.....	Great Britain.....	Great Britain.
Second.....	Belgium-Luxemburg.....	Belgium-Luxemburg.....	Belgium-Luxemburg.
Third.....	United States.....	Germany.....	Germany.
Fourth.....	Switzerland.....	United States.....	United States.

Trade of United States with France by principal commodities or groups of commodities during fiscal years 1912-13 and 1913-14, and calendar years 1923 and 1924

Commodities	1912-13	1913-14	1923	1924
IMPORTS				
Cheese and cheese substitutes.....	\$785,965	\$1,032,817	\$1,588,350	\$1,400,147
Hides and skins.....	5,295,844	6,448,814	5,496,322	3,293,771
Leather.....	871,161	1,081,079	1,660,182	1,686,990
Leather gloves.....	3,097,824	3,828,933	3,775,907	3,735,634
Furs, undressed and dressed.....	2,516,112	987,214	3,084,919	3,439,672
Dried beans.....	393,078	455,880	1,038,831	297,135
Mushrooms and truffles.....	842,582	968,360	1,057,038	1,282,494
Walnuts and other table nuts.....	3,274,316	3,215,056	4,337,288	5,519,314
Olive oil.....	1,497,948	1,530,659	1,165,561	1,074,550
Spices, principally vanilla beans.....	890,753	593,930	1,659,845	2,687,200
Rubber and manufactures.....	3,328,081	1,545,897	935,205	1,633,613
Essential and distilled oils.....	(1)	(1)	1,589,476	1,895,693
Seeds.....	874,787	1,695,227	1,621,107	2,890,682
Bulbs and nursery stocks.....	452,525	528,779	1,026,098	980,503
Cotton manufactures.....	12,395,206	14,881,541	14,001,905	16,402,486
Flax, hemp, and ramie manufactures.....	1,947,311	1,385,677	1,139,249	1,672,630
Wool and wool manufactures.....	2,687,023	5,427,747	8,290,486	8,239,211
Silk and silk manufactures.....	15,271,568	18,946,142	20,824,859	18,371,169
Hats, materials and trimmings.....	705,266	892,065	1,237,144	786,161
Rags and other paper stock.....	903,560	903,752	2,399,360	2,014,206
Cigarette paper.....	590,353	723,264	2,880,782	2,066,142
Glassware, porcelain, etc.....	2,834,522	2,436,984	1,966,013	2,486,830
Precious stones and pearls and imitations.....	6,324,163	6,087,855	9,342,117	7,227,465
Iron and steel and manufactures.....	722,327	635,523	2,217,284	2,689,885
Copper and manufactures.....	281,945	258,725	965,107	508,936
Platinum.....	1,451,927	968,173	1,184,072	959,530
Jewelry.....	300,239	334,405	777,805	662,975
Manufactures of gold and silver.....	681,349	805,625	5,590,144	3,439,866
Chemicals, all others.....	4,211,558	4,547,892	3,777,208	2,880,677
Fertilizers.....	71,017	44,028	2,629,298	3,456,368
Soaps, perfumes, and cosmetics.....	1,944,108	2,137,721	4,970,193	5,247,578
Motion-picture films and others.....	814,693	1,000,939	1,526,615	1,051,781
Art works.....	22,291,950	22,924,345	9,991,866	11,183,162
Beads and beaded articles.....	521,292	555,595	2,301,188	1,923,025
Total imports.....	101,042,642	110,910,643	128,562,863	125,897,471
EXPORTS				
Pork products.....	2,150,835	557,815	7,308,273	4,804,737
Condensed, evaporated, and dried milk.....	(2)	(2)	1,210,963	471,164
Leather.....	1,076,433	768,056	2,212,940	1,908,220
Furs, undressed and dressed.....	1,064,886	1,038,888	3,349,441	2,965,262
Wheat and wheat flour.....	5,037,674	5,448,529	6,770,886	10,509,050
Other cereals and cereal products.....	1,078,011	84,838	3,497,990	1,294,330
Dried, evaporated, and canned fruits.....	1,476,208	1,590,534	824,274	1,879,255
Refined sugar.....	(3)	(3)	3,889,882	2,846,442
Leaf tobacco.....	4,815,201	4,783,231	5,151,890	5,716,041
Raw cotton.....	64,137,024	73,918,742	101,955,729	114,329,163
Lumber, including logs.....	2,078,364	2,010,546	1,203,796	1,385,515
Staves.....	1,357,518	1,117,827	892,793	1,071,583
Coal and coke.....	168,831	223,011	6,959,318	2,424,168
Petroleum and products.....	10,502,866	12,935,008	18,737,518	50,359,334
Sulphur or brimstone.....	682,550	851,650	1,478,112	1,527,94E
Refined copper and manufactures.....	21,057,399	25,456,086	27,950,196	27,403,177
Lead.....	4,315	967	1,080,287	1,411,221
Zinc.....	(4)	(4)	618,769	1,499,541
Electrical machinery and apparatus.....	381,975	377,847	2,808,431	2,248,373
Agricultural machinery.....	3,394,644	4,148,521	4,620,377	7,222,522
Other machinery.....	5,423,674	5,218,978	9,117,775	9,543,082
Motor vehicles, except engines and tires.....	791,745	1,103,491	4,242,901	4,981,972
Chemicals, drugs, dyes, and medicines.....	1,430,363	1,743,925	3,294,010	2,295,523
Motion-picture films and others.....	131,732	46,295	944,914	819,879
Total exports.....	128,241,518	143,430,775	220,420,945	260,997,476

¹ None listed by countries.

² None listed.

³ Exports of pigs, bars, plates, and old lead included in manufactures of lead prior to 1915.

Senator HARRISON. Are you going to discuss the amount France gets from German reparations?

Mr. JONES. I can give you a table on that also.

Senator HARRISON. Or is there someone more familiar than you, Mr. Jones, who is going to give us those facts, and who could probably draw some conclusions as to the results flowing therefrom.

The CHAIRMAN. We already have that. And I intend to state that in the remarks I will make.

Senator JONES of New Mexico. The Dawes agreement can not help France so much in getting dollars, because all the reparations are paid in German marks, and those marks can only be used in the purchase of German goods, and the German goods are under the control of the Reparations Commission. France has been getting some advantage from the Dawes adjustment plan through the purchase of coal and some things of that sort with those German marks.

The CHAIRMAN. But, Senator Jones, she has also in the exchange used that reparation fund for balancing the exchanges with foreign markets.

Senator JONES of New Mexico. No, Mr. Chairman, I think your information is not accurate on that.

The CHAIRMAN. Well, let us see—

Senator JONES of New Mexico (continuing). At any rate, to any considerable extent for as I understand it the Reparations Commission has not thus far permitted any transfer of funds so far as cash is concerned.

The CHAIRMAN. But transfer of credits is what they are permitting. There is no one drawing reparations from Germany who has drawn the full amount of their reparations in goods but they have had a transfer of credits.

Senator JONES of New Mexico. France has been buying goods from Germany and that is the way she has been getting the benefit of reparations.

Mr. JONES. She has been buying coal and some agricultural machinery has been taken in the north but not much of the latter.

Senator JONES of New Mexico. She has not been getting dollars, or English pounds from Germany.

The CHAIRMAN. She has been getting credits out of Germany.

Senator JONES of New Mexico. Germany has not created any credit in the United States or in England or France.

The CHAIRMAN. If she did not have credit she could not get exchange.

Senator JONES of New Mexico. She has not been getting exchange.

The CHAIRMAN. Oh, yes.

Senator HARRISON. Is it not a fact that France has gotten all its reparations from Germany in goods?

Mr. JONES. No; she has had some cash.

Senator HARRISON. But if that is coming on later for our benefit, all right, I will not go into it now.

The CHAIRMAN. The Treasury Department will take that up.

Senator REED of Pennsylvania. You will find tables on page 133 of this French pamphlet.

Mr. BLAIR. They have received about 5 per cent available in cash; they have received less than \$700,000,000 by way of reparations. On the other hand, Belgium has received about half a billion dollars.

Senator WATSON. When you say a half a billion dollars do you mean cash?

Mr. BLAIR. The same thing was done in Belgium, reparation credits were applied against deliveries in kind.

Senator HARRISON. Did Italy get any?

Mr. BLAIR. Some, but again there they have had deliveries in kind.

Senator JONES of New Mexico. Is there a statement in this printed pamphlet entitled "France and Her Capacity to Pay," showing the amount of cash transferred?

Senator REED of Pennsylvania. It is consolidated on page 133 of this pamphlet.

Senator JONES of New Mexico. I should like, if we can, to get it separated.

Mr. BLAIR. We can give you the actual figures. It is \$34,000,000 in round figures. It has been immediately applied against payments for deliveries in kind. The cash was not turned over for use but was applied to purchases of coal.

Senator JONES of New Mexico. That I should take it would be a commodity transaction. In other words, dollars or English pounds did not go out of Germany.

Mr. BLAIR. No. They got coal instead.

Senator HARRISON. Mr. Jones, here is the thought running in my mind: The American people during the war were pretty heavily taxed, especially the rich, and industries of this country through various taxes. Were the French industries and the French people of every class, including the wealthiest, taxed about the same as our people in the United States, or less, or more; and what has been the policy of France with respect to the amount of taxation imposed on her various industries and classes of people since the war and up to this time as compared with the taxes we have imposed upon the American people? That is what I should like to get a comparison of.

Senator REED of Pennsylvania. You will find a lengthy comparison on page 97 of this pamphlet entitled "France and Her Capacity to Pay." There is shown a comparison of the taxation in England, France, and the United States.

Senator HARRISON. Is that correct?

Mr. JONES. It is substantially correct, I understand.

Mr. BLAIR. This French pamphlet has been checked and I understand is correct. If you take the total taxes of France, national and local, and base them on the 1924 rates that the French people pay, it represents over 20 per cent of their national income being paid in taxes; that is, the actual receipts collected in one form or another as against in the United States, roughly speaking, 11 per cent.

Senator HARRISON. That is for the year 1924?

Mr. BLAIR. Yes, sir.

Senator HARRISON. How about the years 1919, 1920, 1921, and 1922, and on back in there?

Mr. BLAIR. It is true, I think—if Mr. Jones will permit me—that the French Government did not tax their people as heavily as they should have done during the war, and since the war they have relied too heavily on reparations.

Senator HARRISON. That is what I want to get.

The CHAIRMAN. That is true up to 1921.

Senator HARRISON. All the facts along that line I should like to have.

Mr. JONES. You will find a paragraph in the table giving information as to the sorts of taxes used and the amounts yielded by each class of taxes.

Senator HARRISON. Since 1921?

Mr. JONES. Yes, sir.

Senator HARRISON. But not before the year 1921?

Mr. JONES. No.

Senator HARRISON. That would not show how the taxes of France compared before 1921 with those imposed upon the American people.

Mr. BLAIR. No, sir.

The CHAIRMAN. We imposed rather burdensome taxes during the war. France did not begin to do that until 1920 and 1921.

Senator JONES of New Mexico. And that is where I think France made her greatest mistake.

Senator HARRISON. That is the reason they should not holler so much at this time.

Senator JONES of New Mexico. Yet, when you remember that one person in five of the population of France was engaged in the war, you will realize the situation that confronted that country.

Mr. JONES. And also when you consider the fact that the industrial districts of France were occupied.

Senator REED of Pennsylvania. Practically the whole of the able-bodied population of France were in the war.

Senator HARRISON. But they had a great industry there and were making much money.

The CHAIRMAN. But that is all of the past.

Senator HARRISON. That is true; but when one is called upon to vote in favor of relieving the French taxpayer and putting it on the American taxpayer, these matters must be taken into consideration.

The CHAIRMAN. What we have to consider now is how much money we can get.

Mr. BLAIR. You have to deal with the present situation, in fact, no matter what has taken place in the past.

The CHAIRMAN. Mr. Jones, have you anything else you want to put in?

Mr. JONES. That is all, except this summary: France has had, during recent years, a high degree of apparent prosperity, but it is a prosperity that has been based on the steady fall in her currency, which has given to export trade, and indeed to interior trade, an unusual impetus. The heavy debt, the heavy early maturities, the depreciating currency that is destroying her operating capital, the unfavorable balance of trade, and the probable unfavorable balance of payments, and the hard times that must come as soon as stabilization arises, all make the prospect for the country anything but a bright one. Her tax system, one must admit, is deficient. Taxes were not as high as they perhaps should have been immediately after the war; and even now there are some classes in France which do not pay adequate taxes, but there are others

in France which do not pay adequate taxes, but there are other classes which are very much overtaxed.

Senator HARRISON. What classes?

Mr. JONES. The farmers for example, pay very little. Even the agricultural associations in France, which would not have a natural bent that way, admit that there ought to be a very serious revision of the taxes paid by the farming interests.

Senator HARRISON. How about capital?

Mr. JONES. Capital is heavily taxed, and the salaried class are very much over-taxed. Take it by and large, while there are inequities, it certainly is true that France is paying a very high proportion of her national income in taxes, probably 20 per cent. And those taxes must be very considerably increased in order to meet payments on foreign obligations to England and the United States. Taking it by and large, then, France certainly has very difficult years ahead of her.

Senator REED of Pennsylvania. Her inheritance taxation is very heavy, is it not?

Mr. JONES. Yes; that is also heavy.

The CHAIRMAN. Anything else?

Mr. JONES. I believe not. May I consider my duties here at an end? I should like if possible to make my sailing to-morrow. I am, however, at your disposition.

Senator HARRISON. Could not we adjourn until Monday?

Mr. BLAIR. Mr. Jones is going to sail to-morrow.

The CHAIRMAN. I think we are through with Mr. Jones.

Senator HARRISON. I should like to have Mr. Dwight Morrow and Mr. Lamont before the committee. I take it they could give us very valuable information. I should like to have some one from the State Department, and probably Mr. Winston.

Mr. BLAIR. Mr. Lamont would tell you probably the same thing that Mr. Morrow would tell you.

The CHAIRMAN. And as to the State Department, there is nothing they can give us that is not already available to us, except confidential matters, which of course they could not give us.

Senator HARRISON. Then might we have Mr. Dwight Morrow here on, we will say, Wednesday at 10.30 o'clock?

The CHAIRMAN. I will see if I can get him.

The committee will now stand adjourned until Wednesday morning at 10.30 o'clock. Mr. Jones, we thank you for coming.

Mr. JONES. And I wish to thank you for the courtesy shown me.

(Whereupon, at 11.45 a. m., the committee adjourned to meet again on Wednesday morning, June 16, 1926, at 10.30 o'clock a. m.)

FRENCH DEBT SETTLEMENT

FRIDAY, JUNE 18, 1926

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met at 10.30 o'clock a. m., pursuant to adjournment, in the hearing room of the committee in the Senate Office Building, Senator Reed Smoot (chairman) presiding.

Present: Senators Smoot (chairman), Curtis, Watson, Reed of Pennsylvania, Ernst, Shortridge, Jones of New Mexico, Harrison, and Bayard.

The CHAIRMAN. There is a quorum of the committee present. This meeting was called for the purpose of hearing Mr. Dwight Morrow, of New York, at the request of a number of members of the committee. Mr. Morrow, are you prepared to go on now?

Mr. MORROW. I am at the service of the committee; I have not prepared any statement.

The CHAIRMAN. Very well.

STATEMENT OF MR. DWIGHT W. MORROW (MEMBER OF J. P. MORGAN & CO., NEW YORK), ENGLEWOOD, N. J.

The CHAIRMAN. Now, Senator Harrison, any questions you want to ask him, you may proceed.

Senator HARRISON. I want to ask him some questions. But you may go ahead if you want to ask him anything.

The CHAIRMAN. I have no particular questions to ask him, Senator.

Senator HARRISON. Mr. Morrow, for the purpose of the record, state your place of residence and membership in any firm, and business.

Mr. MORROW. I am a resident of Englewood, N. J.; I am a partner in the firm of J. P. Morgan & Co., in business in New York City.

Senator HARRISON. Have you ever been connected with the Government in any way?

Mr. MORROW. Not permanently. I was abroad, during the last year of the war, with the Allied Maritime Transport Council, under appointment of President Wilson; and I served on the President's Aircraft Board last year.

Senator HARRISON. What was the term that you served?

Mr. MORROW. Approximately two months, last fall.

Senator HARRISON. And since that time you have been engaged in your banking business in New York?

Mr. MORROW. Yes, sir.

Senator HARRISON. Has your firm made any loans or been instrumental in making any loans to any foreign country since the war?

Mr. MORROW. Yes, sir.

Senator HARRISON. Will you state the circumstances under which they were made, and what loans were made, and to what amount they were made, and when?

Mr. MORROW. I should have a full list of them in order to state them accurately, but I will be very glad to state it from memory and correct it later, if you will permit me.

Senator HARRISON. Yes.

Mr. MORROW. Since the war we have placed loans of European nations as follows:

One loan to Great Britain of \$250,000,000 in 1919; six loans to Belgium, one of \$25,000,000 in 1920, one of \$50,000,000 in 1920, one of \$3,000,000 in 1921, one of \$30,000,000 in 1924, one of \$50,000,000 in 1924, and one of \$50,000,000 in 1925. Some of these Belgian loans were for purposes of refunding the preceding ones.

One loan to Austria of \$25,000,000 in 1923; two loans to Switzerland, one of \$20,000,000 in 1923 and one of \$30,000,000 in 1924; one loan to Germany of \$110,000,000 in 1924; three loans to France of \$100,000,000 each. The first one, I think, was in 1920, and the last of the three was in 1924 or 1925.

And we have made one loan of \$100,000,000 in 1925 to Italy.

In addition to the foregoing loans for European nations, loans were also made to Cuba and to South American countries, to Canada, to Australia, and to Japan.

Senator HARRISON. Now, let us get those to France first. The first loan you were instrumental in making to France was in 1920?

Mr. MORROW. In 1920, I think.

Senator HARRISON. How much?

Mr. MORROW. \$100,000,000.

Senator HARRISON. And then you made three others?

Mr. MORROW. Two others to France.

Senator HARRISON. Two others to France?

Mr. MORROW. Yes.

Senator HARRISON. When were those?

Mr. MORROW. The first one, as I have said, was in 1920, and then one in 1921 of \$100,000,000 and one in 1924 or 1925 of \$100,000,000.

Senator HARRISON. That is all you have made to France?

Mr. MORROW. Yes, sir.

Senator HARRISON. That was to the French Government?

Mr. MORROW. Yes, sir.

Senator HARRISON. And you were instrumental in selling the bonds in this country?

Mr. MORROW. Yes, sir.

Senator HARRISON. To whom, generally speaking?

Mr. MORROW. Well, that would perhaps require a little explanation. You ask if we made these loans. The real procedure is that we would head a large group of people who would make the loans. Our task would be the organization of a country-wide syndicate of

banks and banking houses, probably as many as a thousand members, and the bonds would be offered publicly on behalf of this syndicate to the people of the United States from one end of the country to the other. And if you ask me to whom they were sold, that is a difficult question. I have given quite a little study to that question. We must rely upon the information and statistics that we can collect from those who sell the bonds to the ultimate investor. We have no right to demand that information from the selling houses because the investors are their clients. But I have made some study of that question and have some data on it so far as it can be ascertained.

Senator HARRISON. Generally in floating one of these loans, when an organization gets together, certain banks underwrite so much, or agree to take so many, or agree to sell so many; is that the process?

Mr. MORROW. Yes, sir.

Senator HARRISON. Now, were those loans made at the suggestion of the French Government, or at the suggestion of the banking interests of America, or your firm?

Mr. MORROW. Well, if you mean, did we seek the loan, or did they seek it—

Senator HARRISON (interposing). Well, who conceived the idea in the first place that a borrowing was to be made, or a loan was to be made? I assume that the French Government desired to make a loan and approach your firm. I just want a confirmation of that.

Mr. MORROW. Yes; I think that is true.

The CHAIRMAN. They made an application?

Mr. MORROW. Yes; they would make the application or suggestion.

Senator HARRISON. They made the application in each instance in which loans were made?

Mr. MORROW. Yes, sir.

Senator HARRISON. Now, the last loan made to France was in 1925 for \$100,000,000?

Mr. MORROW. I think so.

Senator HARRISON. At what date in 1925?

Mr. MORROW. I brought practically no information with me, because I had no idea of the line your questioning would take.

Senator HARRISON. You may supply it.

Mr. MORROW. I would be glad to supply the exact date. I think I can tell you roughly. I think the last loan was publicly offered in the latter part of November, 1924, a 7 per cent loan to France.

Senator HARRISON. 1924?

Mr. MORROW. Yes, sir.

Senator HARRISON. Then you did not make any loan in 1925?

Mr. MORROW. No; I think it was in 1924. I think the three loans to France were September, 1920, which was an 8 per cent loan to refund France's share of the Anglo-French loan that had been made during the war; a 7½ per cent loan made in May, 1921; and a 7 per cent loan made late in 1924.

The CHAIRMAN. September, 1920; May, 1921; and 1924?

Mr. MORROW. Yes, sir.

The CHAIRMAN. The last one in 1924?

Mr. MORROW. Yes, sir.

Senator HARRISON. Then we will note that correction.

Mr. MORROW. Yes, sir.

Senator HARRISON. The loans were \$100,000,000 in September, 1920; in May, 1921, \$100,000,000; and in 1924, \$100,000,000?

Mr. MORROW. Yes, sir.

Senator HARRISON. Have you been approached since that 7 per cent loan was made in 1924, by the French Government or any representatives of it, for a loan?

Mr. MORROW. We have had discussions with France about loans, but we have not had any application for a loan from the Government.

Senator HARRISON. Well, what do you mean you had discussions with them but no application?

Mr. MORROW. Well, the way the thing works is this, Senator: We have a branch house in Paris, and the French have a financial agent here, who is an attaché of their embassy. Their problems have been very complex and we are, in a sense, the bankers of France in this country; not their only bankers but one of their bankers. Their financial problem—the problem of meeting their maturities and meeting their interest and their exchange problems, and things of that sort, they naturally discuss with us from time to time.

Senator HARRISON. Then you are in pretty constant touch with them either through your office in Paris or through your New York office, as to their financial condition, being their financial agents in America?

Mr. MORROW. Yes; on certain types of financial matters I should say that we kept in close touch with them.

Senator HARRISON. Yes. Now, what are the arrangements that you have with the French Government, as their fiscal agent in the United States?

Mr. MORROW. No arrangement that makes it necessary for them to continue with us for a day longer than they think is to their advantage.

The CHAIRMAN. The same as any other depositor?

Mr. MORROW. Yes, sir.

Senator HARRISON. But you have exclusive control over the making of any loans by the French Government in the United States?

Mr. MORROW. I should have to answer that question no. There is nothing to prevent them making loans from anybody in the United States that they desire.

Senator HARRISON. Well, you feel like, under your arrangements, they would take it up with you, and you would have knowledge of it if they should, do you not?

Mr. MORROW. We would feel, I think, that it would be very surprising if they did not.

Senator HARRISON. You feel like they have always taken up any arrangement with you since that arrangement was entered into?

Mr. MORROW. We would feel just about like a lawyer who is representing a client would feel if the client went to another lawyer without talking to him.

Senator HARRISON. Now, in 1920, when you floated the first loan of \$100,000,000, what were the interest rates and the commissions, and so forth, with reference to that loan?

Mr. MORROW. That loan was an 8 per cent loan.

The CHAIRMAN. And the length of time?

Mr. MORROW. On all these questions I would be very glad to furnish detailed answers from the records.

Senator HARRISON. I understand.

Mr. MORROW. But I am very glad to answer with complete frankness so far as my recollection goes. That was an 8 per cent loan. The offering price to the public, I think, was par, and the net price received by France was, I think, 94.

Senator HARRISON. Those bonds, for how long did they run?

Mr. MORROW. For 25 years.

Senator HARRISON. Twenty-five years?

Mr. MORROW. Yes, sir.

Senator HARRISON. And they drew 8 per cent interest?

Mr. MORROW. Yes, sir.

Senator HARRISON. An 8 per cent interest rate?

Mr. MORROW. Yes, sir.

Senator HARRISON. And they netted France about 94 per cent?

Mr. MORROW. Yes, sir.

Senator HARRISON. What did Morgan & Co. get? What commission rates did you charge out of it?

Mr. MORROW. Well, we purchased the bonds from France outright at 94.

Senator HARRISON. Your firm did?

Mr. MORROW. Our firm purchased the bonds outright at 94, with such a group of associates, small in number, that could be immediately assembled to divide that large risk, and then as soon as possible thereafter we formed a country-wide syndicate to offer the bonds to the public, of which syndicate we were a member, and got the same commission, in proportion to the risk we took in that syndicate, as all the other members of the syndicate. In that particular bond issue I should say that we probably bought those bonds at 94 and sold them to the syndicate at 95, of which we were a member, and offered them to the public at par.

Senator HARRISON. Now, you say you bought them at 94; your firm did?

Mr. MORROW. Yes, sir.

Senator HARRISON. And then you formed a syndicate and sold them to the syndicate at 95?

Mr. MORROW. Yes, sir.

Senator HARRISON. And you were a member of the syndicate?

Mr. MORROW. Yes, sir.

Senator HARRISON. Then your firm got the 1 per cent increase from the syndicate?

Mr. MORROW. Well, as a practical matter we did not, in that issue. We would associate two or three houses with us in the original purchase who would go into the enterprise on the same basis that we would. As a matter of fact, for our services and compensation in that particular issue, as I recall it, we charged no commission whatever. The two or three houses that took the initial responsibility with us shared with us whatever the difference was between the purchase price and the price to the syndicate. We would then get our share of the profit of the syndicate just as the other houses in the syndicate. I think, however, we charged no commission for a managing fee or compensation.

Senator HARRISON. Will you look back over your records and furnish for the record, then, what houses were with you on the 94 per cent purchase?

Mr. MORROW. I will be very glad to, Senator.

Senator HARRISON. And if you can give to the committee for the record what firms or banking houses were members of the syndicate that got the 95 per cent?

Senator REED of Pennsylvania. That would be a big list, Senator, including a thousand names.

Senator HARRISON. I should not imagine that list would be so big. The final list, who bought at par, would be the big list. Is that right?

Mr. MORROW. No, the people who bought the bonds at par would be the investing public. The names of those people would not be known to us; they would be investors scattered all over the United States. There might be as many as 20,000 or 30,000 of them. On the other hand, the houses that were members of the bond syndicate that sold the bonds would be known to us. There might be some 800 or 1,000 bankers and bond houses in that syndicate on whose behalf the bonds were offered to the public at par. As a matter of fact, no two of these syndicates are ever exactly alike. You have to meet the particular situation as it exists at the time. As I recall, this particular bond issue was a very hard one to handle at the time, and the gross spread between the price paid to France and the price at which the bonds were ultimately offered to the public was somewhat larger than usual.

Senator HARRISON. There would be no difficulty in giving for the record the list of those who bought them and sold them to the public?

The CHAIRMAN. Bought at 95?

Mr. MORROW. That would be a list of 800 or 1,000 banks.

Senator HARRISON. Yes.

Mr. MORROW. I would be glad to give you anything that would help you in the problem before you. I really want to consider with you whether that would be a proper thing to make a public record of the 800 or 900 houses that would be on what you might call our syndicate list?

Senator JONES of New Mexico (interposing). That is a list or clientele which you have built up from year to year?

Mr. MORROW. Precisely.

Senator HARRISON. I understand it is not only your clientele but the several houses that went in and bought it and paid 94 per cent, and this list that bought and 95 per cent would be just as much of a clientele of the houses that went in with you?

Mr. MORROW. No, it would not, Senator. The houses that went in with us take their share of responsibility, but take none of the burden of the management. We would determine who would be in the syndicate offering the bonds to the public; we would do all the correspondence and make the allotments.

Senator HARRISON. I do not want you to disclose anything that might affect your business.

Mr. MORROW. Generally those things would not be disclosed, but I do not want to say that I will not give them to you if, upon reflection, you think it would be helpful in solving your problems.

Senator HARRISON. But these banking houses, which might be 800 in number, or more perhaps, they bought them at 95?

Mr. MORROW. Yes, sir.

Senator HARRISON. And sold them at par?

Mr. MORROW. Yes, sir. But those figures are subject to correction from the records.

The CHAIRMAN. But that is substantially correct?

Mr. MORROW. Yes; but there might be in any issue an intermediate group between the original purchases of the bonds and the large bond syndicate of selling houses that offers the bonds to the public. This intermediate group is sometimes deemed necessary, or desirable. It divides the risk of the original purchasing group during the period that it occupied in forming the larger syndicate which offers the bonds to the public.

In the instance of the 1920 loan to France J. P. Morgan & Co., the First National Bank of New York, and the National City Bank of New York purchased the bonds outright from the French Government at 94. An intermediate group with 36 members was then formed. Of this group the three original purchasers were members. This intermediate group took over the bonds from the original purchasers at 95. There was then formed a country-wide syndicate of between 800 and 900 members. This syndicate of which the three original purchasers were members, acquired the bonds at 96 and offered them to the public at 100.

Senator HARRISON. At that time you evidently got out an advertisement or suggestion of the advisability of buying these bonds, and the sale of these bonds, and showed the particular advantages of them and so forth. Will you furnish to the committee for the record all the matter you got out at that time, and the suggestions you made as to the advantages of this loan?

Mr. MORROW. I can furnish you the original bond circular, which was probably advertised in several hundred papers all over the United States. Particular individuals may have supplemented or added to that advertisement themselves. That I would not be able to give to you without a good deal of research throughout the country.

Senator HARRISON. You understand what the committee wants with reference to that?

Mr. MORROW. Oh, yes; sir.

Senator HARRISON. To get the viewpoint at that time as to the advisability of the purchasing of the bonds.

Mr. MORROW. Yes, sir.

Senator HARRISON. You said it was very difficult at that time to sell these bonds; that this was a very difficult loan to make.

Mr. MORROW. Yes, sir.

Senator HARRISON. Why?

Mr. MORROW. The war was just over. The condition of France at that time was difficult. If you compare it with the United States it was much as if a war had been fought on our soil, and an industrial area comparable to the whole States of Massachusetts, Rhode Island, New Jersey, and Pennsylvania had been laid in waste. People were coming back from the war and starting to rebuild. France, in that condition, was asking the people of another country to loan money to France to help replace the great loss of capital they had suffered in the war. They had a payment to meet in this

country as a result of their share of the Anglo-French loan. The rate of interest, which was 8 per cent, as compared with rates before the war, indicated the difficulty of placing the loan. If you see the remnants of the picture this summer, Senator, it will indicate to you the problem that confronted France six years ago and the problem than confronted bankers who were trying to enlist the savings of other people to help France get back on her feet.

Senator HARRISON. Now, in 1920, while they were floating that loan in this country, they were floating a loan in England, were they not?

Mr. MORROW. I do not know. I doubt that.

Senator HARRISON. You are not sure about that?

Mr. MORROW. I would rather feel that they were not.

Senator HARRISON. Well, were they floating a loan in England, or any other country, in 1921, when they made their second loan in this country?

Mr. MORROW. I doubt that very much.

Senator HARRISON. Would you look into that and advise us in the record about that?

Mr. MORROW. I will be very glad to.

Senator HARRISON. And the terms of whatever the loan was that they may have made in any other country at that time?

Mr. MORROW. Yes, sir.

The CHAIRMAN. I can say this, Senator, in the discussion of the British loan with the Debt Commission, the only debt that they have ever brought to our attention was the original war debt that was created during the war, in Great Britain.

Senator JONES of New Mexico. Would it interrupt if I were to ask: What is this Anglo-French indebtedness that you have just spoken of?

Mr. MORROW. It was a loan of \$500,000,000 on which France and England were jointly and severally liable, made in this country before America entered the war.

Senator HARRISON. And those loans carried what interest rate?

Mr. MORROW. That was a five-year loan that was made. I think, in 1915. I would be answering that from memory, but I should say that was a 5 per cent loan.

Senator JONES of New Mexico. May I ask, how was that loan finally liquidated, that \$500,000,000 obligation?

Mr. MORROW. It was paid, one-half of it by England and one-half of it by France.

Senator JONES of New Mexico. And where did France get her money with which to pay?

Mr. MORROW. A portion of it by making this 1920 loan about which Senator Harrison has just been asking me.

Senator JONES of New Mexico. Well, that was only a \$100,000,000 loan, I believe.

Mr. MORROW. I think that is correct. I think that was a \$500,000,000 loan. I think my statement about that is correct, but—

The CHAIRMAN (interposing). Was any part of it refunded?

Mr. MORROW. Except so much as you have just spoken of, I think not. I think that was a \$500,000,000 loan, the Anglo-French loan, was it not? Of course, France had shipped considerable gold, both

to this country and to England, and she had made some loans, known as French city loans. I think she would have been glad to have borrowed more than \$100,000,000, but we thought that was as much at that time as this country could absorb.

Senator JONES of New Mexico. I would really like to know a little more in detail, if you could furnish the information, as to how that loan was liquidated.

Mr. MORROW. I would be glad to get you all the knowledge we have got on that, Senator. Of course, the streams from which international balances are actually settled are things that are not wholly within the knowledge of anyone.

Senator JONES of New Mexico. I was wondering how France obtained the international balance to liquidate that amount.

Mr. MORROW. Well, she made very substantial gold shipments during that first year or two. But so far as that is within our knowledge I will be glad to furnish you the information.

The Anglo-French Loan was made in October, 1915, to France and Great Britain jointly. The amount of the loan was \$500,000,000. The interest rate was 5 per cent. The loan matured October 15, 1920. On the date of maturity the British paid off one-half the loan and the French paid off one-half the loan.

As to how France secured the funds to pay off her one-half of the loan it is important to remember that France made in September, 1920, a new loan of \$100,000,000, the net proceeds received by her being \$94,000,000. This amount undoubtedly furnished a portion of the funds needed by France to take up her one-half of the Anglo-French loan maturing in the following October. As to the rest of the sum due from France on the Anglo-French loan, France had accumulated balances in New York, so far as we know, through the shipment of gold from France, amounting to about \$45,000,000 in 1920, through the avails of the loans to the French cities and probably through the balance available from sales of goods, and all those other items which enter into international balances.

Great Britain's half of the loan was paid off without any fresh borrowing in 1920, probably through the \$275,000,000 in gold shipped to this country by Great Britain in 1920.

Senator HARRISON. Now, about the 1921 loan. Will you tell us how long these bonds ran, and what were the arrangements as to interest charges, and so on, about that.

Mr. MORROW. That was a 7½ per cent loan. I think it was a 20-year loan, and it was offered to the public at 95. The net price which was paid to France was 90.

Senator HARRISON. So the public got those bonds at 95?

Mr. MORROW. The public got those bonds at 95. There was a very large sinking fund in that bond issue, which provided that during the first five years \$750,000 a month was to be paid by France to be used in buying the bonds on the market. Nearly half of that loan has been paid off by the operations of that sinking fund.

Senator REED of Pennsylvania. A very large part of the 8 per cent bonds of 1920 have also been retired by the sinking fund.

Mr. MORROW. Yes; a large part of it has, Senator.

Senator HARRISON. In completing this loan, did you organize your syndicate along the same lines as you did in the other cases?

Mr. MORROW. Along the same lines, yes, Senator, but there are no two of them that are exactly alike, but the general line is just as I have described it in answer to your questions in regard to the other.

Senator HARRISON. As I understand it then on the second loan France got 90 cents on the dollar?

Mr. MORROW. Yes, sir.

Senator HARRISON. And you sold them to the public at 95 per cent?

Mr. MORROW. Yes, sir.

Senator HARRISON. And what did you let them go to the bankers who sold them to the public for? At what figure?

Mr. MORROW. I would want to give you those figures accurately from the record. My recollection would be that the spread for the initial group who took the initial risk was probably about one-half of 1 per cent on that loan instead of 1 per cent. The way it works is this: You can quite easily understand it if you will try to visualize what happens at the time. In certain types of bonds certain bond houses scattered all over the country may be very much interested in selling bonds for a 3 per cent spread. At other times they may be interested for 2 per cent; and other times not interested for less than a 1 per cent spread. During the war and immediately after large spreads were necessary because of the expense of selling. The tendency since 1921 has been to get the spread smaller. But it is the difficulty of going and finding a saver who is willing to make his investment in this particular thing, which, in a sense determines the compensation. Of course, we are interested in having that spread between the purchase price and the ultimate sale price as small as possible in the interests of the borrower, and as large as necessary to fairly compensate the bond houses of the United States who engage in this particular business.

The CHAIRMAN. Those bonds are all payable in gold?

Mr. MORROW. They are all payable in gold.

Senator HARRISON. Did you find as much difficulty in floating this second loan as you did the first?

Mr. MORROW. I think more.

Senator HARRISON. It was more difficult?

Mr. MORROW. Yes.

Senator HARRISON. Why?

Mr. MORROW. Well, I do not know the particular condition of the bond market at the time or the price that had been put on it, or what factor it was, but my recollection is that that bond issue did not go quite as well as the first one.

Senator HARRISON. At that time you had no doubt of the ability of France to pay, the same as you did the one before when you floated the first bonds, or the first issue, did you?

Mr. MORROW. We would not have offered them to the public if we had not believed they were a safe investment.

Senator HARRISON. And there was no doubt at that time in the minds of the bankers that it was a safe investment?

Mr. MORROW. That was our belief.

Senator REED of Pennsylvania. The interest rate expresses your opinion of the relative safety, does it not?

Mr. MORROW. Yes; the interest rates express the relative credit of the country. The interest rate is not determined entirely by us. The interest rate is determined by the market for that kind of se-

curity at the time. You can pick up the paper this morning and take the market price of foreign bonds and very accurately gauge what a security of the same class would have to be priced at in order to make it an attractive investment for any of you that would be investing your money, or for any of your neighbors at home. That is the way prices are made. They are made by the market.

Senator HARRISON. Was there any understanding, at the time you floated this second loan, that any part of it was to go to settle the first loan, or any of the Anglo-French loans, or any to the Government, when those bonds were sold?

Mr. MORROW. I do not think so, Senator. I think we saw that the Government needed the money for what seemed a constructive purpose and we furnished them the money and they used it for that purpose.

Senator HARRISON. Well, what was the purpose that France needed this second loan for, as you recall?

Mr. MORROW. I think there were probably some maturities at that time, and some new capital required in connection with their reconstruction work, and heavy payments for wheat purchases made in this country. But there again I would have to study the records in order to answer the question with any accuracy.

Senator HARRISON. Now, will you furnish also in connection with the second issue, such advertisements, and such suggestions as you made to your clientele as to the ability of France to pay? You know what I am hitting at there.

Mr. MORROW. I would be glad to. It was all sent out in circular form.

Senator HARRISON. Now, in 1924 were you instrumental in sending out another \$100,000,000 loan to France?

Mr. MORROW. Yes, sir.

Senator HARRISON. What were the terms of that loan?

Mr. MORROW. That was a 7 per cent loan that, I think, was offered to the public at 94, and the price paid to the Government was 89.

Senator HARRISON. What was the interest rate; 7 per cent?

Mr. MORROW. Seven per cent.

Senator HARRISON. Did you have any difficulty in floating that loan?

Mr. MORROW. Well, none of this was easy, if that is what you mean, Senator.

Senator HARRISON. Well, I mean by that, was it more difficult than the prior loan, or less difficult?

Mr. MORROW. My recollection is that it went better than the loan before.

Senator HARRISON. Why?

Mr. MORROW. That is not a very easy question to answer—

Senator HARRISON (interposing). I can appreciate that.

Mr. MORROW. I think so many factors enter into it; it depends upon how many other issues are being offered at the same time; what the state of the bond market is; all of those things go into the question.

Senator HARRISON. Do you think the question entered into it that France was recuperating somewhat from her condition over there, and would be better able to meet them?

Mr. MORROW. I think the rate indicates that.

Senator CURTIS. Did not the German situation somewhat affect it?

Mr. MORROW. Yes; there had been, in between, a German loan, of which we sold \$110,000,000 in this country.

Senator REED of Pennsylvania. The Dawes plan had gone into effect, too.

Mr. MORROW. Europe was getting back further on its feet. We had sold a portion of an Austrian loan, the reorganization of which had been arranged through the League of Nations. And then we had sold the American portion of the German loan, which was the outcome of the Dawes plan.

Senator HARRISON. Then it is your opinion that the interest rate being greatly reduced, from 8 per cent in 1920 to 7½ per cent in 1921 and in 1924 to 7 per cent, that it indicated a better condition?

Mr. MORROW. Europe was recovering. There is a marked difference between the 1921 loan, which was a 7½ per cent loan, sold to the public at 95, and the 7 per cent loan sold in 1924 to the public at 94.

Senator HARRISON. The interest rate does not always indicate a healthy condition; it was the amount the country was going to get?

Mr. MORROW. Well, in thinking of the interest rate both the banker and the investor look upon the real return that the money is paying, which is determined not only by the amount of the coupon but is also determined by the discount or the premium at which the bond is sold.

Senator HARRISON. So that what we really see is that, while in your opinion France was getting in a healthier condition economically, when she sold her bonds in 1920 she received 94 net; in 1921 she received 90 per cent net; and in 1924 only 89 per cent on the dollar.

Senator REED of Pennsylvania. When you gave the sale price you said 89. My recollection is that both the German and French 7s were sold at 94.

The CHAIRMAN. No; he——

Mr. MORROW (interposing). I was speaking of the price to the public.

The CHAIRMAN. Sold to the brokers at 94?

Mr. MORROW. No——

Senator HARRISON (interposing). In 1924 the Government received net 89 per cent.

Mr. MORROW. Yes; and the public paid 94, I think, Senator. I do not want to let Senator Harrison's question go unanswered, however. If you stop just with those figures, Senator, you really would have no gauge at all.

Senator HARRISON. I understand.

Mr. MORROW. You see, you have in the 1920 loan an 8 per cent interest coupon.

Senator HARRISON. Yes.

Mr. MORROW. And the loan sold by the Government at 6 per cent discount.

Senator HARRISON. Yes.

Mr. MORROW. And when you come to the last loan you speak of, in 1924, you have a 7 per cent coupon and an 11 per cent discount.

Senator HARRISON. Yes.

Mr. MORROW. You could readily tell from an amortization table which of those bonds involved the lower rate of interest.

Senator HARRISON. Well, which, in your opinion, is the lower rate of interest?

Mr. MORROW. The cost to the Government of the 1924 loan was lower than the cost of the 1920 loan. I think the rates have gone lower as time went on. I think the 7½ and the 7 per cent loans were more advantageous to France than the 8 per cent loan.

Senator HARRISON. Even though they received only 90 cents and 89 cents on the dollar.

Mr. MORROW. Yes; it is only a question of cost of money to them.

The CHAIRMAN. And the length of time.

Senator HARRISON. I understood the length of time was about the same in all these issues, 20 to 25 years.

Mr. MORROW. I think approximately so.

Senator HARRISON. I wish you would also furnish to the committee for its record all the advertisements that you furnished to your clientele at that time as to the advantages of this issue. Not a part of it, but all of it.

Now, you said that since that time there had been some discussions of loans, but no formal application made to your institution to make a borrow. Is that due to the fact that the Government through any of its representatives, or through any expression of the Government, had said that no more private loans should be made to France until this debt had been funded?

Mr. MORROW. I think it has always been the custom of responsible bankers before making a loan to a foreign government to notify the State Department.

The CHAIRMAN. In peace time or war time?

Mr. MORROW. Any time. The arrangement that has been commented on a great deal in the public press, that was made in the early part of President Harding's administration, is the matter probably in mind. Certainly it was always our custom, before making any loan, to notify the State Department.

Senator HARRISON. You would sometimes take it up personally, would you?

Mr. MORROW. We would generally send a letter telling them that there was an application for a loan, etc., so that they would have a record of it.

Senator HARRISON. As a general rule, who is the member of your firm who takes up these matters with the administration?

Mr. MORROW. There is no particular one.

Senator HARRISON. Have you, since 1924, conferred with the Secretary of State relative to these loans? As I understand you, you first take it up with the Secretary of State, do you not?

Mr. MORROW. We generally send him a communication.

Senator HARRISON. Yes.

Mr. MORROW. It is a purely formal matter.

Senator HARRISON. What was your answer to my question?

Mr. MORROW. I am not sure—

Senator HARRISON (interposing). Have you, since this loan was made in 1924, taken up either by letter or personally by conversation

with the Secretary of State, or any official of the State Department, or has any representative of your institution taken up the matter relative to making any loans to France?

Mr. MORROW. My recollection would be that we did not, Senator.

Senator HARRISON. You do not think you have?

Mr. MORROW. That would be my best recollection.

Senator HARRISON. Well, have you or any member of your firm conferred, either personally or by letter, with anyone in the Treasury Department since 1924 touching a loan to France?

Mr. MORROW. Well, I would not want to answer that positively without looking up the record, but I have not any recollection of conferring with the Treasury Department about a loan to France since the last one was made. We have not felt that the market in America was such that a further loan could be placed by France in this country until her situation got further cleared up. The prices at which the present loans were selling—

Senator HARRISON (interposing). Well, was that conclusion reached, or was it aided by the expression of the administration that no loans should be made by a foreign country until these debts were funded?

Mr. MORROW. I think that that public expression by our Government would have made it very difficult, if not impossible, for any loan to be publicly offered in this country.

Senator HARRISON. Your firm has not tried in any way to influence the department to change that policy, has it?

Mr. MORROW. No.

Senator JONES of New Mexico. Well, it is generally thought that the policy of the administration is that there shall be no further private loans to France until the Government indebtedness is adjusted, is it not?

Mr. MORROW. I think that has been stated publicly, and I assume that is the policy of the Government.

Senator HARRISON. Well, do you not think that is a wise policy?

Mr. MORROW. I think an absolute rule of that kind might or might not be a wise policy. I would rather not express an opinion upon that, because it would only be an opinion. I am not qualified, I suppose, to pass an opinion upon that. An absolute rule of that kind might do quite a hurt to this country.

Senator HARRISON. You are speaking generally of the country?

Mr. MORROW. Yes, sir. So far as—

Senator HARRISON (interposing). And not the bankers?

Mr. MORROW. Not the bankers. So far as we are concerned we would respect the wishes of our Government in that respect, feeling that they, whether the legislative or executive branch were the ones who had the facts to determine that question rather than ourselves.

The CHAIRMAN. Mr. Morrow, to clear this up: Morgan & Co., bankers, when that notice or public announcement of the President as to the policy was made, they took notice of that, no doubt; but did the State Department, or any agency of the Government notify you in writing that that would be the policy of the Government, and not to make further loans until the foreign countries had settled their indebtedness to America?

Mr. MORROW. I do not think any notice was sent out, that I know of.

The CHAIRMAN. I know of none.

Mr. MORROW. I know of none.

The CHAIRMAN. That is the reason I asked you. It was simply an announcement of the President of the United States that that should be the policy. And is it not a fact that all parties, and not only the bankers, respect that announcement?

Mr. MORROW. I think so. I think it was, as a matter of fact, in the early part of President Harding's administration that a group of bankers met President Harding and an informal request was made of them that in making any loans to foreign countries they notify the State Department. So far as our firm is concerned, we always had done that anyway. So far as other firms that were present at that conference were concerned, I assume that thereafter they did it also.

Senator WATSON. Well, when you say, Mr. Morrow, that you always write a note and notify the department what you are about to do, that means that you consult them about whether it is agreeable that it shall be done, does it not?

Mr. MORROW. It is hardly that, Senator. Unless they see some objection to it, why it goes on. It is making a record so that you will not be engaged in a negotiation with a foreign government anywhere that your Government might have some objection to you doing.

Senator WATSON. Yes.

Mr. MORROW. If the State Department does object, then we do not go on.

Senator WATSON. That is, it is the policy of your house not to go on?

Mr. MORROW. Yes; certainly.

Senator REED of Pennsylvania. Mr. Chairman, perhaps to make this clear it would be helpful to put in at this point a quotation from the last annual report of the Secretary of the Treasury. It is rather brief, and I will read it.

The CHAIRMAN. Yes.

Senator REED of Pennsylvania (reading):

Early in 1925, after much consideration, it was decided that it was contrary to the best interests of the United States to permit foreign governments which refused to adjust or make a reasonable effort to adjust their debts to the United States to finance any portion of their requirements in this country. States, municipalities, and private enterprises within the country concerned were included in the prohibition. Bankers consulting the State Department were notified that the Government objected to such financing. While the United States was loath to exert pressure by this means on any foreign government to settle its indebtedness, and while this country has every desire to see its surplus resources at work in the economic reconstruction and development of countries abroad, national interests demand that our resources be not permitted to flow into countries which do not honor their obligations to the United States and through the United States to its citizens.

That was early in 1925.

The CHAIRMAN. I know that.

Senator HARRISON. Now, Mr. Morrow, you stated that you did not want to give your opinion as a general rule on the proposition. There might be exceptions to it, as I understand. Now, take France. Do you believe that there should be any issue sold in this country or loan made in this country to France until this debt is funded with France?

Mr. MORROW. I think it would be impossible, Senator, to sell another public loan of France in this country until it had balanced its budget.

Senator HARRISON. Yes.

Mr. MORROW. And it could not balance its budget until it knew the extent of its obligation under the war debts.

Senator HARRISON. Well, you think, then, with reference to France that it is a very good policy that the administration has adopted of not encouraging any loans by the people of this country to France until this debt is funded with France?

Mr. MORROW. I have no criticism of the proposition as stated in the Secretary of the Treasury's report.

Senator HARRISON. Well, the Secretary of the Treasury in his report, as I understand it, said "where they were making a reasonable effort to fund their debts." Some might think that France was making a reasonable effort to fund their debt because they had made a proposal which our commission had turned down. But to get down to the bald proposition, do you think that it is a good policy or a wise policy to make no loan until this debt of France's was funded?

Mr. MORROW. That is too broad a question for me to answer, Senator. Let us assume that somebody was selling some cotton from Mississippi to England, and it was not to be paid for for two years. That cotton might be shipped over there and the man in Mississippi might be perfectly willing to take the obligation of the purchaser payable two years from that date. That person would be making a loan to England for two years.

The CHAIRMAN. England settled her debt.

Mr. MORROW. Suppose it were France or suppose it were Italy?

Senator HARRISON. Well, of course I do not have in mind such a transaction as that. I will put it this way. Do you believe that your firm would be justified in attempting to float a loan such as you have designated here, three of them, or in smaller amounts, in view of the administration's policy and until this debt is funded?

Mr. MORROW. We would feel that we were not justified in making any loan or having any transaction with any foreign government which was against the policy of our Government as expressed by the heads of the Government.

Senator HARRISON. Yes. Then you do not think that any loan should be made like that until this debt was funded with France?

Mr. MORROW. My answer to that question I think would be "yes."

Senator HARRISON. Yes.

The CHAIRMAN. Or at least until France had ratified it.

Senator HARRISON. Yes; until France had ratified it.

The CHAIRMAN. Yes.

Senator HARRISON. You were instrumental also, you said, in making some loans to the Italian Government.

Mr. MORROW. One loan to the Italian Government.

Senator HARRISON. What was the amount of that loan?

Mr. MORROW. \$100,000,000.

Senator HARRISON. \$100,000,000. What were the terms of that loan?

Mr. MORROW. They are set out in a letter that was written to Congressman LaGuardia that is in the record of the House committee. I think the price to the public was 94½, and the net amount received by Italy was 90.

Senator HARRISON. What interest rate did it bear?

Senator REED of Pennsylvania. Seven per cent?

Mr. MORROW. Seven per cent.

The CHAIRMAN. Yes.

Senator HARRISON. When was that loan consummated?

Mr. MORROW. Last winter. I think November or December.

The CHAIRMAN. Well, it was right after the Italian settlement.

Mr. MORROW. Yes.

Senator HARRISON. Well, the bonds were sold after the Senate had ratified the Italian debt settlement?

Mr. MORROW. I think they were sold before the Senate ratified the Italian debt settlement.

Senator HARRISON. They were sold before?

The CHAIRMAN. I doubt that, Mr. Morrow.

Mr. MORROW. That would be my recollection.

Senator HARRISON. I think without question they were sold before, because the Italian debt settlement was not ratified until recently.

Senator REED of Pennsylvania. I remember that the bond circular was read into the record in the Senate during the debate on the debt settlement.

Senator WATSON. Yes.

Senator HARRISON. I think you are right in that.

The CHAIRMAN. I think you will find that Italy had agreed to the settlement before those bonds were sold.

Senator HARRISON. Well, I am talking about the United States Government agreeing to that proposition.

The CHAIRMAN. Well, of course, Italy had agreed to it.

Senator HARRISON. Well, may I ask the chairman, when was the Italian debt settlement consummated with the Italian commissioners, so the record will show?

The CHAIRMAN. Do you mean by the Senate?

Senator HARRISON. When did you close your agreement and agree and sign up with the Italian commissioners?

The CHAIRMAN. November 14, 1925.

Senator HARRISON. November 14, 1925.

The CHAIRMAN. And you will find that Italy had ratified this agreement before those bonds were sold. But the Senate of the United States had not.

Senator HARRISON. Yes. Well, do you know the date when Italy ratified the agreement?

The CHAIRMAN. It was ratified by the Italian Senate on February 10, 1926.

Senator HARRISON. Now, in November, 1925, the United States debt-settlement commissioners agreed with the Italian commissioners on the funding of the Italian debt?

Mr. MORROW. Yes.

Senator HARRISON. And it was in December of 1925 that you sold this \$100,000,000 issue of Italian bonds in this country?

Mr. MORROW. Yes, sir.

Senator HARRISON. When did you begin negotiations with the Italian Government to make this loan to them?

Mr. MORROW. I was down here on the aircraft inquiry at that time, Senator, but I think that for some time Italy had been desirous of borrowing money in this country. That loan really was a loan to increase Italy's gold reserve. Italy had already balanced her budget and wanted to get her gold position in shape so that she could work back toward a completely stabilized currency. I think there had been talk about that for some time before that—a long time.

Senator HARRISON. Would you say a year before that?

Mr. MORROW. I would not want to venture the statement as to how long it was.

Senator HARRISON. Well, could you tell when you had closed your contract with the Italian Government to float the loan?

Mr. MORROW. I think it was within a week or two after the debt settlement was agreed upon and announced. I think before the finance minister went back to Italy he arranged for this loan.

The CHAIRMAN. That is, the terms of the loan?

Mr. MORROW. The terms of the loan.

Senator HARRISON. In other words, you did not actually go into the writing with the Italian Government, through her representatives, to float the loan until after it had been consummated by the United States commissioners with the Italian commissioners?

Mr. MORROW. Until after the debt settlement had been consummated?

Senator HARRISON. Yes.

Mr. MORROW. I do not think that any definite terms were talked about until after that. I do not think the question was taken up.

Senator HARRISON. Well, I understood you to say that there had been a good deal of conversation about it for quite a long while before December, 1925.

Mr. MORROW. Why, Senator, Italy—Italian representatives and Italian people—had talked about loans in this country I assume not only with us but with other people for two or three or four years.

Senator HARRISON. Yes.

Senator REED of Pennsylvania. Mr. Morrow, had not the Italian banks of issue, the banks that issue paper money, borrowed from a banking syndicate before the time when this 7 per cent loan was made?

Mr. MORROW. Yes; I think banking credits had gone on backwards and forwards for some time.

Senator REED of Pennsylvania. Those were temporary devices which were revised by this permanent loan after the debt settlement?

Mr. MORROW. They were really part of the machinery of commerce in taking care of payments for wheat, cotton, and all the other things that go abroad.

Senator HARRISON. Did your house have anything to do with those arrangements?

Mr. MORROW. I think we participated in a temporary banking credit, not to the Italian Government, but to a group of the leading Italian banks.

Senator HARRISON. So as a matter of fact, then, some of the credits that had been given by some of the banking interests in America

to certain banking interests in Italy were taken care of with this loan that you floated to the Italian Government?

Mr. MORROW. I do not think so. I think that the public Italian loan was not needed to take care of those banking credits, but was held available to maintain their currency position. That would be my best recollection.

The CHAIRMAN. And that was what your loan was for.

Senator HARRISON. Do you think it had a tendency to stabilize those credits?

Mr. MORROW. No; I think those banking credits were ultimately paid for through the ordinary machinery of trade, and that the Government held this new credit very solidly toward the ultimate solution of its currency position.

The CHAIRMAN. Well, the terms of the loan were finally agreed to by your bank, or Morgan & Co., and Count Volpi, were they not?

Mr. MORROW. Yes, sir.

The CHAIRMAN. And that was after he had been here as the head of the Italian Commission and the settlement was agreed upon?

Mr. MORROW. Yes, sir.

Senator HARRISON. Now, what was the exact date, if you know, Mr. Blair, when the agreement was signed funding the debt with Italy?

Mr. BLAIR. November 14, 1925.

Senator HARRISON. And would you say just how long it took to go into these arrangements with the Italian representative and consummate the terms upon which you were to float this loan in the United States following that?

Mr. MORROW. I was down here at the time, and I would be speaking merely from heresay. I had nothing whatever to do with the Italian loan, either the negotiations or the arrangements for the selling of it.

Senator HARRISON. Well, who did have?

Mr. MORROW. Well, I presume the partners that were there in New York; probably Mr. Lamont or Mr. Whitney.

The CHAIRMAN. Well, I can say to you, Senator, I think it was within about 15 days.

Mr. MORROW. I can give you the exact date.

The CHAIRMAN. Because I remember Count Volpi and his commission sailed toward the end of November, and they went direct from here after the signing of that—at least within the next two days, if not the day following—and the newspaper accounts gave the information that they were there and negotiating this loan, and I am quite sure it was within the 15 days.

Senator HARRISON. Did you confer with Count Volpi while you were here serving in the aircraft investigation?

Mr. MORROW. I never met Count Volpi until after the debt settlement was over.

Senator HARRISON. Yes. Well, did you confer with your colleagues in your institution touching this matter?

Mr. MORROW. No, Senator; I did not have time. I was spending all my nights and all my days with air men.

Senator HARRISON. I know you were quite busy at that time. Well, there is no question, though, is there, Mr. Morrow, that the Italian representatives had taken it up with your firm some time before this debt was actually funded by the representatives of this Government and that Government? There is no doubt about that, is there? And that the terms were pretty well understood, although the contract was not actually entered into until, you say, some time in December?

Mr. MORROW. I should think the latter part of that was very doubtful, Senator. I think that they talked with us about a loan for some time. I think when you put that additional statement on, that the terms were pretty well understood, that there would be very much doubt about that. Terms of the loan are things that are so much dependent upon the market condition at the time the loan is offered or taken that they are almost the last thing that are fixed upon.

Senator HARRISON. Would you have objection and feel that it was no province of the committee to put into the record the correspondence and whatever written memoranda you have with reference to the Italian Government touching that loan?

Mr. MORROW. Well, I personally have no objection whatever to doing it. I think the question would be to what extent we would want to make a public record of negotiations, analyses, maybe criticisms, if you please, of the position of a foreign country. There is nothing that we are not willing to take up with you and consider with you whether it ought to be made a matter of public record.

The CHAIRMAN. Italy may object, of course.

Senator HARRISON. I understand. If there is objection to it I appreciate, perhaps, the impropriety of putting it in, but I am just asking you whether there would be objection to doing that?

Mr. MORROW. If you will indicate to me, Senator, what you want, there isn't anything that we have got with reference to these foreign negotiations that, so far as we are concerned, we are not willing to let you know. Now, as to what extent that should be made public, we would like your counsel and advice.

Senator HARRISON. Well, of course, you understand exactly what I am trying to get at?

Mr. MORROW. Yes.

Senator HARRISON. Even though my questions do not signify it you know exactly what I am trying to get at?

Mr. MORROW. Yes.

Senator HARRISON. Now, I find that that your first advertisement was published in the papers on November 20 of the floating of this Italian loan, six days after the signing by the American representatives and the Italian representatives. So it is your belief that all of this was not arranged within six days, but that evidently the conversations had started some time before the American representatives signed the contract funding the debt?

Mr. MORROW. Why, Senator, I think conversations that took place before the making of this contract could have been of the very vaguest kind, and it all might have been arranged in two days or three days.

The CHAIRMAN. In the meantime, the President had issued his order, you know, that it was against the policy of the Government

of the United States to make any loans until the settlements were made.

Senator JONES of New Mexico. In other words, Mr. Morrow, you were thoroughly familiar with the Italian conditions all along, and it was a part of your business to be familiar with those conditions, so when the question of making the loan arose, why you knew just exactly what you were doing?

Mr. MORROW. It is part of our business to be familiar with not only the Italian conditions but it is part of our business to be able to act very quickly when the right moment comes to sell a loan in this country. You might determine one morning to offer a loan and advertise it all over the United States the next morning.

Senator HARRISON. Well, now, when you floated the Italian loan in the United States and sold it to the public at 94½, which netted to the Italian Government, I think you said 90, was it?

Mr. MORROW. Ninety, I think, Senator.

Senator HARRISON. Ninety; and drew 7 per cent interest, you had no doubt about the ability of Italy to pay those bonds? And you thought it was a good loan, did you not?

Mr. MORROW. We thought it was a good loan or we would not have offered it to the public.

Senator HARRISON. Yes.

The CHAIRMAN. Do you have any other security than the obligation of the Government? Or only the obligation of the Government?

Mr. MORROW. Nothing but the obligation of the Government.

The CHAIRMAN. No preferential payment?

Mr. MORROW. No; no, sir.

The CHAIRMAN. And what is the length of the loan?

Mr. MORROW. I think it is a 25-year loan.

Senator HARRISON. It is quite similar in character to the last loan you made to France, is it not?

Mr. MORROW. I think so.

Senator HARRISON. The Italian loan being sold to the public at 94½ and netting Italy 90, and drawing 7 per cent interest, and the last French loan netted France only 89, and was sold at 94 to the public, drawing interest at 7 per cent, so you looked upon the ability of Italy to pay at that time as about the same as you did of France so far as this issue was concerned, did you not?

Mr. MORROW. We thought the market value of it could fairly be measured by the French issues.

Senator HARRISON. Yes. Now what is your opinion if this issue had been put upon the market prior to the consummation of the funding of the debt by our commissioners with the Italian commissioners, would you have been able to have floated that loan, or would you have attempted it?

Mr. MORROW. Do you mean in view of the announcement of the Government, or excluding that factor?

Senator HARRISON. Before the announcement of the Government that it had funded this debt with Italy upon certain terms do you believe that you could have floated this Italian loan which you did in November, 1925, upon the same terms?

Mr. MORROW. If I understand your question, Senator, it is this: Could we, after the Government's announcement of the disapproval

of loans to countries who had not settled their debts and before the announcement of the settlement with Italy, have sold this loan?

Senator HARRISON. Yes.

Mr. MORROW. I think the answer to that is no.

Senator HARRISON. You could not. Do you believe that the settlement that our Government entered into with the Italian Government and the very liberal terms we gave to the Italian Government helped in the floating of your bonds that you sold?

Mr. MORROW. I think the removal of the Government ban as to lending to foreign governments helped in the loan. I think that the Italian loan as well as the French loans might have been made before the Italian debt settlement if there had not been in existence the policy of our Government disapproving such loans. What really happened in Italy was a steady improvement in her affairs, including a balanced budget. It was impossible to loan money to Italy two or three years before this, entirely irrespective of the American debt settlement or the American prohibition.

The CHAIRMAN. Well, if France had agreed to pay a hundred cents on the dollar do you think for a moment that there were enough resources in France that she could have paid her debts to the United States?

Mr. MORROW. If France had been able to make an effective agreement—an effective agreement that people could have believed was effective—to pay 100 cents on the dollar on their debt to the United States, it would have been easier for us to sell a new 5 or 4 per cent loan in this market than it was for us to sell one of these 8 per cent loans.

Senator HARRISON. I understand.

Mr. MORROW. Because that would have shown how great her resources were and how high her credit was.

Senator HARRISON. Then the funding of the debt, the settlement of the debt with the Italian Government, helped you in floating this \$100,000,000 loan to Italy?

Mr. MORROW. I do not think so. I think it made the selling of the new loan more difficult. It was an admission by Italy of how scanty the resources of Italy were. It is exactly as though you were trying to reorganize a company in your own State. A 7 or an 8 per cent interest rate is the measure of the credit of the country at the time, of the problems and the difficulties that it has still got to solve. If it really were true that Italy could have paid all of her war debt to the United States, she would have been discharging an obligation assumed for purposes of destruction, for things that had gone up in smoke. If she could have discharged all that out of her, then her credit would have been so high that, as I say, it would have been easier to sell a 5 or a 4 per cent loan here than the 7 per cent loan. The fact that she believed and you found that she could only pay one-quarter of 1 per cent interest during the first few years made it harder, rather than easier, to float a new loan for Italy immediately after.

Senator HARRISON. Then if I understand your point it is this: That if the American Government had funded her debt with Italy at 82 cents on the dollar, similar to that given to other countries over there, including Great Britain, it would have been easier for

you to have floated this \$100,000,000 that you did in the United States?

Mr. MORROW. I did not say that, Senator. I said if you had made an effective agreement. I do not think that would have been an effective agreement.

Senator HARRISON. Well, suppose that the American Government had funded her debt with Italy at 82 cents on the dollar upon similar terms as with Great Britain, do you think then you could have floated your \$100,000,000 loan to Italy?

Mr. MORROW. I think it would have been quite impossible for Italy to have gotten any new money, because I do not think anyone could have looked at the resources of Italy and believed that Italy could pay 82 cents on the dollar.

Senator HARRISON. Yes. Then the fact that our Government settled with Italy on the basis of 27 cents on the dollar helped these bonds that you floated or this loan that you made to Italy when did you make it?

Mr. MORROW. I am not sure that that follows.

Senator HARRISON. Well, it is reasonable, is it not, to suppose that it would have followed?

The CHAIRMAN. You would not have made the loan.

Mr. MORROW. We would not have made the loan if the debt settlement had not been made. We would not have made it because of the expressed disapproval of our Government of dealing with any of these countries until they had settled their debts. But we would very much rather have had the facts disclose to our Debt Commission that Italy could have paid a great deal more than she did. The making of the debt settlement was not the vital thing. The vital thing was what the facts disclosed as to Italy's ability to pay.

Senator HARRISON. Well, did you believe in the facts that were disclosed to the commission that Italy had only ability to pay 27 cents on the dollar?

Mr. MORROW. I was surprised that she assumed that heavy an obligation.

Senator HARRISON. You thought it should have been less?

Mr. MORROW (continuing). In the latter years. I will not say I thought it should be less. I am thinking now not of what she ought to do; I am thinking only of the question of ability. I think the payments in the latter years are very heavy assumptions by a country that has so small a foreign trade as Italy has. That is my opinion.

Senator HARRISON. If that was your opinion, and if you were surprised that Italy had undertaken such a heavy obligation, is it not a little inconsistent on the part of your firm to have advised the purchase of this \$100,000,000 worth of bonds, of a loan to Italy bearing 7 per cent interest, and which you were to sell to the public at 94½?

Mr. MORROW. I think not, Senator, and I want to be completely frank with you. I think the situation is something like this. Here is a country that has not fully gotten back on its feet during the seven years since the war. It has a debt to this country and to England that it incurred for the purposes of carrying on the war. It is not capital that it borrowed to put to a productive use. It was

capital that it borrowed and which the United States and the people of the United States, through their Government, loaned to it in order to enable it to save its life. In that condition, owing that debt, it wants to borrow some new money to put to a productive purpose. If Italy can pay 7 per cent for money here—and it has to pay the market rate—and utilize that money at 9 per cent or 10 per cent at home, it is the better able to pay whatever it agrees to pay on its war debt.

The real question that we were interested in was: Will this \$100,000,000 if loaned to Italy more than reproduce in Italy the interest rate that Italy is paying for? It gets exactly into the same class as the money that might be loaned to build a western railroad or a western water power. Is it going to produce what it costs and something over for the borrower? That is the question. It is just exactly as though you were reorganizing a railroad or a water power. How much money will this produce for them, or what good will it do them? Are they just going to waste it, or is it going to be reproductive? Now believing that it was constructive we, together with the group of bankers associated with us over the country, offered it to the American public.

Senator HARRISON. Was it difficult to sell that loan?

Mr. MORROW. Very.

Senator REED of Pennsylvania. It has since depreciated in price very markedly, has it not?

Mr. MORROW. As a matter of fact the bonds were bought from Italy at 90, were offered to the public at 94½. The syndicate was extended once, and when the syndicate was dissolved the bonds dropped from 94½ to 89 or 88½, and you can buy the bonds at 88½ in the market to-day.

Senator WATSON. Has it ever all been distributed to the public? Do not the banks hold some undistributed?

Mr. MORROW. The syndicate was dissolved without calling upon the syndicate to take any of the bonds. That is, all of the houses in the syndicate received a check for their profits. As a matter of fact it is very often true that issuing houses in order to assume the responsibility that might otherwise fall upon their syndicate may take the bonds that were left and hold them, and something akin to that was done in this case.

Senator HARRISON. Were you in favor of the ratification of the Italian debt settlement?

Mr. MORROW. I expressed no public opinion upon it, and I never had an opportunity to hear the discussion, and I was not in the position to express an opinion as I would have been if I had heard all sides of it argued, but I believe that the Debt Commission made a very fair settlement for both sides.

Senator HARRISON. So you were in favor of it?

Mr. MORROW. Yes.

Senator HARRISON. And the defeat of it might, in your opinion, have affected the bonds that your concern sold to the public?

Mr. MORROW. I do not think so.

Senator HARRISON. You do not think it would have affected it at all?

Mr. MORROW. No.

The CHAIRMAN. They simply would not have paid the United States.

Mr. MORROW. Italy would have had \$5,000,000 more a year to put into water powers for a few years.

Senator HARRISON. Do you know what use they made of this \$100,000,000 that they got?

Mr. MORROW. I think that they have held it for the protection of the lira.

The CHAIRMAN. It is all in the United States now?

Mr. MORROW. I think it is practically all in the United States yet. It is practically a part of their gold reserve.

Senator HARRISON. Then they have not used any part of it, you say?

Mr. MORROW. Well, that is a little bit like asking whether the gold reserve in a bank is in use.

Senator HARRISON. Well, it is your opinion, generally speaking, that they have not used the money that they have borrowed?

Senator REED of Pennsylvania. Why, no, Senator; he said just the contrary.

Senator HARRISON. I understood he said it was still in the United States.

Senator KING. Yes; as a basis of credit.

The CHAIRMAN. As a basis of credit.

Senator HARRISON. Well, they are using it as a basis of credit in the United States then?

Mr. MORROW. They are using it as a gold reserve.

Senator HARRISON. Was that the use they had in mind when they made the loan?

Mr. MORROW. I think the purpose in making the loan, as expressed at the time, was to take the next step in their financial rehabilitation; having balanced their budget they wanted to strengthen their gold reserves so that they could ultimately get a completely stable currency.

Senator HARRISON. Did you during the consideration of this question of ratifying the debt settlement with Italy either in the House or in the Senate have any conference with reference to it here in Washington?

Mr. MORROW. No. I was busy on the aircraft inquiry all the time I was here, and I saw, as I say, the Debt Commission only after the debt settlement was made.

Senator HARRISON. Do you know whether any members of your firm had any conferences, here in Washington with any one?

Mr. MORROW. I doubt it very much. I do not think so.

Senator HARRISON. You had no correspondence with reference to it?

Mr. MORROW. I do not think so.

Senator HARRISON. With any one in authority here in Washington?

Mr. MORROW. Do you mean the Italians or—

Senator HARRISON. No, with the American Government.

Mr. MORROW. I think not.

Senator HARRISON. Will you look into your files and ascertain if you have any copies of any letters that you wrote?

Mr. MORROW. To the American—

Senator HARRISON. To any one in authority in the Government of the United States while this matter was pending before either the House or the Senate?

Mr. MORROW. I will be very glad to, but I am quite sure I won't find any.

Senator JONES of New Mexico. I suppose Senator Harrison has in mind this thought, whether or not the Debt Commission availed itself of any information which your firm had regarding the ability of Italy to pay.

The CHAIRMAN. Well, I can assure you that they did not. Now I did not see a member of the Morgan firm, and I attended every single meeting of the Debt Commission. I have not missed one.

Senator JONES of New Mexico. Well, I do not think that is highly complimentary to the commission.

The CHAIRMAN. Well, we did not ask the Morgan bank, any more than we did any other bank. We went to the source, where we knew that we could find the facts.

Senator JONES of New Mexico. Well, it strikes me that this firm of J. P. Morgan & Co., whose business it is to not only obtain information but to obtain and have a familiarity with the financial conditions of all these countries, should have been called upon to give what information they had regarding the ability of these countries to pay.

The CHAIRMAN. Well, we got the information direct from the Italian records, and we knew just exactly every dollar that they were owing and where they were owing it.

Senator HARRISON. Can you imagine that the representatives of the Italian Government would give to the American commissioners in a negotiation of this debt settlement information different from that which your organization would procure in making this loan to Italy and selling it to the American public?

Mr. MORROW. I think it would be quite impossible, Senator.

Senator HARRISON. You think it would be the same?

Mr. MORROW. Exactly.

The CHAIRMAN. The advertisements and all the circulars are issued to all of the countries of the world, and we can get them just the same as England can get them or any other country.

Senator HARRISON. Will you have placed in the record, Mr. Morrow, in this connection the advertisement that your concern had published in the New York Times and other papers over the country, or any circulars that you issued to the bankers of the country, the syndicate that you organized, in order to float this loan, showing the advantage of it and the condition of Italy?

Mr. MORROW. I will be very glad to, Senator.

Senator WATSON. It is already printed.

Senator REED of Pennsylvania. Yes; it is in the Congressional Record.

Senator HARRISON. No; I have it here, and Senator Reed, reading from the advertisement, read it in part, but it is not all in, and it is well for it to be right here in the record.

The CHAIRMAN. I can give you that now and have it put in the record now.

Senator HARRISON. Yes; and if there is any additional matter that he might have, because the commission did not get the representatives of the Morgan firm before them. We do not know what information they had.

Senator HARRISON. Do you know anything about Italy funding the debt owed to her by any of the other European countries?

Mr. MORROW. Only as I have read about it in the public press.

Senator HARRISON. When did you read about it in the public press?

Mr. MORROW. There has been some discussion in the press of the actual terms made between England and Italy after Count Volpi left here and went to London. I do not know that Italy owed money to anybody except England. I think there may have a very small debt to France.

Senator HARRISON. Yes; a very small debt to France.

Senator WATSON. It is not substantial.

Senator HARRISON. I read the other day about some agreement that Italy had just made with one of those small Balkan States.

Mr. MORROW. Oh, do you mean as creditor?

Senator HARRISON. Yes.

Mr. MORROW. I thought you meant as debtor.

Senator HARRISON. As a creditor.

Mr. MORROW. I do not know about that, Senator.

Senator KING. She has made a small loan to Yugoslavia in consideration of which she is to get iron ore.

The CHAIRMAN. The committee will adjourn to reconvene at 2 o'clock in the Capitol.

(Thereupon at 12 o'clock noon a recess was taken until 2 o'clock p. m. the same day in the Finance Committee room in the Capitol.)

AFTER RECESS

The committee resumed its session at 2 o'clock p. m. pursuant to the taking of recess.

The CHAIRMAN. The committee will be in order. Mr. Morrow, you may resume. Senator Harrison, will you proceed?

STATEMENT OF HON. DWIGHT W. MORROW—Resumed

Senator HARRISON. Mr. Morrow, will you place in the record—of course, you haven't it with you—the amount that your firm acquired by virtue of this loan that was floated in this country for the Italian Government?

Mr. MORROW. The amount of bonds?

Senator HARRISON. No. What was the amount that your firm received in commissions? What did your firm make out of it, this loan that was made to the Italian Government? I refer to this \$100,000,000.

Senator REED of Pennsylvania. You mean, what was that profit on the transaction? I do not think Mr. Morrow ought to be compelled to state that unless he is willing to do it.

Senator HARRISON. Of course, if he is not willing to do it, that is all right.

Mr. MORROW. It already appears in the record of the House committee, I think, in a letter that Mr. Lamont wrote to Representative LaGuardia, that our commission for negotiating and managing the loan was about one-quarter of 1 per cent. Such profit as we may make in addition to that as a member of the syndicate will be affected a good deal by how long we hold the bonds which we now have and what we may ultimately receive therefor.

Senator HARRISON. And also as to those three issues of French loans—1920, 1921, and 1924. May I ask you, have you been to Paris recently?

Mr. MORROW. About a year ago this coming summer.

Senator HARRISON. Is your firm contemplating at this time, or have you in course of negotiation with the representatives of the French Government, the financing of any loan when this debt settlement is funded to France?

Mr. MORROW. We have no loan to the French Government in contemplation, and no agreement to make one, or any negotiation for one.

Senator HARRISON. The members of your firm have not had any conference with any representative of that government, or with any representative of this Government, with reference to the new loan to France, contingent or otherwise, upon the ratification of this funding of the French debt?

Mr. MORROW. So far as I know, the proper answer to that question is no, but it is a very difficult thing to answer definitely when a government, or certain officials in it, are constantly seeking your counsel about what would be wise for them to do in connection with their fiscal problems, including the purchases that they expect or hope to make in this country. It would be pretty hard to say when a discussion of fiscal problems comes within the meaning of what you have referred to here as a conference concerning loans.

Senator HARRISON. Well, you are close enough to the powers that be in your firm to know if there was any such movement as that contemplated?

Mr. MORROW. Well, the definition of the word "movement" would be the hard thing there. Personally I do not contemplate that the French Government is going to make a loan in this market. I hope they won't.

Senator HARRISON. And you are quite sure that they have not approached your firm with reference to getting an issue in the event this debt is funded?

Mr. MORROW. I do not know of any application for a loan.

Senator WATSON. Of course, this proposition of governmental inhibition applies with reference to France yet, does it not?

Mr. MORROW. I do not know about that, Senator.

The CHAIRMAN. I might say that the position of the Government with reference to the loaning of money to France can not be known until the settlement is submitted.

Mr. MORROW. Of course, as stated in the portion of the Secretary's report that was read this morning, the Government states what its policy is and that it has notified people from time to time who have made application to them to make loans.

Senator WATSON. And France has not definitely made a settlement. The CHAIRMAN. At the present moment the policy is that until France settles it will be distasteful to the Government of the United States to make any loans to them.

Mr. MORROW. And I should not hesitate to say that at the prices at which the existing public French securities are selling in this market, in my opinion it would be impracticable to offer a French loan in this market, with or without the governmental inhibition.

Senator REED of Pennsylvania. They are selling now on something like a 9 per cent basis, are they not?

Mr. MORROW. Something like an 8 per cent basis, I think.

Senator HARRISON. If the debts should be funded according to the agreements that the representatives of the two Governments have signed, do you think then you might float an issue in this country?

Mr. MORROW. I think that would be a very important element in the rehabilitation of France, but I think it would only be one element. I think the important question is the demonstrating to the world that their budget is balanced and their currency again settled, so that it would be quite apparent to the investors of the world that France was well around the corner.

Senator HARRISON. Have any private concerns in France made application to your concern to float any bonds in this country or to borrow any money in the United States?

Mr. MORROW. You mean, private industrial concerns?

Senator HARRISON. Yes, sir.

Mr. MORROW. I do not know about that, and I am speaking now of matters within my own knowledge. It might very well be that individuals or groups would make application to our Paris office. I would make the same answer that I have already given, that the possibility of making such loans until France has cleared up her whole situation would be practically nil.

Senator HARRISON. Have any members of your firm been brought before the commission to give your views with reference to the ability of France to pay, or to confer with reference to the terms of this funding debt?

Mr. MORROW. Not so far as I know.

Senator HARRISON. Have you approached any representatives of this Government in any capacity, or any member of your firm, with reference to the French settlement?

Mr. MORROW. You mean the terms of the French settlement?

Senator HARRISON. Yes.

Mr. MORROW. Not so far as I know.

Senator HARRISON. Has your firm interested itself in any way in bringing about the funding of the French debt and toward its ratification either in this country or in France?

Mr. MORROW. I think we have the same interest that all citizens have in this country in having this question cleared up, because of the very pronounced effect that we think it has on the whole question of American industry and American exports of all kinds.

Senator HARRISON. To what extent has that interest been manifested?

Mr. MORROW. I do not think any more than as it has been manifested by other citizens of the country. We have an interest in the getting of the world back to normal as soon as possible.

Senator HARRISON. Has it been manifested to the extent that you have conferred with any of the officials of the Treasury Department in this case, or any of the members of the executive branch of this Government of France?

Mr. MORROW. I think we have constantly talked with the French officials as they have been over here about their condition and their ability to make remittances. We have kept as far away as we could from any negotiations that may have been carried on down here in Washington.

Senator REED of Pennsylvania. You are trustees of the sinking funds in these three bond issues that you have floated?

Mr. MORROW. Oh, yes; and we have constant remittances.

Senator REED of Pennsylvania. Are you in constant contact with French officials in those loans?

Mr. MORROW. Yes.

Senator HARRISON. What were the views of yourself, as well as other members of your firm, when the Caillaux agreement was in negotiation here and their proposal to the American commissioners and the rejection at that time?

Mr. MORROW. I do not think we had any definite views about it, Senator. We knew nothing about it until the fact of the offer and rejection was published in the newspapers. We felt sorry that the two nations had been unable to come to an agreement.

Senator HARRISON. What is your opinion now with reference to the two agreements? Is this a better agreement that they have now entered into than the one that the American commissioners turned down when Caillaux was here?

Mr. MORROW. I used this morning the expression "effective agreement." I think this is a more effective agreement for both sides than the one that was offered and rejected last fall, because it puts a little less burden on France in the early years, which are the very critical years for her, and calls for larger sums ultimately when the productive power of her people will be greater.

Senator HARRISON. And you have so expressed yourself?

Mr. MORROW. To whom?

Senator HARRISON. Generally speaking. If any one should ask you your opinion about it in casual conversation, or even to your clientele?

Mr. MORROW. I would express myself that way to anybody, so far as my opinion was worth anything. I have not gone out of my way to give any expression about it at all.

Senator HARRISON. Have any members of your firm given any expression to your clientele to that effect?

Mr. MORROW. Not that I know of. I think the members of our firm might differ just as much about a question like that as the members of your committee might differ about a question.

Senator WATSON. Did anybody in authority here, or in official life, ask you to intercede with anybody in authority in France with reference to this debt settlement?

Mr. MORROW. To intercede in what way? I do not know just what you mean.

Senator WATSON. To take it up and discuss it with a view to bringing about a change. I am trying to find out whether anybody in authority ever asked you to act in any capacity with reference to bringing about any sort of adjustment of the French debt.

Mr. MORROW. After this debt settlement was made, whatever proper influence we have had in the way of counseling people that might ask us we have used to get them to ratify the settlement.

Senator HARRISON. How was that influence exerted?

Mr. MORROW. It was not exerted.

Senator HARRISON. Well, how was it manifested?

Mr. MORROW. If people asked our opinion we gave it to them.

Senator HARRISON. Did you approach any of the officials of France with reference to it?

Mr. MORROW. We did not go out of our way to counsel people about business that was theirs. We answered questions as frankly and honestly as we could if people asked our opinion.

Senator HARRISON. Have any of the officials of France asked your opinion about it, either at your office in Paris or here, either in writing or orally?

Mr. MORROW. I would not know about the office in Paris. The French officials who come in contact with us here we have urged very strongly to accept whatever terms the American Debt Settlement Commission thought proper, because we believed that the Debt Settlement Commission was trying to reach a fair conclusion in the interests of the people of both countries.

Senator HARRISON. Who were those officials, Mr. Morrow?

Mr. MORROW. The principal official here that we see is the financial attaché at the embassy.

Senator HARRISON. What is his name?

Mr. MORROW. M. Robert Lacour-Gayet.

Senator HARRISON. Did you talk to the ambassador?

Mr. MORROW. I did not talk to the ambassador until after the debt settlement was over. He came to New York after the debt settlement had been signed.

Senator HARRISON. How long after the debt settlement had been signed?

Mr. MORROW. He came up to New York a week or so after the debt settlement was signed, I think.

The CHAIRMAN. About 10 days after.

Senator HARRISON. Did you talk to him then?

Mr. MORROW. Oh, yes.

Senator HARRISON. And other members of your firm?

Mr. MORROW. I could not answer about that.

Senator HARRISON. Did he at that time suggest the advisability of trying to get a loan, to float a private loan in this country in the event this was ratified?

Mr. MORROW. No; I do not think he desires a loan in this country.

Senator HARRISON. He did not ask you your advice with reference to that?

Mr. MORROW. We talked about the general problem ahead of France, the problem of rehabilitation, her currency, and the possi-

bility of her getting back to the gold standard. I am not at all sure that the people of France want another loan in this country.

Senator HARRISON. Have you talked to Governor Strong, of the Federal Reserve Board, with reference to any loans to be made to France in the event that this debt settlement should be ratified?

Mr. MORROW. I do not recall talking to Governor Strong. We see him from time to time, as the other bankers in New York do, and we are all interested, as the rest of the country is, in my opinion, in the future rehabilitation of Europe. It means a good deal to the producer of raw materials and manufacturers of goods in this country.

Senator HARRISON. Did you confer with Governor Strong immediately before he left for Europe in reference to the matter?

Mr. MORROW. I do not recall having any conference with him.

Senator HARRISON. Has he returned yet? Do you know?

Mr. MORROW. I do not know.

Senator HARRISON. When was the last time you saw him?

Mr. MORROW. I have not a distinct recollection of when the last time I saw him was, Senator. My opportunities of coming in contact with Governor Strong might be two or three months apart.

Senator HARRISON. Has your firm sent to Paris within the last six months any of your high officials, such as you, Mr. Lamont, or other high officials to confer with officers in charge in Paris touching any loans to France?

Mr. MORROW. No; nobody has made a special trip to France. Mr. Lamont was on a holiday in Spain and came back through Paris.

Senator HARRISON. When was that?

Mr. MORROW. This spring.

Senator HARRISON. How long has it been since he returned?

Mr. MORROW. I think a month, perhaps.

Senator HARRISON. Was he over there at the time Governor Strong was?

Mr. MORROW. I do not think he was in Paris while Governor Strong was there. He may have been in London while Governor Strong was there, but I do not think he was in Paris at the same time Governor Strong was. I would not be sure of that.

Senator HARRISON. Have you had any conference with the Secretary of the Treasury with reference to the French situation and loans to France within the last six months?

Mr. MORROW. I do not recall any conversation with the Secretary of the Treasury about loans to France.

Senator HARRISON. Have you conferred with the Secretary of the Treasury recently?

Mr. MORROW. I can not recall just when I saw the Secretary of the Treasury last.

Senator HARRISON. Have you conferred with Mr. Winston or any of the other gentlemen in authority in the Treasury Department?

Mr. MORROW. Mr. Winston has been abroad. I did not see him until I came down here on this trip.

Senator HARRISON. Before he went abroad did you confer with him with reference to the French situation?

Mr. MORROW. I do not recall conferring with Mr. Winston about the French situation particularly. I saw him before he went abroad in New York.

Senator HARRISON. How long before he went abroad?

Mr. MORROW. Within a week.

Senator HARRISON. At your office?

Mr. MORROW. No; I think I met him uptown in one of the clubs.

Senator HARRISON. By arrangement?

Mr. MORROW. I think by arrangement; yes.

Senator HARRISON. Was it social or business?

Mr. MORROW. Social; but we talked about the European situation.

Senator HARRISON. Was anyone else present?

Mr. MORROW. I think one or two of the men in our office were present, one of whom was a classmate of his at Yale University.

Senator HARRISON. That was before Mr. Winston went abroad?

Mr. MORROW. Yes.

Senator HARRISON. Had you been down to Washington to see Mr. Winston before that time relative to the French situation?

Mr. MORROW. I do not recall being down to see Mr. Winston about the French situation.

Senator HARRISON. Did any members of your firm confer with Mr. Winston or the Secretary of the Treasury with reference to the French debt?

Mr. MORROW. You are speaking about the French loan?

Senator HARRISON. Or the French debt either.

Mr. MORROW. The French debt settlement did not contemplate loans that we might issue in this country for France.

Senator REED of Pennsylvania. The question implies that Mr. Morrow talked about a proposed loan to France. He just said he did not.

Mr. MORROW. I was just going to say to the Senator: You are asking questions about a contemplated loan that has not been and is not now in contemplation?

Senator HARRISON. Well, you mentioned some conference with the Treasury officials with reference to some loan that you might put over in this country for the French Government—casual conversations when you were out socially or on business with reference to some other matter that was being discussed.

Mr. MORROW. I do not recall.

Senator HARRISON. You do not think you did?

Mr. MORROW. No.

Senator HARRISON. And you do not know whether any other member of your firm has had such a conversation?

Mr. MORROW. I think it quite unlikely, because it has seemed to us at the present time that a French loan in this country was not a practicable thing.

Senator HARRISON. Do you know whether or not the Federal Reserve Board, through Governor Strong, has had in contemplation this matter at all?

Mr. MORROW. I do not know.

Senator HARRISON. You have not talked with him about it?

Mr. MORROW. No.

Senator HARRISON. Was your advice sought at all by any of the Treasury officials, either Mr. Winston or the Secretary of the Treasury, touching the advisability of this French debt settlement and the terms that went into the French debt settlement?

Mr. MORROW. I did not know the terms of the French debt settlement until they were published.

Senator SMOOT. And nobody else outside of the Debt Commission and the French ambassador knew them.

Senator REED of Pennsylvania. Was your advice sought by them?

Mr. MORROW. No, sir.

Senator HARRISON. And the representatives of the French Government did not confer with you while the matter was being negotiated?

Mr. MORROW. About the terms of the settlement? The ambassador was down here in Washington and we did not see him during the debt negotiations. The only man that we saw was M. Lacour-Qoyet the French attaché. I think the French were scrupulously correct in observing whatever confidence the commission may have enjoined upon them.

Senator HARRISON. Then, nobody conferred with you about it?

Mr. MORROW. They talked about the general question of ability to pay, questions of exchange, etc., but as to the terms of the settlement, we kept out of that, by our own desire and theirs.

Senator HARRISON. And you did not know anything of the terms until the matter was consummated?

Mr. MORROW. Of course there were constant intimations of terms in the newspapers that were available to everybody, but as to the accuracy of those I do not know.

The CHAIRMAN. I might make this statement in that connection. The Foreign War Debt Commission, at its first meeting, before the French ambassador was called in, agreed that there should be nothing given out until the final settlement was made, and any information that appeared in the papers did not come from a member of the commission. The President of the United States did not know it, and the French ambassador, when he came to the meeting, was told that, and he agreed to that proposition, and I believe those gentlemen have all lived up strictly to the agreement.

Senator HARRISON. Did any suggestion ever come to you or any member of your firm by any of the officials of the Treasury Department to use your influence in France with such officials as you knew in bringing about this funding debt settlement?

Mr. MORROW. I presume you could fairly say that the public statement that was made by the Government that it did not want foreign loans made abroad until the settlement had been reached enlisted in a sense every banker in this country, at least in a negative way, in rendering that much assistance to the making of the debt settlement.

Senator HARRISON. I do not think you understood my question. I asked you if there was any suggestion came to you from any of the heads of the Treasury Department, or to any member of your firm, to exercise whatever influence you might possess in France to bring about the ratification of this debt.

Mr. MORROW. Why, after this debt settlement was made I am sure that all of us were exceedingly desirous of doing what we properly could to bring about a ratification in France. That does not mean that we have any right to exercise any coercion about it, but our counsel, if it was of any value to them, we would, of course,

very freely give. We hoped they would find themselves able to ratify this settlement. Of course, the press in that country, as you probably know, Senator, has been very severely critical of Mr. Berenger for making the settlement.

Senator HARRISON. I still do not think you have answered my question. You said that you felt it your duty, of course, to exercise any influence, when you were approached, in seeing that this settlement was ratified by France. You felt that as a citizen, as I understand you. I asked if any suggestion came to you from either the head of the Treasury Department or Mr. Winston, or anyone else in the Treasury Department, to exercise such influence as you possessed in France to bring about the ratification of the settlement.

Mr. MORROW. I would answer that question that there was no request. At the same time, I want to be entirely frank with you, and I have no doubt whatever that in such social talk at I had with Mr. Winston before he went abroad he recognized and I recognized that if there was anything we could do to help Mr. Berenger in the very difficult task he had over there we would do it. I do not recall his requesting me to do that. I think it would hold as a matter of course that we would, both from his point of view and from mine.

Senator HARRISON. You understood it would be perfectly welcome on the part of the Treasury Department if you did exercise such influence as you possessed in bringing about the ratification of the agreement?

Mr. MORROW. I understood without their telling me that they were very anxious that the very difficult step which faced the people of that country, that of getting ratification by the French Parliament should be gotten by. I recognized that without their telling me. This is a bilateral contract, Senator, which the French people look upon as a very onerous settlement. Mr. Berenger said he would be the most unpopular man in France when he got there, but he was going to see that this settlement was ratified as far as had any power.

Senator HARRISON. Do you know whether Governor Strong before he left advised you what the purpose of his mission to Paris was?

Mr. MORROW. No.

Senator HARRISON. You had no idea what it was?

Mr. MORROW. No.

Mr. WINSTON. I understood him to say it was simply a vacation that Governor Strong takes every year.

Senator HARRISON. It is your impression that he just went on a vacation?

Mr. MORROW. I assume so.

Senator HARRISON. Did Mr. Winston inform you in that respect what his purpose in going to France at that particular time was?

Mr. MORROW. I understood he was going on a vacation.

Senator HARRISON. And Mr. Lamont went on a vacation to Spain?

Mr. MORROW. Yes.

Senator HARRISON. No business connected with his vacation at all?

Mr. MORROW. He was just taking a motor trip in Spain—purely a holiday.

Senator HARRISON. What is your information with reference to the two settlements that were made by the Debt Commission, comparing the Italian debt settlement with the French debt settlement as to the ability of either to pay? Do you think it a very fair settlement to both and about right?

Mr. MORROW. I think they are fair settlements to both sides. The Italian position at present is stronger than the French, in the sense that they have more nearly reached an equilibrium. However, considering the natural resources of France, their ultimate ability to pay is higher, of course, than Italy's. They have a very much larger foreign trade and more goods to export than Italy. But the immediate position of France, Senator, is not so good as Italy's; that is, their position as of this month or this day, with the pending cabinet changes and the demoralization of the franc.

The CHAIRMAN. You suggested that France has to pay \$30,000,000 a year and Italy \$5,000,000 for the first five years, and that Italy can perhaps meet that better than France can her \$30,000,000. But taking the debt over the full 62 years, I think the principle is just as liberal to France as the Italian debt settlement is to Italy.

Senator HARRISON. Did you represent the French Government at the time they made the purchase from the United States of the war supplies over there?

Mr. MORROW. No, sir.

Senator HARRISON. You were not in their employ at that time?

Mr. MORROW. Well, we never have been in their employ.

Senator HARRISON. Did you represent them as fiscal agents?

Mr. MORROW. No; that was done entirely in Europe. That was done by a commission appointed by President Wilson.

Senator HARRISON. And you had nothing to do with it, neither you nor your firm?

Mr. MORROW. Nothing whatever to do with it. I think Mr. Parker was chairman of that commission appointed by President Wilson to dispose of those war stocks.

Senator HARRISON. Have you represented in the capacity that your firm represents France any of the other countries of Europe with which we have agreed to fund their debts?

Mr. MORROW. We have been bankers in their country for Great Britain and for France and recently for Italy. I do not recall any other European Government—yes; Belgium.

Senator HARRISON. When did you become interested in the Italian Government?

Mr. MORROW. I think the first business we did with Italy was—the first important business—was this loan.

Senator HARRISON. That was the beginning of your employment. by the Italian Government?

Mr. MORROW. Well, we sold that loan—organized the syndicate that sold the loan. I would not say we had not extended banking credits—short banking credits—to Italy before.

Senator HARRISON. Had any representative of the Italian Government approached any members of your firm and asked your influence to see that the Italian debt settlement was ratified by the Senate of the United States or the House of Representatives?

Mr. MORROW. Not so far as I know.

Senator HARRISON. You would know it, I suppose?

Mr. MORROW. I presume I would.

Senator HARRISON. You thought that was a very fair settlement to Belgium, did you not?

Mr. MORROW. I was abroad when the Belgian settlement was made, but I think that was a fair settlement to both sides, so far as I am advised about it.

Senator HARRISON. Do you think the settlement made with France compares favorably with that made with Belgium, taking into consideration the ability of each country to pay?

Mr. MORROW. I think so, Senator.

Senator HARRISON. Did you represent any of those smaller countries over there—Lithuania, Hungary, or the other countries whose debts we funded?

Mr. MORROW. I do not think we were brought into the financial affairs of any of those other countries.

Senator HARRISON. You are familiar, are you not, with the condition of all those countries that owed us money and whose debts we funded?

Mr. MORROW. Not very. I would be familiar with it as anyone interested in that type of question can become by reading the press accounts and the articles in the various economic journals. I know very little, for instance, about Esthonia.

Senator HARRISON. And you think the settlements, so far as you know the ability of those countries, were fair when you consider the settlement with Italy of 27 cents on the dollar as compared with those countries which paid 82 cents on the dollar?

Mr. MORROW. I would not be able to give you an opinion on that subject, because I have not studied the subject.

Senator HARRISON. You approved the British settlement at the time?

Mr. MORROW. I thought it was a very heavy obligation for Great Britain to assume, and an act of very great courage on her part in assuming it.

Senator HARRISON. Do you think this Government was too hard in that matter?

Mr. MORROW. It is not a question of hardness; it is a question of a group of people who are really trustees—your committee and the executive department of the Government—determining what under all the circumstances you think the British capacity to pay is.

Senator HARRISON. Well, you and all the members of your firm thought that all these agreements that have been made by our commissioners with the commissioners representing these other Governments should be ratified?

Mr. MORROW. Yes.

Senator HARRISON. All of them?

Mr. MORROW. All of them.

Senator HARRISON. Without exception?

Mr. MORROW. Yes.

Senator HARRISON. Would you mind expressing an opinion whether you think that some of them were less fair than others, either to those countries or to this Government?

Mr. MORROW. No; I would not care to express an opinion on that. I am not sure that I have one. My belief that all of them should be

ratified is based largely on my confidence in a nonpartisan commission dealing with a very complex problem that had a very immediate reaction upon this country, on its copper, its cotton, its wheat, and everything else that it desires to export. I felt that when a nonpartisan commission had reached a conclusion, not based upon its own position alone, but based upon a negotiation with a group from another country, who had to conduct their negotiations in view of the conditions in their own country—I had enough confidence in that commission to feel that they had done the best they could for this country, taking into account all the circumstances, including the trade of this country in the future.

Senator HARRISON. Was your office in London approached, either there or through your office in Paris, or here, by the Italian Government to bring about the ratification of the settlement between Italy and Great Britain?

Mr. MORROW. Not so far as I know.

Senator HARRISON. You believed it was a fair settlement, did you, between Italy and Great Britain—the funding of the Italian debt to Great Britain?

Mr. MORROW. Of course, it proceeded on a different basis from ours. Italy makes larger payments to England at the outset and less payments ultimately.

Senator HARRISON. Which do you say was the wiser policy to pursue?

Mr. MORROW. I think the difference in the conditions of the two countries would make that a very rational method of treatment. The British are very much interested in what comes to them immediately, because of the difficulty of their immediate position. That was of less interest, I assume, to this country. It is all a question of judgment, Senator.

Senator REED of Pennsylvania. The British are having their own difficulties in balancing their budget, are they not?

Mr. MORROW. They are having their difficulties in balancing their budget. Moreover, they have just put their pound back to its pre-war parity. Their immediate interest is to have as much as possible come in in the way of foreign payments and as little as possible in the way of foreign payments go out.

Senator HARRISON. What, if anything, have you done, or any of the members of your firm that you know of, toward offering advice or going into conference relative to the stabilization of the currency of France?

Mr. MORROW. We have had a great many discussions with the French people here and I have no doubt our French office has had a great many discussions with French officials over there.

Senator HARRISON. Have you had any discussion with the Treasury officials here with reference to the matter?

Mr. MORROW. No; I do not think so.

Senator HARRISON. You have given to the French people the benefit of your views with reference to that matter?

Mr. MORROW. Frequently; but we have tried not to intrude them.

Senator HARRISON. I think that is all I want to ask, Mr. Chairman.

Senator WATSON. Such views as you have expressed, then, have been solicited?

Mr. MORROW. Surely they have been. In connection with the general line of our business they seek advice.

Senator WATSON. As a banker doing a banking business on this side of the ocean, and also on the other side, you thought it was a great advantage to France and to the United States that this French debt be settled, did you not?

Mr. MORROW. Yes, sir.

Senator WATSON. And wherever you have been questioned about it you have so expressed yourself?

Mr. MORROW. Yes, sir.

Senator WATSON. And the rehabilitation of Europe generally, for the ultimate benefit of our country as well as the benefit of their own country?

Mr. MORROW. Yes, sir.

Senator WATSON. So far as loaning money to France in the future is concerned, that is all in the future, is it not? That is, here is a governmental inhibition that operates now to prevent any loan being made to France until she shall have ratified the pending treaty. That is true, is it not?

Mr. MORROW. Yes, sir.

Senator WATSON. And in the future you will meet conditions as they arise?

Mr. MORROW. Yes; and they are very uncertain.

Senator WATSON. Did you make a statement a while ago—I was interested but did not hear—that Italy has a more stable Government than France at the present time?

Mr. MORROW. Well, I was speaking financially. You are getting into a political question there, in which your judgment would be better than mine. But financially there has been much less fluctuation in Italy's currency than in France, and Italy's budget has been in balance for some time, whereas France has gradually been reaching a balanced budget and feel that they have it now.

Senator WATSON. Do you regard this pending settlement, Mr. Morrow, between this country and France as a fair settlement to both people?

Mr. MORROW. I do.

Senator WATSON. And that, based upon France's ability to pay, it is just about as far as our Government could have gone?

Mr. MORROW. I think so, Senator. I think one measure of that is the reception of the settlement abroad. It is very hard, of course, for the people in France to see exactly the difficulties under which the executive and legislative department of this Government work. It is very easy for them to quite misconstrue your purpose, because they do not know the limitations upon your power, how your constituents feel. Just so it is very easy for us here to assume that any representative of the French Government that comes over here can do as he pleases. But he has constituents and a Parliament in France to whom he must explain. When one follows the discussion in France he will recognize that it is very difficult for anybody coming from France to have made a larger debt settlement or a settlement that called for a larger payment than the one which has been made.

The CHAIRMAN. Their representative said that the settlement that was made would be very difficult to secure approval of in France.

Senator WATSON. Yes.

The CHAIRMAN. And he also knew personally what it would mean if it should fail.

Senator WATSON. Of course, you realize the situation that we, as representatives of a popular government, are up against on a proposition of that kind when we settle with a country like Italy, for instance, and take a quarter of a per cent and then you loan money and get 7 per cent. Now, that is a matter that has to be explained. And, of course, the same is quite true with this French settlement. You have made three loans there—at 8 per cent, 7½ per cent, and 7 per cent—and yet we have made a settlement at a very much less rate. Now, I wish you would just go into a rational explanation of that difference, Mr. Morrow, so as to show it to the country and to the people as you understand it.

Mr. MORROW. Weil, I think it would perhaps help you—

Senator WATSON (interposing). We understand it, but I want you to put it here so that we can use it.

Mr. MORROW. I can only state it as it looks to me.

Senator WATSON. Certainly.

Mr. MORROW. I think it is a little more understandable if you do not look upon us J. P. Morgan & Co. as loaning money to France or Italy. We are an intermediary. We are a merchant. We are a mobilizer of a lot of small streams of credit, the savings of the people. Now, the person that loans the money to France is the school teacher in Indiana, or the doctor, or the Army officer—

Senator WATSON (interposing). Not the house of Morgan?

Mr. MORROW. No; the person that lends the money to France is anyone of 30,000 or 40,000 people scattered all over the United States. What do those people do when they put their savings into a foreign bond? Before they bought the bond they had money which gave them command of goods and services. They surrendered that command of goods and services to the foreign government to whom they loaned the money. The foreign government then held the command of goods and services that was formerly held by the bond investor. The bond investor, naturally, expects to resume that command of goods and services at some future date. This resumption of the command of goods and services by him takes place from time to time when he gets his interest on the loan, and he resumes the entire command when the principal is repaid to him. The investor believes that if the investment were not a good investment, with a reasonable chance of the interest and principal being paid, the banker would not offer the investment to him. Moreover, the investor balances the rate of interest that he can secure on this proposed foreign loan with the rate of interest that is offered to him of any other kind of a loan that is available to him. Of course, it would be quite out of the question for France to borrow money at 1 per cent, or 1½ per cent, or 2 per cent, or 3 per cent, from the school teacher, or the country doctor, or the life insurance company that buys foreign bonds.

It is necessary for the foreign governments when they seek to sell their bonds in this country to offer the current rate of interest

for that class of bonds. The market makes the interest rate. The real question is not what should the rate of interest be but should the loan be made? Of course, we think the loans should have been made or we would not have offered them. We think they should have been made not only for the benefit of the foreign country but also for the benefit of our own country; for the benefit of the people who produce copper in Utah, for the benefit of the people who produce cotton in Mississippi, for the benefit of the people who grow wheat in the West, for the benefit of the people who manufacture goods all over the country. All the people who sell these goods might possibly sell them on a credit if they desired. Their difficulty, however, would be that they could not afford to take and hold the credit, unless they had accumulated savings. Nor are they in a position to go themselves and find the person with savings who can take the credit in their place. The purpose and the function of the banker who sells investment securities is to mobilize the savings of a great number of people so that these savings can be put at the disposal of those who need them to the direct advantage of the borrower and the lender and to the indirect advantage of all those persons from whom the borrower buys.

Of course, so far as the settlement between the Italian Government and the United States Government is concerned, I do not think the United States would be able to get what Italy has contracted to pay if someone with savings in this country were not willing to lend money to Italy in order to get her back into a normal condition. The settlement of the war debt which Italy owed the United States is a part of the process of the rehabilitation of Italy. Another essential step in that rehabilitation is to reestablish the currency position of Italy so that the Italian people can go on and conduct their economic life in a normal way.

Senator WATSON. Now, is it your opinion that this \$300,000,000 loan to France helps to bring her to a position so that she can make this agreement?

Mr. MORROW. Certainly. This \$300,000,000 loaned to France helps to carry along a country that was sadly devastated at the end of the war. The people who loaned the money were helping France to go ahead.

Senator WATSON. And, of course, you could not have effected these loans unless you had the interest rate?

Mr. MORROW. Certainly not. The people who loaned this money all over the United States were people who balanced the investment, the principal and interest and the risk, against the interest and the principal and the risk that was available to them in all other places to which their savings might be attracted, whether it was public utility companies, or Government bonds, or railroad bonds, or whatever it may have been.

The CHAIRMAN. You could compare it with the dealings of a bank with a corporation or with an individual. I know and have had experience along banking lines and along business lines. I know of individuals and companies that had temporarily failed. For instance, I know one man that was owing six or seven banks. He had difficulty arising, through a condition that he had no power to control. Now, I know all of those six banks. They said to him, "Here, you just pay 1 per cent interest upon this this year, and

if you can not pay that we will extend it and give you time for the next 10 years." Now, what would they get if they foreclosed it? And what would we get? We would not get anything. But it may be within 10 years we will get every dollar, whereas if we try to collect it now, we can not get anything. My suggestion on all of these settlements has been to get every single dollar out of these countries we could possibly get out of them and let the countries live.

Senator HARRISON. I wanted to ask you, are you familiar with the negotiations that are now going on between the French Government and the Government of Great Britain with reference to their settlement and funding their debt?

Mr. MORROW. No, sir; excepting so far as I have read them in the newspapers.

Senator HARRISON. You are not familiar with the terms?

Mr. MORROW. No, sir.

Senator HARRISON. You do not know the terms that they have offered?

Mr. MORROW. I only know the terms that were published in the press last summer, when Caillaux and Churchill were having their negotiations.

The CHAIRMAN. That was never consummated. We took it up with Caillaux here.

Senator HARRISON. You do not know whether there are new negotiations now pending between the two Governments?

Mr. MORROW. No, sir; I know nothing about that. There have been statements from time to time in the newspapers that the finance minister was about to go to London. You see, there have been five finance ministers in France in the last eight months.

Senator JONES of New Mexico. Mr. Morrow, aside from this public debt of France to governments, what is the amount of the French debt to citizens of foreign countries? This Government or our people have made three loans of \$300,000,000 that you spoke of. What is the total of such loans outstanding?

Mr. MORROW. I would be very glad to get those figures for the record, Senator. Roughly, I should estimate it about this way: There were \$300,000,000 loaned to the French Government, of which I think about a quarter to one-third has been absorbed by the sinking funds. I do not think more than two hundred or two hundred and twenty-five million dollars of that debt is still outstanding. In addition to that there are certain loans of French cities that have been made by American investors which are, I think, directly or indirectly guaranteed by the French Government. There are certain railroad loans made over here which, I think, are directly or indirectly guaranteed by the French Government. I have seen it stated—and I could get the figures accurately for you—that the total foreign debt of France, exclusive of the debt to the United States and Great Britain, is probably in the neighborhood of \$500,000,000.

The CHAIRMAN. That is, in the United States, you mean?

Mr. MORROW. No; I mean everywhere.

The CHAIRMAN. It is more than that.

Senator REED of Pennsylvania. You are speaking of the external debt?

Mr. MORROW. Yes; that is all.

Senator WATSON. I thought you meant to her own citizens.

Mr. MORROW. No; the question of Senator Jones was the foreign debt.

Senator JONES of New Mexico. Yes. Now, if this agreement should be ratified, Mr. Morrow, it will require the French Government to pay for the first few years \$30,000,000. Where is France to get those dollars?

Mr. MORROW. She is obligated to pay \$30,000,000 the first year?

Senator JONES of New Mexico. Yes.

Mr. MORROW. Your question is, Where is she going to get it?

Senator JONES of New Mexico. Yes; the \$30,000,000.

Mr. MORROW. Well, in questions of international exchange I think there is no answer as to where a particular payment comes from. It is a balance. But, roughly speaking, France is going to continue to send to this country the type of things she exports to us; we will send to her the type of thing that we export to her. And on balance she will ultimately, taking the invisible items into account too, pay the interest on the debt in goods and services.

The CHAIRMAN. And money from the tourists?

Senator HARRISON. And the higher the tariff that goes to France the more she will get.

Mr. MORROW. What is that?

Senator HARRISON. The higher the tariff we impose on her, and the higher they have to pay, of course, the quicker they will get on their feet over there.

Senator SHORTRIDGE. And the lower the tariff the worse for us.

Senator JONES of New Mexico. I wish that I might be permitted to just go ahead for a little. I have sat here for a long time, and have seldom interrupted anybody, and I would like to have the same courtesy shown to me that I have shown to others. Mr. Morrow, if I understand your answer, France has got to have a balance of trade in her favor in order to pay this \$30,000,000?

Mr. MORROW. Not necessarily what is called a physical balance of trade, Senator, because the invisible items enter into it. There is the expense of tourists, and the students that live over there, and a number of things of that sort. But taking them all together, she has to have a balance in her favor in order to meet it.

Senator JONES of New Mexico. And as you stated a moment ago the payments to us must be ultimately met in the visible and invisible balance of trade.

Mr. MORROW. I would say that she has to pay us in goods or services.

Senator JONES of New Mexico. Yes.

Mr. MORROW. Yes, sir.

Senator JONES of New Mexico. Now, has France had a balance of trade in her favor of visible goods?

Mr. MORROW. It has been rather heavily against her, but during the last few years has been changing in her favor. I think one year—year before last or last year—it was in her favor physically, was it not?

The CHAIRMAN. Yes; somewhat.

Senator JONES of New Mexico. Yet at the present time it is against France?

Mr. MORROW. At the present time the thing is so chaotic, with the fluctuating franc, that I think the currency measures are of very little value; just as it was true in Germany when the mark was going down so fast, it upsets the normal rules of trade so that you get the best statistics you can and then guess.

Senator JONES of New Mexico. What effort is France making now to restore her balance of trade?

Mr. MORROW. I presume that to-day she is mainly concerned with getting a new Government to keep herself going.

Senator JONES of New Mexico. I assume that is so to-day. But has not France been making some effort in that direction for some time?

Mr. MORROW. I think there are many people in France, of course, that have been devoting the best thought they could to this; but they have 12 political parties, and a good deal of difference of opinion among them. As I say, they have had five finance ministers in eight months, and it has not been easy.

Senator JONES of New Mexico. Yes; I appreciate that. But I have seen notices in the press in the last few days that France was practically going to put an embargo on importation of certain food-stuffs. Have you seen any information of that sort?

Mr. MORROW. I saw that in the press last week, and saw it afterwards denied.

The CHAIRMAN. It was denied by the officials.

Senator JONES of New Mexico. There was that rumor at one time, at least, that they were going to put in force the war rations there.

Mr. MORROW. Yes, sir.

Senator JONES of New Mexico. But I have seen that denied.

Mr. MORROW. Yes, sir.

Senator JONES of New Mexico. But is France not endeavoring—I do not mean to say they are to-day, while they are trying to get a new government—but is not France endeavoring, and has it not been the policy of France for some time to discourage, in a way, the importation of foreign goods so as to restore her balance of trade?

Mr. MORROW. Well, I think, Senator, in a period of the kind that France has been going through, all sorts of plans and devices are suggested. I think that laws have been passed, and stringent regulations have been issued forbidding the export of capital. Most of those things have an effect the opposite of what is designed; the forbidding of the exportation of capital has a tendency to drive capital out of the country.

Senator JONES of New Mexico. Yes. Have not restrictions been put upon the importation of goods?

Mr. MORROW. Well, I do not know to what extent. I do not think, beyond a protective tariff—I do not know of measures that have been taken over there that are peculiarly abnormal.

Senator JONES of New Mexico. But her tariff rates have been raised.

Mr. MORROW. I think so.

Senator JONES of New Mexico. And for the purpose, in great measure, of preventing the importation of foreign products. Do you think that is the case?

Mr. MORROW. Yes, sir. I would rather not speak of that without more information than I have, but I think that is probably true.

Senator JONES of New Mexico. Now, are there any current obligations of the merchants of France with foreign countries that are still unsettled?

Mr. MORROW. I would not know about that. I doubt if anybody would.

Senator JONES of New Mexico. Well, are there not foreign banking credits with individual French firms, or corporations, or individuals?

Mr. MORROW. There always are, but I do not know of any in particular. Those countless operations that go on between the merchants of one country and the merchants of another are quite beyond the knowledge of any individual or group of individuals.

Senator JONES of New Mexico. Well, do you not estimate the quantity of such obligations, not only with respect to France, but with the other outside nations of the world?

Mr. MORROW. Estimate in what way?

Senator JONES of New Mexico. The current indebtedness; I mean unfunded indebtedness.

Mr. MORROW. Now, you are suggesting that there is a great deal owing from France here?

Senator JONES of New Mexico. As well as other countries. Do you not estimate that in some way?

Mr. MORROW. Try to guess at it?

Senator JONES of New Mexico. Yes.

Mr. MORROW. No; and it is very hard to do, but if I were guessing I would guess that just the reverse is true to-day. I would guess that the current-credit balance was very heavily in their favor.

Senator JONES of New Mexico. Because of their attempt to transfer capital?

Mr. MORROW. Because of the depreciating franc and the strong pressure that is thus exerted upon them to keep their bank balances out of the country. That is what happened in Germany when the Dawes plan was put in operation, the thing that gave it its best chance of success over the first year, was that in addition to the public foreign loans there was a rush of German capital back into Germany, because for the first time in several years it was safe to take it there. If a German sold anything here he kept his balance here until he absolutely had to have it, because he knew its value here, and he did not know its value at home. I think something of the same situation exists to-day with reference to France.

Senator JONES of New Mexico. Now, when you made these loans of \$300,000,000, you did not transfer the gold, did you?

Mr. MORROW. No.

Senator JONES of New Mexico. What did you do?

Mr. MORROW. It is impossible for us to know exactly what we did, but there was available for the French people in this country that much American bank funds. They may have bought cotton; they may have bought lumber with it; they may have bought wheat with it; they may have bought anything with it that they wanted. I am not speaking of the Government alone, but the Government might

very well transfer that credit to a Frenchman that needed funds in this country, that needed dollars with which to buy American supplies or American goods.

Senator JONES of New Mexico. That is precisely what I want to know about. You did not transfer that to the French Government. How much have they on balance now?

Mr. MORROW. I would not know that, but presumably a substantial portion of the last loan is a part of the gold reserve held by the Bank of France.

Senator JONES of New Mexico. Then, are we safe in assuming that they have used perhaps \$200,000,000 or \$250,000,000 of the \$300,000,000, in the manner in which you have just indicated?

Mr. MORROW. Well, I have used those as illustrations, because we do not know. Nobody knows. You give a credit to the French Government. They have so much American exchange. If you look upon exchange not as a physical thing, but a claim held by somebody in France against somebody in America, that claim may be transferred through a dozen hands to a person that wants to get dollars and is willing to pay in francs for a claim for dollars in America. He may use that claim for dollars in America to buy the particular thing that he wants in America.

Senator JONES of New Mexico. Yes.

Mr. MORROW. It may be anything.

Senator JONES of New Mexico. Well, then, if it has not been transferred to France in goods or does not remain to the credit of France now, it has been used in squaring private debts or some other debts and thus has taken the place of the trade balance in favor of France, has it not?

Mr. MORROW. Yes; it is one of the so-called invisible items that you speak of.

Senator JONES of New Mexico. Yes. In other words, those transactions have enabled the French people to purchase in this market goods to the extent indicated.

Mr. MORROW. I think that is a perfectly fair conclusion.

Senator JONES of New Mexico. Yes. Now, if France had to raise this \$30,000,000 a year and did not have that balance of trade she would have to borrow it, would she not, from some source, to get credit to that extent?

Mr. MORROW. Yes, sir.

Senator JONES of New Mexico. And if she had to do that, would not the effect of these payments to the Government be a transfer of the loans pro tanto to the American people? Suppose France had not the balance of trade so as to buy dollars but these payments of \$30,000,000 come along and she did not have the dollars and did not have the goods with which to buy dollars, she would have to go into the money market of the United States to borrow, would she not?

Mr. MORROW. Borrow or ship; yes, sir.

The CHAIRMAN. She could buy exchange.

Senator JONES of New Mexico. She could buy exchange, but she would have to have something to buy exchange with, I take it.

The CHAIRMAN. She may have a credit with some other country and get the exchange there that way—

Senator JONES of New Mexico (interposing). I am speaking of credit with the outside world.

Mr. MORROW. The Senator for the moment is assuming there are only two countries.

Senator JONES of New Mexico. Yes.

Mr. MORROW. Of course, the same principle applies if you have 10 or 12 countries, because you have what is practically a clearing house to solve it.

Senator JONES of New Mexico. Of course, if France had credit with England she could exchange it for pounds and buy dollars.

Mr. MORROW. She might have a claim against a merchant in China for goods sold there, and transfer that to someone in America, and the American might buy oilseed products with it.

Senator JONES of New Mexico. But as a result of the whole it would be necessary for France to either have something in the way of goods or services to exchange, or else she would have to borrow money somewhere.

Mr. MORROW. Yes, sir.

Senator JONES of New Mexico. She may borrow it in yen or pounds or marks, or anything else, and exchange it for dollars.

Mr. MORROW. Yes, sir.

Senator JONES of New Mexico. But in the last analysis she would have to borrow.

Mr. MORROW. Yes, sir.

Senator REED of Pennsylvania. Would you permit an interruption?

Senator JONES of New Mexico. Yes.

Senator REED of Pennsylvania. It occurs to me that there is another method that has been ignored in this discussion, and that is the result of her invisible balance that results from American investments in France. It is quite possible that that balance in her favor may in the future be established by a larger amount of American investment in French enterprises after confidence is restored.

Mr. MORROW. Yes, sir.

Senator JONES of New Mexico. That is another basis of service rendered.

Mr. MORROW. That is what Senator Jones would include as a credit.

Senator JONES of New Mexico. Yes.

Mr. MORROW. That is, whether they take the bonds—

Senator JONES of New Mexico (interposing). Or title to property.

Mr. MORROW. In some way it has all got to be balanced. Investments abroad are a very important item, especially, I think, in the early years, because such investments adjust themselves very largely to the price level. In order to get foreign exchange people may sell their property a little cheaper.

Senator REED of Pennsylvania. You and Senator Jones seem to be coming to the conclusion that if there was not sufficient balance it would be necessary to ship goods across the ocean. It seems to me the sale of American goods in France would be the equivalent of such a shipment.

Senator JONES of New Mexico. Absolutely.

Mr. MORROW. Or the investment of American capital over there.

Senator JONES of New Mexico. Yes; but all that means that we are just extending credit for foreign countries in another form through the purchase of real estate, or purchase of shares of stock in utilities, or anything of that sort, or the purchase of bonds. Another form of the same elemental transaction, as I understand it.

Senator SHORTRIDGE. Senator Jones, will you permit me to ask a few questions.

Senator JONES of New Mexico. Certainly.

Senator SHORTRIDGE. We are dealing, I take it, immediately with the question of the power of the French Government, as a government, to make certain payments.

Senator JONES of New Mexico. Well, now—

Senator SHORTRIDGE (interposing). Are you drawing a distinction in your question?

Senator JONES of New Mexico. I will try to clear the matter in your mind. Now this question of exchange in the payment of debts, which debt would naturally have a preference in the purchase of exchange or in acquiring available exchange? The private debts of a country or the Government debts of a country?

Mr. MORROW. I do not think there is any question of preference, Senator.

Senator JONES of New Mexico. You think that the individual would be buying his exchange as he could and the Government would buy its exchange as it could?

Mr. MORROW. In the same market.

Senator JONES of New Mexico. In the same market. But if France should find herself unable to buy these dollars, had no goods to exchange for the dollars, and should float a loan in this country or in any other country in order to obtain dollars with which to pay to others, the effect of that transaction would be to transfer from the Treasury of the United States the indebtedness to the purchasers of those bonds, would it not?

Mr. MORROW. That is, if they were borrowing in this market or arranging credits in the way you suggest in order to meet their payments on the debt they owed our Government?

Senator JONES of New Mexico. Yes.

Mr. MORROW. So far as it was a long-time loan extended by private individuals here, it would be a transfer of the French debt theretofore due to the United States Government to the individuals in this country who made the new investment.

Senator JONES of New Mexico. Now, how much has France paid to the United States since the war on account of the indebtedness for supplies or other accounts?

Mr. MORROW. I think the interest is about \$20,000,000 a year for perhaps seven or eight years.

Mr. WINSTON. \$20,000,000 a year for eight years.

Senator JONES of New Mexico. \$160,000,000. Now, in view of the fact that during that time France, Governmental France, I mean, has borrowed in the United States \$300,000,000, has not the transaction thus far amounted to a transfer of indebtedness by France to the people of the United States to the extent of \$160,000,000 instead of to the Treasury of the United States?

Mr. MORROW. I do not know what the item is. Is it \$160,000,000?

Mr. BLAIR. \$112,000,000.

Mr. MORROW. If \$112,000,000 of interest has been paid on the war stock sale as interest on the principal amount that was agreed to be paid, undoubtedly a portion of the money borrowed in this country from private individuals entered into the balance on the other side that enabled them to make that payment.

Senator JONES of New Mexico. So the transaction thus far has resulted in the Treasury of the United States transferring French obligations to the American people to the extent of about \$112,000,000?

Mr. MORROW. Well, I do not know that they have transferred obligations directly, Senator.

Senator JONES of New Mexico. Well, they have not transferred the obligations. They have swapped obligations, we might say?

Mr. MORROW. The American Government has gotten that interest partly as the result of the loans that have been made by private individuals to the French Government.

Senator JONES of New Mexico. So in a roundabout way the dollars of American citizens have gone into the Treasury of the United States in payment of French obligations?

Mr. MORROW. In payment of interest on French obligations.

Senator JONES of New Mexico. Yes. That is what I was trying to get at. Now, the economic situation of France is bound up to a great extent, is it not, with economic conditions generally throughout Europe?

Mr. MORROW. Certainly.

Senator JONES of New Mexico. I think the nations from an economic standpoint are all influenced by the conditions of the other nations of the world.

Mr. MORROW. That is very true.

Senator JONES of New Mexico. Now, the ability of France to obtain exchange through England or through Spain or Mexico or Argentina against the United States will depend largely upon the ability of those countries to get American exchange, will it not? Or, in other words, if Argentina is burdened with her obligations to the United States, France would be less likely to transfer some of her goods to Argentina and obtain in payment American exchange, would she not?

Mr. MORROW. Well, I am not quite sure that I have got your exact question.

Senator JONES of New Mexico. If Argentina were already indebted to the United States and had some difficulty in meeting her obligations direct with the United States, then if France wanted to make a sale of goods or services to Argentina and get something in exchange which she could pay to America she would have greater difficulty, would she not, by reason of the already incurred obligations of Argentina to the United States?

Mr. MORROW. Well, to the extent that these obligations are all interrelated as they are, each transaction affects every other. It is rather hard, I think, to follow them out by individual countries.

Senator JONES of New Mexico. Well, you have answered in just the way I supposed you would answer. All these transactions are interrelated.

Mr. MORROW. From the point of view of the foreign exchange of the United States she is one, and all the rest of the world—

Senator JONES of New Mexico (interposing). Is another?

Mr. MORROW (continuing). Is another.

Senator JONES of New Mexico. Yes. And the ability of any part of the rest of the world to pay obligations to the United States is interrelated and dependent more or less upon the general conditions and the total amount of the obligations of the rest of the world to the United States, is it not?

Mr. MORROW. Yes; I think that is true.

Senator JONES of New Mexico. Now, I know that since the war the people of the United States have loaned to the rest of the world a great deal of money, have they not, or extended credits to a very large amount, have they not, Mr. Morrow?

Mr. MORROW. Yes, sir.

Senator JONES of New Mexico. Have you any estimate as to that amount, Mr. Morrow?

Mr. MORROW. No; I have not. I think it would not be difficult to make one if it were important.

Mr. WINSTON. The Department of Commerce has the estimate.

Senator JONES of New Mexico. I have seen various estimates, and I think it is now estimated by the Department of Commerce to amount to something like eleven or twelve billion of dollars.

The CHAIRMAN. That is the total.

Senator JONES of New Mexico. That the foreign loans floated in the United States and credits extended to merchants outside of the United States, and this floating or unfunded indebtedness now amounts to something like eleven or twelve billion of dollars.

The CHAIRMAN. A great part of it, Senator, is bonds of foreign countries that have been purchased in this country.

Senator JONES of New Mexico. That is, of course, much the greater part.

The CHAIRMAN. That is the total of all the obligations.

Senator JONES of New Mexico. Is what?

The CHAIRMAN. That is the total of all forms of obligations of all countries to the United States.

Senator JONES of New Mexico. Well, and aside from those governmental bonds and bonds of individual concerns and so on which have been floated, there is still unfounded a large balance in credits, as I understand, the exact amount of which is not known. Immediately after the war I understand that such unfunded credits were very large, and that they were ultimately funded, a great many of them, by the floating of bonded obligations.

Do you not have in your mind the amount thereof?

Mr. MORROW. No. I have always mistrusted the figures that were printed as to the amount of floating debt, because I have been unable myself to find any satisfactory way of finding out what that item is. For instance, there never was a way of finding out how much of the balances of business firms in France or Germany or these other countries that have had depreciated currency was driven into the countries with a more or less stable currency. I think that the figures that were printed right after the war as to the floating debt due us, between three and four billion dollars, printed from very authoritative sources, turned out to be, as the result shows, very greatly

exaggerated. You see, you are trying to measure the countless obligations between individuals due from one to the other on the opposite sides of the water, and it is a very hard thing to measure.

Senator JONES of New Mexico. Well, now, do you recall the amount of foreign loans that were placed in this country last year?

Mr. MORROW. No; I would not have that figure in my mind.

Mr. WINSTON. I think the figure of the flotation, Senator, as I recall it, was about a billion dollars.

Senator JONES of New Mexico. I have seen statements all the way from \$1,000,000,000 to about a billion and a half dollars.

Mr. WINSTON. You have got to consider that that takes in the original flotation, and a lot of these loans find their way back to other countries from America.

Senator JONES of New Mexico. And refunding operations, and so forth. Now then, if this country last year loaned to the rest of the world, we will put it at a billion dollars, was it not the effect of that transaction in the last analysis to transfer to the people of the United States all of the money which England, France, Italy, or any other foreign country paid to the Treasury of the United States, practically transferred from the Treasury to the people of the United States?

Senator REED of Pennsylvania. Transferred it from all of the people to some of the people?

Senator JONES of New Mexico. Yes. Is not that the substance of it, Mr. Morrow?

Mr. MORROW. Undoubtedly every private credit that is given to a foreign country or a business in a foreign country furnishes in part the exchange with which the interest on these obligations to our Government is met.

Senator JONES of New Mexico. Yes. So then as long as the people of the United States are loaning to the rest of the world more money than the payments amount to on these debts to the United States the people of the United States are practically assuming the burden to that extent, and it is their money which in the last analysis goes into the Treasury of the United States.

Mr. WINSTON. That also applies, of course, Senator, that if we did not lend that money abroad this year our balance of trade could not have been as large as it is. In other words, they could not have paid for their cotton and their wheat and their copper without these loans.

Senator JONES of New Mexico. I am very glad to hear that coming from the Treasury Department. That is unquestionably true. And it has been these loans, Mr. Morrow, then, which have, to the extent of the loans at least, bolstered up our foreign trade?

Mr. MORROW. We have felt, and it has been a very inducing factor in organizing these large syndicates to place these loans with the American people, that they were rendering a very real service to American trade and to American people of all kinds engaged in trade.

Senator JONES of New Mexico. And if we were to discontinue the extension of credits to foreign countries through these loans or similar transactions it would greatly embarrass our foreign trade, would it not?

Mr. MORROW. If you assume it going to the ultimate extreme it would contract the things which we furnished in the way of goods to the exact level of the goods that we were willing to take in exchange therefor.

Senator JONES of New Mexico. And in order to get these payments from France and the rest of the world and carry on our foreign trade we must either continue to extend credits to foreign countries or else take goods in exchange, must we not?

Mr. MORROW. Take goods or services.

Senator JONES of New Mexico. Well, but all of those have been taken into consideration in estimating the amount of credits that we have extended abroad notwithstanding such services, I assume?

Mr. MORROW. Yes.

Senator JONES of New Mexico. And if the United States, taken as a whole and in its economic sense, desires ultimately to profit by her foreign trade, what change in the present processes must we undergo? Or shall we continue to do just what we are doing now, extend credits and make loans to foreign countries?

Mr. MORROW. Well, that is a pretty large question, Senator, what change we should make in our processes. I would hesitate to answer that question without much more knowledge than I have.

Senator JONES of New Mexico. How long do you think this country is going to continue loaning about a billion dollars a year to the rest of the world?

Mr. MORROW. Well, the situation is not an easy one to forecast. Before the war England had what is called an adverse balance of trade, which means nothing but that her physical imports were greatly in excess of her physical exports. She, of course, loaned money all over the world, a great deal to this country in the shape of buying securities over here, or taking interests in business over here. The countries with capital are more or less forced to send their capital to the countries that need the capital.

Senator GERRY. But is it not true also, Mr. Morrow, that she had the carrying trade of the world?

Mr. MORROW. She did have that and it brought her a substantial income, and she had a great deal of what is called the managerial services such as banking and insurance.

Senator JONES of New Mexico. Yes; I understand the economic situation of England before the war.

Mr. MORROW. Now, we are something in that position to-day.

Senator JONES of New Mexico. Yes.

Mr. MORROW. Of course, I do not want to give the impression to anyone of you that countries like France and England are not going to come back rapidly when they make their turn. For instance, you can not assume that the 40,000,000 people in France—as industrious a people as there are on the earth—are not going to have fresh savings which they will have available for foreign investment. They have had their great losses, particularly their losses in man power, which are perhaps the most severe losses to a people during a war. Property losses are made up very quickly. The great loss to France has been her loss in man power. That loss has been about the same as though every one of the 4,000,000 men that was in uniform in this country had been put to death—not only the 2,000,000 that went

abroad but the 2,000,000 that were in uniform at home when the armistice came. If all those 4,000,000 men in khaki had been killed and thus were out of our productive power, the loss of the United States in proportion to its population would be about the same as the loss has been to France. You can not take that great number of men out of the producing and organizing power of a nation without a great loss to your productive strength. That loss of man power will be the slow thing for France to make up. But the loss will be made up. The habits of thrift are still there. We must not ignore the power of a great people to replace their own capital by the accumulation of fresh savings. They are gradually getting their economic system reorganized. It has taken them some time because of the frightful losses of a war, fought in their own territory. I do not look to see America exclusively the banker of the world. And when I say America I mean the people all over this country that are accumulating savings. I do not mean those in New York, or Boston, or Chicago, or other large cities, that take the lead in organizing investment syndicates. I mean the actual investors. You must not expect that a decade from now these people will be the only people in the world with surplus capital to invest. The French people will come back quickly, as they get over the demoralization to their economic system that naturally followed the late war. I, personally, think that bad as their situation seems at the present time in France, it is possible that the French Government is perhaps in the last stage of the reorganization process.

Senator JONES of New Mexico. Well now, when France does come back, what will happen?

Mr. MORROW. She will be competing with investors in America to loan money to the new countries of the world that need capital so badly to develop their resources.

Senator JONES of New Mexico. How will she obtain that money to loan?

Mr. MORROW. By the savings of her people, by the thrift of forty millions of people who are almost the best savers in the world.

Senator JONES of New Mexico. Well now, what will they save except French currency?

Mr. MORROW. They will consume less than they produce.

Senator JONES of New Mexico. What will they do with the surplus?

Mr. MORROW. It may be in the shape of cotton goods that go to the Tropics. It may be in the shape of the finely finished products of the French workman that go to England or to this country. It may be in the shape of food stuff that goes across the Channel to England. Nobody can say what it is going to be. The countless transactions of trade make it. But the fundamental thing is that the people of a country shall be consuming less than they produce. The rest is saving.

Senator JONES of New Mexico. Well, will she sell in these foreign countries goods which compete with American products?

Mr. MORROW. Presumably. There is nothing that any right-minded person with experience should regret in that. We should not want to sell to all the rest of the world without competition.

Senator JONES of New Mexico. Well, but would that not interfere with some of our people who are engaged in the exporting of these goods?

Mr. MORROW. It will both help and hurt them. It will be just like competition at home. The more trade that there is in the world the more there is for everybody. Trade is not a limited thing that you cut up like a piece of pie and of which each person gets a certain amount. Trade is not a thing where what you get you take away from me. ~~It is the interchange of goods and services between people that have something to give for what they get.~~

Senator JONES of New Mexico. Well, then, what about the United States engaging in that exchange of goods?

Mr. MORROW. It will. It is. It is doing it now and it will in constantly increasing amounts.

Senator JONES of New Mexico. Well, to come to the point directly, Mr. Morrow. Does France produce or will she when rehabilitated produce any large quantity of goods which would not come in direct competition with American production?

Mr. MORROW. Oh, I think a great many that would not come into direct competition with us.

Senator JONES of New Mexico. Well, why would it not be a good thing then for us in order to help out France and prevent the transfer of this load from the Treasury of the United States to the people of the United States, to try to find a market in the United States for French goods which would not materially interfere with American industry?

Mr. MORROW. Well, I think whether you try to find it or not, Senator—

Senator WATSON. Senator Jones has been at it a good while, and he has finally come down to the free trade side of it. He has been at it a long while.

Senator REED of Pennsylvania. He has been kind of creeping up on it.

Senator WATSON. Yes; I saw him coming up to it. We all understood the Senator.

Senator HARRISON. You ought to let Mr. Morrow answer the question.

Senator JONES of New Mexico. I would like to have Mr. Morrow answer that question.

Mr. MORROW. My answer to that question, Senator, would be that whatever you do you can not prevent it. The things that they can do better than we can do we will take from them and give them in exchange therefor the things that we can produce and manufacture better than they can.

Senator JONES of New Mexico. And is that not a good thing for both countries?

Mr. MORROW. Very.

The CHAIRMAN. And they are doing it to-day, Senator.

Senator JONES of New Mexico. No.

The CHAIRMAN. Oh, yes; they are.

Mr. MORROW. And I do not think you can put the tariff high enough to prevent it.

Senator JONES of New Mexico. You can not put the tariff high enough to prevent it. You mean by that that some things will come in?

Mr. MORROW. Well, I mean when you get several thousand items on a tariff list the protection that you give with one hand you are very apt to take away with the other. But are we not getting pretty far afield, Senator?

Senator JONES of New Mexico. No; I do not think so.

Senator HARRISON. Well, you are getting the chairman to squirm.

The CHAIRMAN. It is really what I would like to discuss, if you want to, because I would like Senator Jones to tell me whether it will make any difference at all with a \$37.50 night gown that you can put in your hand and cover completely with the other, if they pay the tariff now or they do not pay it, and those are the kind of goods that are coming from France, many and many of them. And do you think that it is going to make a particle of difference what tax we impose on perfumes selling from \$10 to \$12 a bottle, each bottle containing perhaps a tenth of what is contained in that glass? Do you really think it is going to make any difference?

Senator JONES of New Mexico. I do not care to discuss this with the chairman of the committee.

Senator REED of Pennsylvania. Must the United States print all of this?

Senator JONES of New Mexico. Yes; I want it printed.

The CHAIRMAN. I am willing.

Senator JONES of New Mexico. Well, take the illustration which the chairman has just given us of a bottle of perfume which sells now in this country at \$7.50. If that same perfume could be sold at \$5 a bottle, would there not be more of it consumed in this country?

Mr. MORROW. I am afraid I am not an authority on perfume, Senator.

Senator JONES of New Mexico. I am asking you to apply your knowledge of economics.

Mr. MORROW. It is generally true that the lower the cost of a thing the more is consumed.

Senator JONES of New Mexico. Or in other words, the law of supply and demand means the demand at a given price, does it not, and presumably if you lower the price you increase the demand, is that not the recognized rule of economics?

Mr. MORROW. That is true of almost all products.

Senator JONES of New Mexico. Yes.

The CHAIRMAN. But in the case of the people that use this \$10 a bottle perfume, if we charge any less they would try to find something that would cost a little more because of the fact that they want only that and they do not want anybody else to have it.

Senator JONES of New Mexico. But if you did we would have people buying the \$5 perfume and some others buying the \$10 perfume, and so the result would be that there would be more perfume sold in this country, and the French manufacturer would sell more of his goods and make a greater profit and thereby be better enabled to pay off the foreign indebtedness of France.

Senator WATSON. Well, you ought to be satisfied, Senator. The balance of trade has been against us all the year up until the last month.

Senator JONES of New Mexico. But not enough, and not to any great extent in manufactured goods.

The CHAIRMAN. I would rather see our workmen working than walking the streets.

Senator JONES of New Mexico. The point I am getting at is that if we do import more of French goods and foreign goods into this country we will either reduce the amount of this load which is being transferred from the Treasury of the United States to the people of the United States or we will wipe it out altogether. Would that not be the natural result?

Mr. MORROW. Yes. I should hardly like to classify a bond that is bought by a private individual for investment, upon which he expects to get interest, as a load. It is a credit that he voluntarily takes over for his own advantage because he expects to get a return upon it.

Senator JONES of New Mexico. Well then, if these are inviting investments we will see that he has the privilege then of taking over some of the things which the Treasury is now carrying.

Mr. MORROW. I am not at all attempting to contradict your main thesis, Senator, as I understand it. The more goods that come into the country the less need there will be for foreign investments in order to make the balance of trade. I am not contradicting that.

Senator JONES of New Mexico. Well, that really is the substance of what I want to get at.

The CHAIRMAN. That is true.

Senator JONES of New Mexico. Now, as I understand it on these loans which have been floated in the United States, outside of these governmental loans, the interest now amounts to about three-quarters of a billion dollars a year, and in order to get that interest we must either take goods for it or extend credit for it.

Mr. MORROW. Take goods or services.

Senator JONES of New Mexico. Take goods or services or extensions of credit?

Mr. MORROW. Yes. I am not sure that the amount is correct, but that would be—

Senator JONES of New Mexico. Well, I am not sure, but roughly speaking that is my understanding about it. Now, before the World War when the rest of the world was indebted to England in a large amount—I have understood it to be about twenty billion dollars, perhaps the same amount or approximating the same amount the rest of the world owes the United States to-day—she continually had a physical balance of trade against her, did she not?

Mr. MORROW. I think she did.

Senator JONES of New Mexico. Or, in other words, she received more goods than she exported, and she not only paid for those goods which came to her through the credits which she had abroad, but her credits abroad were sufficient even to extend the credits abroad from year to year, as I understand it.

The CHAIRMAN. She had to do it to make the loans.

Senator JONES of New Mexico. But the way she got an economic benefit from that was through the goods which she received, was it not?

Mr. MORROW. Yes.

Senator JONES of New Mexico. This thing of sending goods abroad and taking in payment pieces of paper does not constitute an economic advantage, does it?

Mr. MORROW. Well, I am not sure I could assent to that statement.

Senator JONES of New Mexico. Well, do you think it is a good transaction for America to continue indefinitely sending her manufactured articles and her food products abroad and getting paid only in pieces of paper?

Mr. MORROW. The man that sells his manufactured goods or raw products abroad is paid in whatever he demands for it. He is paid in gold or gold's equivalent. Somebody else who voluntarily chooses to invest his savings abroad invests them there because he has confidence in the paper. He gets a promise of somebody to pay, and evidenced by whatever piece of paper it is. England for years reinvested, so to speak, a large portion of the returning interest that was coming in to her because she had confidence in the countries that she was making these investments in. I think that she rendered a very great service by doing that, because she was letting surplus capital that she did not have use for be used in conjunction with the labor of countries that were not so far advanced, to the benefit of the whole world. That was helping develop the new countries which bring sugar and spices and all the other things that come from the Tropics to those countries that are fortunate enough to be able to pay for them.

Senator JONES of New Mexico. I quite agree with your statement, Mr. Morrow.

Mr. MORROW. That is, it is not a futile transaction in that you get only a deferred payment for it, because if you do not need the payment immediately the man that is making—

Senator JONES of New Mexico. But England finally got to the point where she was not willing to take pieces of paper altogether. She took goods, and was making goods in much greater quantities than she was sending abroad. And is not 'hat where the United States will have to come to in a relatively near period? Are we going to continue to make new loans abroad to the extent of all of the interest payments which are due us from abroad and not collect on the transaction at all anything except new promises? Are we going to be willing to take Micawber's paper continually, who paid his debts with his note?

Mr. MORROW. I think you are somewhat personifying a nation there instead of looking at it as it actually occurs. It is quite a common impression that nations trade with nations. As a matter of fact individuals in nations trade with individuals in other nations.

Senator JONES of New Mexico. Well, we will speak of nationals then instead of nations.

Mr. MORROW. Yes. Well, the man who sells goods and wants to be paid for them under a smoothly working economic system, as the economic system of the world generally works, barring great calamities like a war, parts with his goods and gets immediate com-

mand of goods and services in exchange therefor. And the person that desires to make an investment makes that investment where taking into account the risk he gets the most attractive return.

Senator JONES of New Mexico. Yes, I understand that as individual transactions. But I was rather dealing with American as nationals and using the term "nation" or "country" to embrace the various individuals. So when we rehabilitate France we are going to have a competitor in foreign markets for our exports?

Mr. MORROW. Well, I think France peculiarly will be doing things that are not essentially the same type of things that we are so well fitted to do.

Senator JONES of New Mexico. Well then, would it not be just as well to have France let us have those goods direct rather than to produce something which would come in competition with the things which we produce and send abroad? And thus balance the trade as between us and France? Would that not be a more favorable operation? That is, for us to let France engage in the production of those things which we do not economically produce, and let us have them direct, rather than have France engage in the production of certain grades of cotton cloth which go to the Orient in competition with the cotton cloth from the United States that goes to the Orient? Would that not be a better economic situation for the United States?

Senator ERNST. You can not do it.

The CHAIRMAN. Could we do it under our Constitution?

Senator JONES of New Mexico. There is nothing in the world to prevent us from taking such goods from France, that I know of. And would it not be better—perhaps to make it a little plainer to you—would it not be better for us to encourage France in the production of those things which our people would use if they could get them at a reasonable price, and which would not materially interfere with American industry, than to simply have no hand or offer no word of suggestion, and go ahead and rehabilitate France and let her become a competitor in foreign markets? Or in other words, has not the time come when there ought to be some understanding as between our national industries and the French industries whereby they could be encouraged along certain lines of production and we go ahead along certain other lines of production, and thus make the transaction a better one for both countries, than for us to try to simply rehabilitate France and turn her loose as a competitor in all the markets of the world? Do you not think this country ought to try to do something along that line?

Mr. MORROW. Well, as I say, Senator, you are getting into a field which I do not at all qualify as an expert in. My own feeling is that if individuals are allowed to buy what they want and sell what they want, we reach a result that is a little more healthful than if governments determine what individuals shall buy and what they shall sell.

Senator JONES of New Mexico. The Government of ours now has a Department of Commerce. It is maintained at great expense by the Government. The principal work of that department now is to find a market abroad for American goods, is it not? Would it not be economically as profitable for us to try to make some arrangements

whereby those goods could be paid for, and that through the process of finding a market in the United States for noncompetitive goods?

Mr. MORROW. Well, I do not think anybody would object to that.

Senator SHORTRIDGE. I would object to it.

Mr. MORROW. Noncompetitive goods?

Senator SHORTRIDGE. I want this country to be industrially independent and not dependent upon France or any other country, and we can become industrially independent.

The CHAIRMAN. Senator Jones, the best way to do that would be to forgive the French their debt.

Senator SHORTRIDGE. Or throw our markets open to France and close up our factories.

Senator HARRISON. Here are two members of the committee who do agree with everybody else.

Senator SHORTRIDGE. Well, with great respect to our friend from New Mexico, what has this to do with our settlement of the French debt? With great respect, I say, to the Senator from New Mexico, I do not see its relevancy.

Senator JONES of New Mexico. Well, I was just trying to look into the ability of France to pay what she agrees to pay under this settlement, and wondering where the money was coming from.

Senator SHORTRIDGE. I know, but you are wandering off into a discussion on political economy which, with great respect, I do not think aids the committee.

Senator HARRISON. Well, he is getting the opinion of a great expert.

Senator SHORTRIDGE. Well, Mr. Morrow does not come here to discuss political economy or free trade.

Mr. MORROW. I do not claim to be an expert, Senator.

Senator HARRISON. We claim it for you, Mr. Morrow.

The CHAIRMAN. Do you want to ask any more questions, Senator?

Senator JONES of New Mexico. No; I had finished.

Senator GERRY. I would like to ask Mr. Morrow one or two questions. The French introduced an income tax in about 1917, did they not, Mr. Morrow? They placed upon the people a really heavy income tax?

Mr. MORROW. Well, I am not certain of the date, Senator.

Senator GERRY. Well, around that time?

Mr. MORROW. Yes.

Senator GERRY. And then they had difficulty in working it out at first with their experiences in it, the same as any other country. Now, they are collecting very well under this tax, are they not?

Mr. MORROW. I think their collections have constantly improved during the last few years.

Senator GERRY. In other words, the tax laws are being very thoroughly enforced, not only in the matter of income tax but all other forms of taxation?

Mr. MORROW. I think so. Of course, in France, much more so than in the Anglo-Saxon countries, indirect taxation has been the favorite form of taxation.

Senator GERRY. Yes. I know that during the first revenue bill we were drafting here I looked into the French system of taxation, and I found that they use every form and method of indirect taxation that you could possibly conceive of. But then they went into direct

taxation, and at first, as I understand it, they were not collecting very well under that system. They were having difficulty in making the people understand and pay. I have heard that now they are getting very much better results. Is that true?

Mr. MORROW. All French officials whom I know have reported that their success in collecting their direct taxes has been constantly increasing.

The CHAIRMAN. Senator, Mr. Jones, our financial attaché in Paris, testified before our committee, and you will find when the testimony is printed that every item is discussed and every source of income and the rates up to date. He made a very thorough statement of that whole thing.

Senator GERRY. I remember a part of his testimony, and I know that he was going to put it in the record.

The CHAIRMAN. Yes.

Senator GERRY. But I wanted also to get Mr. Morrow's opinion on that more than just the actuary's opinion. That is all I wanted to ask.

The CHAIRMAN. Senator Harrison can not be here to-morrow, but thinks he will be back Monday. We will adjourn now subject to the call of the chairman, and when he gets back we will go on.

NOTE.—In response to the requests made when he was before the committee, Mr. Morrow later submitted to the committee the following documents:

I. The form of newspaper advertisement for the loan to France made September 9, 1920.

II. The form of bond circular used in connection with the loan to France, made September 9, 1920.

III. The form of newspaper advertisement for the loan to France, made May 24, 1921.

IV. The form of bond circular used in connection with the loan to France, made May 24, 1921.

V. The form of newspaper advertisement for the loan to France, made November 24, 1924.

VI. The form of bond circular used in connection with the loan to France, made November 24, 1924.

VII. The form of newspaper advertisement for the loan to Italy, made November 20, 1925.

VIII. The form of bond circular used in connection with the loan to Italy, made November 20, 1925.

Copies of the foregoing documents are submitted herewith:

I. The form of newspaper advertisement for the loan to France made September 9, 1920:

\$100,000,000 GOVERNMENT OF THE FRENCH REPUBLIC 25-YEAR EXTERNAL GOLD LOAN 8 PER CENT SINKING FUND BONDS AT 100 PER CENT AND INTEREST

Beginning December 15, 1920, the French Government is to pay to J. P. Morgan & Co., as sinking fund trustees, not less than \$4,400,000 annually; such payments made in quarterly installments during the first five years to be applied to the purchase of bonds in the markets up to and including 110 per cent and accrued interest, and the subsequent payments made in semi-annual installments to be applied to the call of bonds by lot at 110 per cent and accrued interest.

The sinking fund payments will be sufficient to redeem at 110 per cent all of the bonds at or before maturity.

Principal, premium, and interest payable in New York in United States gold coin without deduction for French taxes, present or future.

Coupon bonds \$100, \$500, and \$1,000 registerable as to principal.

These bonds constitute an unconditional obligation of the Government of the French Republic repayable in New York City in dollars.

Subscription books will be opened at the offices of J. P. Morgan & Co., at 10 o'clock a. m., Thursday, September 9, 1920, and will be closed in their discretion. The right is reserved to reject any and all applications, and also, in any event, to award a smaller amount than applied for.

Amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, or in Anglo-French external loan 5 per cent bonds, due October 15, 1920, with final coupon attached, which will be accepted at 102½ per cent flat, viz, par and accrued interest to maturity. The date of payment (on or before October 1, 1920) will be stated in the notices of allotment. Trust receipts will be delivered pending the preparation of the definite bonds.

For full details regarding this issue reference is made to a circular which may be had on application.

J. P. Morgan & Co.; First National Bank, New York; Brown Brothers & Co.; The National City Company, New York; Harris, Forbes & Co.; Guaranty Trust Company of New York; Bankers Trust Company; Lee, Higginson & Co.; Wm. A. Read & Co.; Kidder, Peabody & Co.; J. & W. Seligman & Co.; White, Weld & Co.; Spencer, Trask & Co.; Kissel, Kinnicutt & Co.; Lazard Frères, Bonbright & Co., Inc.; E. H. Rollins & Sons; Halsey, Stuart & Co.; The Chase National Bank; National Bank of Commerce in New York; The Liberty National Bank; American Exchange National Bank; Central Union Trust Company of New York; The First National Bank of Boston; The National Shawmut Bank of Boston; Old Colony Trust Company, Boston; Commercial Trust Company, Philadelphia; First Trust and Savings Bank, Chicago; Illinois Trust & Savings Bank, Chicago; Continental and Commercial Trust and Savings Bank, Chicago; Central Trust Company of Illinois, Chicago; Union Trust Company, Pittsburg; Mellon National Bank, Pittsburg; First National Bank, Cleveland; First National Bank, Cincinnati; First National Bank in St. Louis.

II. The form of bond circular used in connection with the loan to France made September 9, 1920:

\$100,000,000

GOVERNMENT OF THE FRENCH REPUBLIC

25-YEAR EXTERNAL GOLD LOAN 8 PER CENT SINKING FUND BONDS

To be dated September 15, 1920. Payable at the rate of 110 per cent of the principal sum on or before September 15, 1945.

Beginning December 15, 1920, the French Government is to pay to J. P. Morgan & Co., as sinking fund trustees, not less than \$4,400,000 annually; such payments during the first five years to be applied to the purchase of bonds in the market up to and including 110 per cent and accrued interest, and the subsequent payments to the call of bonds by lot at 110 per cent and accrued interest.

The sinking fund payments will be sufficient to redeem at 110 per cent all of the bonds at or before maturity.

Interest payable March 15 and September 15.

Principal, premium, and interest payable in New York in United States gold coin of the present standard of weight and fineness, at the office of J. P. Morgan & Co., without deduction for any French taxes, present or future.

Coupon bonds in denominations of \$1,000, \$500, and \$100, registerable as to principal, and interchangeable as to denominations.

The Government of the French Republic covenants in the loan contract, under which these bonds are to be issued, to pay to J. P. Morgan & Co., as sinking fund trustees, until the entire loan has been redeemed, the sum of not less than \$4,400,000 annually to be applied to the purchase of bonds up to and including 110 per cent and accrued interest, prior to December 15, 1925, and thereafter to the redemption of bonds by lot at 110 per cent and accrued interest. During the first five years such payments will be made in quarterly installments beginning December 15, 1920, and ending September 15, 1925, and thereafter will be made in semiannual installments, commencing December 15.

1925. The amount of the interest accrued on bonds purchased or redeemed is to be paid by the Government in addition to the fixed sinking fund payments. Such sinking fund payments are sufficient to redeem at 110 per cent all of the bonds at or before maturity. After the five-year period, at least \$4,000,000 principal amount of the bonds will be called each year at the redemption price of 110 per cent and accrued interest.

In the event that, prior to December 15, 1925, bonds are not purchased at 110 per cent in an amount sufficient to exhaust the payments to the sinking fund, any such unexpended balance is to be used for the redemption of bonds by lot at 110 per cent at the earliest date provided for such redemption, namely, March 15, 1926.

We are receiving subscriptions subject to allotment for the above bonds at 100 per cent and accrued interest.

Subscription books will be opened at the offices of J. P. Morgan & Co., at 10 o'clock a. m., Thursday, September 9, 1920, and will be closed in their discretion.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned, and to the approval by our counsel of their form and execution. The right is reserved to reject any and all applications, and also, in any event, to award a smaller amount than applied for.

Amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York, funds to their order, on or before October 1, 1920. Anglo-French external loan 5 per cent bonds, due October 15, 1920, with final coupon attached, will be accepted in payment at 102½ per cent flat, viz. par and accrued interest to maturity.

Trust receipts will be delivered pending the preparation of the definitive bonds.

J. P. Morgan & Co.; First National Bank, New York; Brown Bros. & Co.; The National City Co., New York; Harris, Forbes & Co.; Guaranty Trust Co. of New York; Bankers Trust Co.; Lee, Higginson & Co.; Wm. A. Read & Co.; Kidder, Peabody & Co.; J. & W. Seligman & Co.; White, Weld & Co.; Spencer Trask & Co.; Kissel, Kinnicutt & Co.; Lazard Frères; Bonbright & Co. (Inc.); E. H. Rollins & Sons; Halsey, Stuart & Co.; The Chase National Bank; National Bank of Commerce in New York; The Liberty National Bank; American Exchange National Bank; Central Union Trust Co. of New York; The First National Bank of Boston; The National Shawmut Bank of Boston; Old Colony Trust Co., Boston; Commercial Trust Co., Philadelphia; First Trust and Savings Bank, Chicago; Illinois Trust & Savings Bank, Chicago; Continental and Commercial Trust and Savings Bank, Chicago; Central Trust Co. of Illinois, Chicago; Union Trust Co., Pittsburgh; Mellon National Bank, Pittsburgh; First National Bank, Cleveland; First National Bank, Cincinnati; First National Bank in St. Louis.

SEPTEMBER 5, 1920.

The following statement has been compiled by the French commission in the United States:

FRANCE

The ability of France to produce and to save is illustrated by the speed with which she recovered after the Franco-Prussian War. Then France, a defeated nation, paid an indemnity of about a billion dollars within 26 months. The rapid recovery of the country at that time is indicated by the course of prices for French 3 per cent perpetual rentes which declined about 25 points during the war. Within six years after peace was signed (1877) the loss of 25 points had been wholly recovered, the rentes then being quoted at a price to yield less than 4 per cent.

GENERAL INFORMATION

France with an area of 207,000 square miles, possesses vast natural resources, highly organized industries, and a thrifty people. Out of an adult population of 22,000,000, according to the latest statistics, 5,000,000 were rural land proprietors, 1,800,000 business proprietors, 3,000,000 were holders of railway shares or bonds, and 17,000,000 had savings accounts.

By the restoration of Alsace-Lorraine, France regained an area of more than 5,600 square miles, with a population of 2,000,000. Lorraine alone normally

has an annual production of 21,000,000 tons of iron ore. The output of the metallurgical industries of this province comprises more than 4,000,000 tons of pig iron, 2,800,000 tons of steel and iron products, and 1,240,000 tons of rolled metal. The potash deposits of Alsace are an important source of wealth. So also are the textile industries of the two provinces. The cotton spinning mills of Alsace possess nearly 2,000,000 spindles and 46,000 looms. In addition, there are more than 536,000 wool spindles.

COLONIAL EMPIRE

French colonial possessions are in extent and value of their resources ranked second only to the Colonial Empire of Great Britain. The colonies and dependencies of France, including Algeria and Tunis, have an area of about 3,750,000 square miles, and a population of above 40,000,000 people. The value of the total imports from these dependencies exceeds a billion francs. Exports to her colonies and dependencies are of about the same amount. The principal articles of production of her colonies are wheat and other cereals, wool, cotton, rubber, coffee, sugar, coal, iron, and gold. France's purchases from her colonies form a constantly larger proportion of her total imported foodstuffs, and materials necessary in industry.

REESTABLISHMENT OF FRENCH INDUSTRIES

In spite of the fact that the devastated area of France comprised a large proportion of the most productive and highly organized part of the country, rapid and substantial progress has been made toward the restoration of this district to normal conditions. Of nearly 4,000,000 hectares (a hectare is equivalent to about 2½ acres) of farm land in the war zone, 1,520,000 hectares are already under cultivation, and all but 1,000,000 hectares have been freed of barbed wire and projectiles. All railroad main line destroyed has been repaired and put in operation. Of factories employing more than 20 men each, 2,810 of the 3,800 destroyed are again in operation. Out of more than half a million homes destroyed, 200,000 have been reconstructed or repaired. Of the 6,500 schools in the war area, 5,500 have been reestablished. All but 33,000 of the 4,000,000 population of the war area have returned.

AGRICULTURE

The recovery in agriculture is particularly satisfactory. About 10,500,000 hectares were planted in wheat, rye, and oats before the war. The area now planted is in excess of 9,000,000 hectares, and it is stated that France seems assured this year of raising in excess of 85 per cent of her wheat and rye requirements.

In a survey of the work of agricultural reconstruction, prepared by the French Minister of Agriculture, he drew particular attention to the fact that in the three departments of the Somme, Marne, and Pas-de-Calais, the sugar-beet, apple, and pear crops, which were prior to the war important sources of wealth to the inhabitants of these departments, will this year, respectively, total 62 per cent, 98 per cent, and 94 per cent of the 1913 yield. The minister stated further that food importation would, in his opinion, be confined, after the harvesting of the crops of this year, to a small quantity of wheat, fats, and sugar.

IRON AND STEEL

As a result of the war, France has become potentially one of the leading iron and steel producing nations of the world. Prior to the war the iron ore reserves of France were estimated at 3,300,000,000 metric tons. Now her iron ore deposits are estimated at above 5,300,000,000 metric tons. The total annual steel tonnage producing capacity of France as compared with 1914 has increased by 1,760,000 tons, exclusive of Lorraine. This is largely due to increased capacity of furnaces constructed during the war and now turned into peace production.

TRADE

French exports in 1913 totaled in round figures 6,880,000,000 francs. In 1919 her exports exceeded 8,700,000,000 francs. At the rate of export maintained during the first seven months this year, French exports will exceed

18,000,000,000 francs in 1920. In 1913 the imports into France were valued at 8,420,000,000 francs. This increased to a total of nearly 29,000,000,000 francs in 1919. For the first seven months of this year her imports monthly averaged 2,500,000,000 francs. But it will be noted that the balance of trade against her is being materially diminished. In the first seven months of 1920 her imports increased only 14.39 per cent while her exports increased 151.38 per cent.

France is now the second best customer of the United States in Europe. The value of our exports to France in 1913 was approximately \$154,000,000. In the fiscal year 1919-20 the total of French imports from the United States was \$717,000,000. United States imports from France now total about \$172,000,000, as compared to \$139,000,000 in 1913.

INCOME AND OUTGO

The French budget for 1920 estimates ordinary expenditures at 21,761,000,000 francs. "Extraordinary" expenditures, largely for reconstruction, are estimated at an additional amount of 26,171,000,000 francs. Of this amount, 20,751,000,000 francs is advanced to the liberated regions on account of the sum due France by Germany under the reparation clauses of the treaty of Versailles.

The ordinary budget expenditure is to be covered by estimated receipts of 18,855,000,000 francs from taxes, and 2,915,000,000 francs from miscellaneous liquidations of war materials, etc. Reports of the collection of taxes since this estimate was prepared show that the collection of taxes under new laws is largely exceeding the rate of return estimated in the budget.

NEW TAXATION

France is now taxing her citizens at a rate which practically doubles the receipts from taxation of last year, and provides a revenue four times greater than that of the last pre-war year.

There are four general classes of taxes: (1) The direct taxes, including land taxes; (2) war profits taxes; (3) income taxes; (4) indirect taxes and monopolies.

As a contrast with taxation in this country, it may be stated that income tax is collected on incomes as low as 1,500 francs (roughly \$300 per annum at the par of exchange).

Collections of income tax have increased from an average of 20,000,000 francs monthly in 1919 to 162,000,000 francs monthly during the first four months of 1920. During the first half of 1920, collection of war profits taxes averaged 189,000,000 francs monthly, as against 34,000,000 francs monthly in the two preceding years.

By far the most important increase has been the receipts from indirect taxes which form about 80 per cent of the ordinary income of the treasury. Comparison of the returns for the first six months of 1920 shows that the treasury received from this source 3,449,000,000 francs, or 180 per cent more than during the first half of 1914. The new taxes which were created in June, 1920, became effective July 1. The results of taxation during July represented an increase of 338,000,000 francs over the budget estimates, and approximately 84 per cent in excess of the average monthly receipts for the first seven months of 1919.

FRENCH DEBT

Of the French debt of 237,000,000,000 francs, interest upon all of which is included in the ordinary budget and covered by taxation, the foreign-held debt represents about 34,000,000,000 francs or approximately 15 per cent of the total. Inasmuch as interest paid on foreign-held debt is not subject to taxation for government revenue in the hands of the foreign holder, the position of such debt is, as a practical matter, superior to that of the internal debt.

III. The form of newspaper advertisement for the loan to France made May 24, 1921:

\$100,000,000 GOVERNMENT OF THE FRENCH REPUBLIC 20-YEAR EXTERNAL GOLD LOAN 7½ PER CENT BONDS

Dated June 1, 1921. Due June 1, 1941. Not subject to redemption prior to maturity.

Interest payable June 1 and December 1. Principal and interest payable in New York at the office of J. P. Morgan & Co., in United States gold coin of the present standard of weight and fineness, without deduction for any French taxes, present or future.

In the opinion of counsel, these bonds are a legal investment for savings banks in Connecticut, Vermont, and California.

Coupon bonds in denominations of \$1,000, \$500, and \$100, registerable as to principal only.

In the loan contract under which these bonds are to be issued, the French Government covenants to pay to J. P. Morgan & Co., during the first five years, as a sinking fund, the sum of not less than \$9,000,000 in cash per annum, in monthly instalments of not less than \$750,000 each, beginning July 1, 1921, such sums to be applied to the purchase of bonds, if obtainable, at not exceeding par and accrued interest; any unexpended portion of any such instalment remaining in the sinking fund at the end of any month to be returned to the French Government.

We are receiving subscriptions, subject to allotment, for the above bonds at 95 per cent and accrued interest, to yield over 8 per cent.

Subscription books will be opened at the offices of J. P. Morgan & Co., at 10 o'clock a. m., Wednesday, May 25, 1921, and will be closed in their discretion.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned, and to the approval by our counsel of their form and execution. The right is reserved to reject any and all applications, and also, in any event, to award a smaller amount than applied for. Amounts due on allowance will be payable at the office of J. P. Morgan & Co. in New York to their order, on or about June 10, 1921.

Temporary bonds or trust receipts will be delivered pending the preparation of the definitive bonds.

J. P. Morgan & Co.; First National Bank, New York; Guaranty Co. of New York; Lee, Higginson & Co.; White, Weld & Co.; Lazard Frères; E. H. Rollins & Sons; National Bank of Commerce in New York; American Exchange National Bank; Brown Brothers & Co.; Harris, Forbes & Co.; Dillon, Read & Co.; J. & W. Seligman & Co.; Spencer Trask & Co.; Blair and Co. (Inc.); Clark, Dodge & Co.; Chase National Bank; National City Co., New York; Bankers Trust Co., New York; Kidder, Peabody & Co.; Kissel, Kinnicutt & Co.; Bonbright & Co. (Inc.); Halsey, Stuart & Co. (Inc.); New York Trust Co.; Central Union Trust Co. of New York; Mechanics & Metals National Bank; Equitable Trust Co. of New York.

MAY 24, 1921.

IV. The form of bond circular used in connection with the loan to France made May 24, 1921:

\$100,000,000 Government of the French Republic 20-year external gold loan 7½ per cent bonds.

Dated June 1, 1921. Due June 1, 1941. Not subject to redemption prior to maturity.

Interest payable June 1 and December 1.

Principal and interest payable in New York at the office of J. P. Morgan & Co., in United States gold coin of the present standard of weight and fineness, without deduction for any French taxes, present or future.

In the opinion of counsel, these bonds are a legal investment for savings banks in Connecticut, Vermont, and California.

Coupon bonds in denominations of \$1,000, \$500, and \$100, registerable as to principal only.

In the loan contract under which these bonds are to be issued, the French Government covenants to pay to J. P. Morgan & Co., during the first five years, as a sinking fund, the sum of not less than \$9,000,000 in cash per annum, in monthly installments of not less than \$750,000 each, beginning July 1, 1921, such sums to be applied to the purchase of bonds, if obtainable, at not exceeding par and accrued interest; any unexpended portion of any such installment remaining in the sinking fund at the end of any month to be returned to the French Government.

We are receiving subscriptions, subject to allotment, for the above bonds at 95 per cent and accrued interest, to yield over 8 per cent.

Subscription books will be opened at the offices of J. P. Morgan & Co., at 10 o'clock, a. m. Wednesday, May 25, 1921, and will be closed in their discretion.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned, and to the approval by our counsel of their form and execution. The right is reserved to reject any and all applications, and also, in any event, to award a smaller amount than applied for.

Amounts due on allotments will be payable at the office of J. P. Morgan & Co. in New York funds to their order, on or about June 10, 1921.

Temporary bonds or trust receipts will be delivered pending the preparation of the definite bonds.

J. P. Morgan & Co.; First National Bank, New York; Brown Brothers & Co.; National City Co.; Guaranty Co. of New York; Harris Trust & Savings Bank, Chicago; Bankers Trust Co., New York; Lee, Higginson & Co.; Dillon, Read & Co.; Kidder, Peabody & Co.; J. & W. Seligman & Co.; White, Weld & Co.; Spencer Trask & Co.; Kissel, Kinnicutt & Co.; Lazard Frères; Blair & Co., (Inc.); Bonbright & Co., (Inc.); E. H. Rollins & Sons; Clark, Dodge & Co.; Halsey, Stuart & Co., (Inc.); Chase National Bank; National Bank of Commerce in New York; New York Trust Co.; American Exchange National Bank; Central Union Trust Co. of New York; Mechanics & Metals National Bank; Equitable Trust Co. of New York; First National Bank of Boston; National Shawmut Bank of Boston; Old Colony Trust Co., Boston; Drexel & Co., Philadelphia; Commercial Trust Co., Philadelphia; First Trust and Savings Bank, Chicago; Illinois Trust & Savings Bank, Chicago; Central Trust Co. of Illinois, Chicago; Northern Trust Co., Chicago; Union Trust Co., Pittsburg; Mellon National Bank, Pittsburg; Union Trust Co., Cleveland; First National Bank, Cincinnati.

NEW YORK, May 23, 1921.

The following statement has been prepared by the French commission in the United States:

It is interesting at the present time to prospective investors in the new loan of \$100,000,000 being issued for the French Government to observe in what marked degree improvement in the agricultural and industrial condition of France has been reflected in the financial condition of the country.

This improvement has been made particularly noticeable in two ways.

(1) REDUCTION OF THE EXTERNAL DEBT

The external debt of France reached its maximum figure on September 30, 1920. It then totaled 35,320,000,000 gold francs. On April 30, 1921, it had been reduced by 2,796,000,000 gold francs. This means that payments of external debt equivalent to about \$540,000,000 gold have been made in the past seven months. The distribution of external debt is shown by the following table:

[In millions of francs]

	Sept. 30, 1920	Nov. 30, 1920	Jan. 31, 1921	Mar. 31, 1921	Apr. 30, 1921
United States Government.....	16,500	16,500	16,500	16,500	16,500
British Government.....	13,195	11,980	11,980	11,980	11,980
United States.....	2,100	1,342	1,194	1,102	998
Great Britain.....	2,020	2,019	1,915	1,895	1,894
Japan.....	338	336	344	344	344
Argentina.....	145	145	110	107	93
Holland.....	115	115	115	115	115
Norway.....	59	45	45		
Spain.....	564	554	513	504	502
Sweden.....	70	70	70	39	
Switzerland.....	136	117	111	57	56
Uruguay.....	80	80	80	80	80
	35,328	33,303	32,077	32,723	32,532

It is notable that this reduction in France's external debt has been accomplished during a period when the franc has been steadily rising in value, measured by the dollar. The franc has risen from an exchange value of about 6½ cents in October to about 8¾ cents at the present time. In other words, French credits in the markets of the world have been increasing to an amount, on balance, sufficient to permit the liquidation of about \$540,000,000 of foreign debt and, at the same time, to improve the dollar exchange value of the franc by over 30 per cent.

The rapid reduction of the external debt of France is here emphasized, because it is with external debt that the American investor is mainly concerned. The domestic debt of France amounted to 149,496,000,000 francs at the end of the calendar year 1919, and it had risen to 181,309,000,000 francs by the end of the calendar year 1920. There will be a further increase of domestic debt during the current year. This increase in domestic debt is due to the fact that the French Government deems it sound policy to restore to productivity the agricultural and industrial plant destroyed or damaged by the German invasion. The carrying out of this policy has been made possible because of the great thrift of the French people and their willingness to put their constantly increasing savings at the service of their Government through the absorption of domestic bond issues. The French Government is fully alive to the necessity of controlling the domestic debt and, at the earliest possible date, beginning its reduction. The beneficial result of the rapid restoration of the devastated areas is indicated by the improved trade position of France.

(2) IMPROVED TRADE POSITION

In the calendar year 1919, the balance of trade against France, according to official valuations, amounted to 23,920,000,000 francs. In the year 1920, however, the adverse balance of trade, according to the official valuations, decreased to 12,970,000,000 francs. In the latter year, as in the preceding year, it was still necessary to depend on foreign countries for a large amount of foodstuffs.

The changing relation between the movement of foodstuffs, raw materials, and manufactured goods is shown in the following comparison of the imports and exports of 1920 with those of 1919.

IMPORTS

[In millions of francs]

	1920	1919	Difference in 1920	Percentage in crease (+) or decrease (-)
Food products.....	8,618	10,704	-2,086	-19.49
Raw materials.....	16,801	14,753	+2,048	+13.87
Manufactured goods.....	9,986	10,342	-356	-3.43
Total.....	35,405	35,799	-394	-1.10

EXPORTS

Food products.....	2,211	1,190	+1,021	+85.76
Raw materials.....	4,772	2,444	+2,328	+95.23
Manufactured goods.....	14,253	7,388	+6,865	+92.93
Postal parcels.....	1,193	857	+341	+39.78
Total.....	22,434	11,879	+10,555	+88.85

From the foregoing table it will be seen that the reactivation of the land and the return of the soldiers to productive work was beginning to be felt, although substantial results were not apparent before the current year, in which, instead of an import balance, the trade of France for the first three months has shown an export balance. When it is recalled that even prior to the war, it was unusual for French trade to show an export balance, the great significance of this change will be appreciated. The official valuations of exports and imports for the first three months of the calendar year 1921 are as follows:

Foreign trade first three months of 1921, as compared with 1920

IMPORTS

[In millions of francs]

	1921	1920	Difference in 1921	Percentage increase (+) or decrease (-)
Food products.....	1,188	2,571	-1,383	-54
Raw materials.....	2,691	4,292	-1,601	-37
Manufactured goods.....	1,460	2,514	-1,054	-40
Total.....	5,339	9,377	-4,038	-43

EXPORTS

	1921	1920	Difference in 1921	Percentage increase (+) or decrease (-)
Food products.....	524	416	+108	+25
Raw materials.....	1,294	1,072	+222	+20
Manufactured goods.....	3,341	2,797	+544	+19
Postal parcels.....	309	220	+89	+40
Total.....	5,468	4,505	+963	+21
Trade balance.....	1,129	2,4,872	+5,001	-----

1 Export balance.

2 Import balance.

V. The form of newspaper advertisement for the loan to France made November 24, 1924:

\$100,000,000 GOVERNMENT OF THE FRENCH REPUBLIC, EXTERNAL LOAN OF 1924, 25-YEAR SINKING FUND 7 PER CENT GOLD BONDS

Dated December 1, 1924; due December 1, 1949; interest payable June 1 and December 1.

Not subject to redemption prior to maturity, except for the sinking fund.

In the loan contract pursuant to which these bonds are to be issued, the French Government covenants to pay as a sinking fund, \$4,200,000 per annum, payable in equal monthly installments beginning January 1, 1925, being sufficient to retire annually one twenty-fifth of the entire issue at 105 per cent. Such sinking-fund payments are to be applied to the purchase of bonds, if obtainable at or below 105 per cent and accrued interest, or if not so obtainable, to the redemption of bonds, called by lot, at 105 per cent and accrued interest, such interest in either case to be paid otherwise than out of the sinking fund. The bonds are to be redeemable at said price for the sinking fund on December 1, 1925, or on December 1 of any year thereafter prior to maturity.

Coupon bonds in denominations of \$1,000, \$500, and \$100.

Principal and interest payable in New York City at the office of J. P. Morgan & Co., in United States gold coin of the present standard of weight and fineness, without deduction for any French taxes, present or future.

In connection with our purchase of these bonds, M. Clementel, Minister of Finance of the French Government, has addressed to us a letter, dated November 22, 1924, regarding the purposes of the issue and referring to the French foreign debt, budgetary position and economic situation. Copies of this letter may be obtained at the offices of the undersigned.

The above bonds are offered for subscription, subject to the conditions stated below, at 94 per cent and accrued interest, to yield approximately 7.53 per cent to maturity.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned, and to the approval by our counsel of the terms and validity thereof and of the relevant documents.

Subscription books will be opened at the office of J. P. Morgan & Co. at 10 o'clock a. m., Monday, November 24, 1924, and will be closed in their discretion. The right is reserved to reject any and all applications, and also, in any case, to award a smaller amount than applied for.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or about December 9, 1924) will be stated in the notices of allotment.

Temporary bonds or interim receipts, exchangeable for definite bonds when prepared and received, will be delivered.

J. P. Morgan & Co.; First National Bank, New York; Brown Brothers & Co.; The National City Co.; Guaranty Co. of New York; Bankers Trust Co., New York; Harris, Forbes & Co.; Lee, Higginson & Co.; Kidder, Peabody & Co.; Dillon, Read & Co.; Chase National Bank; National Bank of Commerce in New York; Mechanics & Metals National Bank; The Equitable Trust Co. of New York; New York Trust Co.; American Exchange National Bank; Corn Exchange Bank; Bank of the Manhattan Co.; Chemical National Bank; Seaboard National Bank; American Trust Co.; Empire Trust Co.; United States Mortgage & Trust Co.; Fifth Avenue Bank; Title Guarantee & Trust Co.; Lazard Freres; E. H. Rollins & Sons; Halsey, Stuart & Co. (Inc.); Spencer Trask & Co.; White, Weld & Co.; J. & W. Seligman & Co.; Hayden, Stone & Co.; Clark, Dodge & Co.; Bonbright & Co. (Inc.); Chas. D. Barney & Co.; Hallgarten & Co.; Ladenburg, Thalmann & Co.; Hemphill, Noyes & Co.; J. G. White & Co. (Inc.); Kissel, Kirnicutt & Co.; W. A. Harriman & Co. (Inc.); Redmonth & Co.; Marshall Field, Glore, Ward & Co.; Keen, Taylor & Co.; Callaway, Fish & Co.

NEW YORK, *November 24, 1924.*

VI. The form of bond circular used in connection with the loan to France made November 24, 1924:

**\$100,000,000 GOVERNMENT OF THE FRENCH REPUBLIC EXTERNAL LOAN OF 1924,
25 YEAR SINKING FUND 7 PER CENT GOLD BONDS, DATED DECEMBER 1, 1924,
DUE DECEMBER 1, 1949, INTEREST PAYABLE JUNE 1 AND DECEMBER 1**

Not subject to redemption prior to maturity, except for the sinking fund.

In the loan contract pursuant to which these bonds are to be issued, the French Government covenants to pay as a sinking fund, \$4,200,000 per annum, payable in equal monthly instalments beginning January 1, 1925, being sufficient to retire annually one twenty-fifth of the entire issue at 105 per cent. Such sinking fund payments are to be applied to the purchase of bonds, if obtainable at or below 105 per cent and accrued interest, or if not so obtainable, to the redemption of bonds, called by lot, at 105 per cent and accrued interest, such interest in either case to be paid otherwise than out of the sinking fund. The bonds are to be redeemable at said price for the sinking fund on December 1, 1925, or on December 1 of any year thereafter prior to maturity.

Coupon bonds in denominations of \$1,000, \$500 and \$100.

Principal and interest payable in New York City at the office of J. P. Morgan & Co., in United States gold coin of the present standard of weight and fineness, without deduction for any French taxes, present or future.

In connection with our purchase of these bonds, M. Clementel, Minister of Finance of the French Government, has addressed to us a letter dated November 22, 1924, regarding the purposes of the issue and referring to the French foreign debt, budgetary position and economic situation. A copy of this letter is printed within.

The above bonds are offered for subscription, subject to the conditions stated below, at 94 per cent and accrued interest, to yield approximately 7.53 per cent to maturity.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned, and to the approval by our counsel of the terms and validity thereof and of the relevant documents.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m., Monday, November 24, 1924, and will be closed in their discretion. The right is reserved to reject any and all applications, and also, in any case, to award a smaller amount than applied for.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or about December 9, 1924) will be stated in the notices of allotment.

Temporary bonds or interim receipts, exchangeable for definitive bonds when prepared and received, will be delivered.

J. P. Morgan & Co.; First National Bank, New York; The National City Company; Brown Brothers & Co.; Guaranty Company of New York; Bankers Trust Company, New York; Harris, Forbes & Co.; Lee, Higginson & Co.; Kidder, Peabody & Co.; Dillon, Read & Co.

NEW YORK, November 24, 1924.

REPUBLIC OF FRANCE,
OFFICE OF THE MINISTER OF FINANCE,
Paris, November 22, 1924.

Messrs. J. P. MORGAN & Co.
23 Wall Street, New York City.

DEAR SIR: In connection with your purchase of \$100,000,000 Government of the French Republic external loan of 1924 twenty five year sinking fund 7 per cent gold bonds, I beg to advise you as follows:

The proceeds of the loan are to be applied to the reduction of the Government's indebtedness to the Bank of France, which will hold and use the proceeds as it may deem wise for the protection and stabilization of the franc. The Government's indebtedness to the bank has already been materially reduced since the peak of such borrowings, reached at the end of 1920.

Great progress has been made in diminishing the excess of budget expenditures over budget revenues and the proposed budget for 1925, as presented to, and now under consideration by, the Chamber of Deputies and Senate, indicates that the government's program of accomplishing complete budget equilibrium will be realized in 1925. The following table shows in a striking way the progressive betterment of the budgetary situation:

[Amounts expressed in millions of francs]

	Expenditures	Revenues	Excess of expenditures
1910.....	35,345	11,586	23,759
1920.....	39,523	20,130	19,393
1921.....	35,603	22,840	12,763
1922.....	34,386	22,903	11,483
1923.....	32,583	24,200	8,383
1924 (estimate).....	31,891	27,708	4,183
1925 (proposed budget).....	33,195	33,203	18

¹ Excess of revenues.

In the foregoing figures of expenditures are included all of the annual charges of the State, comprising not only administrative expenses, but also war pensions and the service on all items of the public debt, contracted for reconstruction and for all other purposes. They further include important items of capital reconstruction expenditure (railways, canals, roads, etc.), carried directly in the State accounts, but do not include the capital reconstruction expenditure covered by credit national and other special reconstruction loans contracted or to be contracted, the interest and amortization of which are, however, included in the above figures. The service charges include regular amortization of debt, which in the 1925 budget amounts to approximately 850,000,000 francs. The budget position has been materially aided by the return to productivity of the devastated regions of France, the fiscal receipts from which have increased steadily from 964,000,000 francs in the year 1919 to 2,372,000,000 francs for the first six months of 1924.

The plan of the first committee of experts (Dawes plan), now in operation, provides for periodical payments to be made by Germany to the agent general for reparation payments. The receipt by France of her share of these payments will enable the Government to accelerate the execution of its program of full financial rehabilitation and to proceed to the more rapid amortization of the public debt.

The foreign debt of the French Government, French cities, and French railways, excluding interallied debt, on November 1, 1924, aggregated only \$697,500,000, converting other foreign currencies into dollars at current rates

of exchange. The service charges on this debt total \$46,160,000 per annum. The corresponding amounts as at June 30, 1919, immediately after the signing of the treaty of peace, were \$1,069,400,000 principal amount and \$69,000,000 service charges. In addition, the French Government is paying \$20,367,000 annually to the United States Government, representing interest on the purchase price of the surplus war supplies left by the American armies in France.

To meet her requirements for foreign currencies, France has turned to the intensive development of her foreign trade. This effort has been most successful. During the years before the war the foreign trade of France normally resulted in an excess of merchandise imports over exports, which was offset chiefly by the expenditures of tourists in France and by the income from French foreign investments. Since 1920 the excess of merchandise imports has greatly declined and in the first 10 months of the current year has changed into a surplus of exports totaling approximately \$73,000,000 at the current rate of exchange. This is exclusive of the important favorable balance resulting from such sources as tourists' expenditures and income from foreign investments.

The recent development of France's export trade is in large measure due to the return to productivity of the great industrial centers devastated during the war. For example, the average monthly production of coal, exclusive of Alsace-Lorraine, which in 1919 had declined to 48.5 per cent of the 1913 production, has reached during the first nine months of the current year 96 per cent of the 1913 monthly average. The output of iron ore, excluding the important production of Alsace-Lorraine, has more than doubled since the conclusion of peace. Similar progress has been made in the finished steel, textile, and chemical industries.

Reconstruction of the devastated areas has been a heavy charge upon the resources of the French people, but the great bulk of this work has been done. This is evidenced by the fact that, on July 1, 1924, of 4,800 kilometers of railroad destroyed only 100 kilometers remained to be rebuilt; of 23,000 factories destroyed, only 2,000 remained to be rebuilt; of 742,000 houses destroyed less than one-fifth remained to be replaced; and of the area rendered unfit for cultivation at a result of war damage, which at the time of the armistice covered 8,150,000 acres, all but 815,000 acres had been restored to productivity.

The improvement in the French economic situation since the armistice is shown, in a general way, by the improving results of operation of the railway systems. The average ratio of operating expenses to gross revenues of the six great railway systems, which in 1920 was 130 per cent, has been steadily reduced to 91 per cent in 1923 and to an estimated ratio of 78 per cent for the current year.

It will be noted from the above that the foreign debt of France, excluding interallied debt, has been materially reduced since the conclusion of peace, while great progress has been made in reconstruction, industrial productivity, and foreign trade.

Yours very truly,

CLEMENTEL.

VII. The form of newspaper advertisement for the loan to Italy made November 20, 1925:

\$100,000,000 KINGDOM OF ITALY EXTERNAL LOAN SINKING FUND 7 PER CENT GOLD BONDS

To be dated December 1, 1925; to mature December 1, 1951; interest payable June 1 and December 1.

Except for the purposes of the sinking fund, these bonds are not subject to redemption until June 1, 1941, on and after which date they may be redeemed, at the option of the Government, on any interest date, as a whole but not in part, at 100 per cent.

A cumulative sinking fund which, it is estimated, will redeem the entire issue by maturity, will be created by the Kingdom of Italy by annual payments of \$1,500,000 on September 15 of each year, beginning September 15, 1926. Such payments, together with sums equal to the interest on all bonds previously acquired for the sinking fund, are to be applied on the succeeding December 1 to the redemption, at 100 per cent, of bonds drawn by lot.

Principal and interest payable in United States gold coin of the present standard of weight and fineness in New York City at the office of J. P. Morgan & Co. without deduction for any Italian taxes present or future.

Coupon bonds in denominations of \$1,000, \$500 and \$100, not interchangeable. J. P. Morgan & Co., fiscal agents.

His Excellency Count Giuseppe Volpi, Minister of Finance of the Kingdom of Italy, authorizes the following statement in connection with this issue:

Budget.—The Italian Government's budget is balanced. Since 1922, the budgetary situation has been undergoing steady improvement, and in the fiscal year ended June 30, 1925, actual revenues amounted to 20,456,000,000 lire, and expenditures to 20,247,000,000 lire, resulting in a surplus of 209,000,000 lire. The Government's budget for the current fiscal year (ending June 30, 1926), as passed by the Italian Parliament, shows an estimated surplus of over 177,000,000 lire, and includes estimated payments on the intergovernmental debts. Receipts for the first three months of the current fiscal year, according to provisional returns, showed an excess of about 168,000,000 lire over expenditures.

Purpose of issue.—The Italian Government has available resources and revenues sufficient for its current requirements, both domestic and foreign. It proposes, therefore, to devote none of the proceeds of the present loan to ordinary expenditures but to hold the entire amount as a gold reserve available for currency stabilization purposes, leading to the final steps in the Government's definite fiscal and financial policy, of which a completely stabilized currency is a vital part.

Government debt.—Since 1923, the Italian Government has made progress in funding its floating debt and in reducing the outstanding amount of its total internal debt. On June 30, 1923, the total internal debt amounted to 95,544,000,000 lire; on June 30, 1925, it stood at 90,841,000,000 lire, a reduction of over 4,700,000,000 lire. With the exception of a very limited amount of bonds issued in London prior to 1914, the present loan constitutes the entire Italian Government external debt in the hands of the public. The Government's indebtedness to the United States Government has been funded under an agreement dated November 14, 1925, subject to ratification by the United States Congress and the Italian Parliament. This agreement provides for payment over a period of 62 years, beginning with payments of \$5,000,000 annually during the first five years, gradually increasing during the life of these bonds to approximately \$20,500,000 in the twenty-fifth year and to approximately \$31,500,000 in the twenty-sixth year. The Italian Government's only other intergovernmental debt is that to the British Government, discussion of which is under way.

The above bonds are offered for subscription, subject to the conditions stated below, at 94½ per cent and accrued interest, to yield over 7.48 per cent to maturity and over 7.56 per cent to the average maturity date.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned, and to the approval by our counsel of their form and validity.

Subscription books will be opened at the office of J. P. Morgan & Co. at 10 o'clock a. m., Friday, November 20, 1925, and will be closed in their discretion. The right is reserved to reject any and all applications, and also, in any case, to award a smaller amount than applied for.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or about December 9, 1925) will be stated in the notices of allotment.

Temporary bonds or interim receipts will be delivered, pending the preparation and delivery of the definite bonds.

Application for the listing of the definitive bonds on the New York Stock Exchange is to be made by the Italian Government.

J. P. Morgan & Co.; First National Bank, New York; Guaranty Co. of New York; Harris, Forbes & Co.; Lee, Higginson & Co.; The National City Co., New York; Bankers Trust Co., New York; Kidder, Peabody & Co.; Brown Bros. & Co.; E. H. Rollins & Sons; Spencer Trask & Co.; Hulsey, Stuart & Co. (Inc.); National Bank of Commerce in New York; Mechanics & Metals National Bank; The Equitable Trust Co. of New York; New York Trust Co.; American Exchange-Pacific National Bank; Corn Exchange Bank; Bank of the Manhattan Co.; Chemical National Bank; Seaboard National Bank; Empire Trust Co.; National Park Bank; J. & W. Seligman & Co.; Marshall Field, Gore, Ward & Co. (Inc.); Clark, Dodge & Co.; Hayden, Stone & Co.; Redmond & Co.; Bonbright & Co. (Inc.); White, Weld & Co.; Ladenburg, Thalmann & Co.; J. G. White & Co. (Inc.); Kissel, Kinnicutt & Co.

NEW YORK, November 20, 1925.

VIII. The form of bond circular used in connection with the loan to Italy made November 20, 1925.

\$100,000,000 KINGDOM OF ITALY EXTERNAL LOAN SINKING FUND 7 PER CENT GOLD BONDS

To be dated December 1, 1925; to mature December 1, 1951; interest payable June 1 and December 1.

Except for the purposes of the sinking fund, these bonds are not subject to redemption until June 1, 1941, on and after which date they may be redeemed, at the option of the Government, on any interest date, as a whole but not in part, at 100 per cent.

A cumulative sinking fund which, it is estimated, will redeem the entire issue by maturity, will be created by the Kingdom of Italy by annual payments of \$1,500,000 on September 15 of each year, beginning September 15, 1926. Such payments, together with sums equal to the interest on all bonds previously acquired for the sinking fund, are to be applied on the succeeding December 1 to the redemption, at 100 per cent of bonds drawn by lot.

Principal and interest payable in United States gold coin of the present standard of weight and fineness in New York City at the office of J. P. Morgan & Co. without deduction for any Italian taxes present or future.

Coupon Bonds in denominations of \$1,000, \$500, and \$100, not interchangeable.

J. P. Morgan & Co., fiscal agents.

His Excellency Count Giuseppe Volpi, Minister of Finance of the Kingdom of Italy, authorizes the following statement in connection with this issue:

Budget.—The Italian Government's budget is balanced. Since 1922, the budgetary situation has been undergoing steady improvement, and in the fiscal year ended June 30, 1925, actual revenues amounted to 20,456,000,000 lire, and expenditures to 20,247,000,000 lire, resulting in a surplus of 209,000,000 lire. The Government's budget for the current fiscal year (ending June 30, 1926), as passed by the Italian Parliament, shows an estimated surplus of over 177,000,000 lire, and includes estimated payments on the intergovernmental debts. Receipts for the first three months of the current fiscal year, according to provisional returns, showed an excess of about 168,000,000 lire over expenditures.

Purpose of issue.—The Italian Government has available resources and revenues sufficient for its current requirements, both domestic and foreign. It proposes, therefore, to devote none of the proceeds of the present loan to ordinary expenditures but to hold the entire amount as a gold reserve available for currency stabilization purposes, leading to the final steps in the Government's definite fiscal and financial policy, of which a completely stabilized currency is a vital part.

Government debt.—Since 1923, the Italian Government has made progress in funding its floating debt and in reducing the outstanding amount of its total internal debt. On June 30, 1923, the total internal debt amounted to 95,544,000,000 lire; on June 30, 1925 it stood at 90,841,000,000 lire, a reduction of over 4,700,000,000 lire. With the exception of a very limited amount of bonds issued in London prior to 1914, the present loan constitutes the entire Italian Government external debt in the hands of the public. The Government's indebtedness to the United States Government has been funded under an agreement dated November 14, 1925, subject to ratification by the United States Congress and the Italian Parliament. This agreement provides for payment over a period of 62 years, beginning with payments of \$5,000,000 annually during the first five years, gradually increasing during the life if these bonds to approximately \$26,500,000 in the 25th year and to approximately \$31,500,000 in the 26th year. The Italian Government's only other inter governmental debt is that to the British Government, discussion of which is under way.

The above bonds are offered for subscription, subject to the conditions stated below, at 94½ per cent and accrued interest, to yield over 7.48 per cent to maturity and over 7.56 per cent to the average maturity date.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned, and to the approval by our counsel of their form and validity.

Subscription books will be opened at the office of J. P. Morgan & Co. at 10 o'clock a. m., Friday, November 20, 1925, and will be closed in their discretion. The right is reserved to reject any and all applications, and also, in any case, to award a smaller amount than applied for.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or about December 9, 1925) will be stated in the notices of allotment.

Temporary bonds or interim receipts will be delivered, pending the preparation and delivery of the definitive bonds.

Application for the listing of the definitive bonds on the New York Stock Exchange is to be made by the Italian Government.

J. P. Morgan & Co.; First National Bank, New York; The National City Co., New York; Guaranty Co. of New York; Bankers Trust Co., New York; Harris, Forbes & Co.; Lee, Higginson & Co.; Kidder, Peabody & Co.; Brown Bros. & Co.; Halsey, Stuart & Co. (Inc.).

New York, November 20, 1925.

(Whereupon, at 4.20 o'clock p. m., Friday, June 18, 1926, an adjournment was taken subject to the call of the chairman.)