

Calendar No. 1098.

67TH CONGRESS, }
4th Session. }

SENATE.

{ REPORT
No. 1130.

REFUNDING FOREIGN DEBTS.

FEBRUARY 5 (calendar day, FEBRUARY 10), 1923.—Ordered to be printed.

Mr. McCUMBER, from the Committee on Finance, submitted the following

REPORT.

[To accompany H. R. 14254.]

The Committee on Finance to whom was referred the bill (H. R. 14254) to amend the act entitled "An act to create a commission authorized under certain conditions to refund or convert obligations of foreign governments held by the United States of America, and for other purposes," approved February 9, 1922, report the same favorably with an amendment as follows:

On line 5, page 2, after the word "states" and comma, strike out the balance of said line, also lines 6, 7, and 8.

As amended the committee recommend that the bill do pass.

The justification for said bill will be found in the report of the Committee on Ways and Means submitted to the House, which report reads as follows:

[House Report No. 1567, Sixty-seventh Congress, fourth session.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 14254) having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

The legislation herein recommended amends the act of February 9, 1922, which created the World War Foreign Debt Commission, so as to permit of a settlement of the British debt to the United States under the terms and conditions recommended by the commission on February 3, 1923, and approved by the President in his message to Congress of February 7, 1923.

The commission negotiated with the British Government and received their representatives in Washington to consider the funding of the demand obligations of that Government held by the United States. After full and free discussion the commission reached the conclusion that it was impossible, as well as undesirable, to reach a settlement under the terms of the act of February 9, 1922, because of the limitation in section 2, which reads as follows:

Provided, That nothing contained in this act shall be construed to authorize or empower the commission to extend the time of maturity of any such bonds or other obligations due the United States of America by any foreign government beyond June 15, 1947, or to fix the rate of interest at less than 4½ per centum per annum.

As a result of the conferences with the British officials and of independent investigation by members of the commission, in the absence of authority under the law, the commission stated to them that it would recommend for the approval of the President and the adoption by the Congress of a settlement with the United Kingdom of Great Britain and Ireland upon the following terms:

Principal of notes to be refunded.....	\$4, 074, 818, 358. 44
Interest accrued and unpaid up to Dec. 15, 1922, at the rate of 4½ per cent.....	629, 836, 106. 69
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	4, 704, 654, 465. 43
Deduct payments made Oct. 16, 1922, and Nov. 15, 1922, with interest at 4½ per cent thereon to Dec. 15, 1922.....	100, 526, 379. 69
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	4, 604, 128, 085. 74
To be paid in cash.....	4, 128, 085. 74
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Total principal of indebtedness as of Dec. 15, 1922, for which British Government bonds are to be issued to the United States Government at par.....	4, 600, 000, 000. 00

The principal of the bonds shall be paid in annual installments on a fixed schedule, subject to the right of the British Government to make these payments in three-year periods. The amount of the first year's installment will be \$23,000,000 and these annual installments will increase with due regularity during the life of the bonds until, in the sixty-second year, the amount of the installment will be \$175,000,000, the aggregate installments being equal to the total principal of the debt.

The British Government shall have the right to pay off additional amounts of the principal of the bonds on any interest date upon 90 days' previous notice.

Interest is to be payable upon the unpaid balances at the following rates, on December 15 and June 15 of each year: Three per cent semiannually, June 15, 1923, to December 15, 1932, inclusive; 3½ per cent semiannually, June 15, 1933, until final payment.

For the first five years one-half the interest may be deferred and added to the principal, bonds to be issued therefor similar to those of the original issue.

Any payment of interest or of principal may be made in any United States Government bonds issued since April 6, 1917, such bonds to be taken at par and accrued interest.

This recommendation was transmitted to the President on February 3, 1923, and by him approved and transmitted to Congress in his message to Congress of February 7, 1923, printed as House Document No. 554, Sixty-seventh Congress, fourth session.

It is understood that the British cabinet, acting for their Government, has agreed to the foregoing proposed terms submitted to them by the World War Debt Funding Commission, and your committee recommends the adoption of this amendment to the act of February 9, 1922, so that the negotiations under the proposal may be concluded by the Government of the United States.

Commenting upon the proposed settlement, the World War Debt Commission stated as follows:

The commission believes that a settlement of the British debt to the United States on this basis is fair and just to both Governments; and that its prompt adoption will make a most important contribution to international stability. The extension of payment both of the principal and interest over a long period will make for stability in exchange and promotion of commerce between the two countries. The payment of principal has been established on a basis of positive installments of increasing volume, firmly establishing the principle of repayment of the entire capital sum. The payment of interest has been established at the approximately normal rates payable by strong governments over long terms of years.

It has not been the thought of the commission that it would be just to demand over a long period the high rate of interest naturally maintained during the war and reconstruction; and that such an attempt would defeat our efforts at settlement. Beyond this the commission has felt that the present difficulties of unemployment and high taxation in the United Kingdom should be met with suitable consideration during the early years, and therefore the commission considers it equitable and desirable that payments during the next few years should be made on such basis and with such flexibility as will encourage economic recuperation not only in the countries immediately concerned, but throughout the world.

This settlement between the British Government and the United States has the utmost significance. It is a business settlement fully preserving the integrity of the obligations, and it represents the first great step in the readjustment of the inter-governmental obligations growing out of the war.

The President, in his message, declared: "In these observations I most heartily approve," and adds:

Amid widespread clamor for the cancellation of World War debts, as a fancied but fallacious contribution toward peace—a clamor not limited to the lands of debtor nations but insistent among many of our own people—the British commission came to make acknowledgment of the debt, to put fresh stamp of approval upon its validity and agreed upon terms for its repayment.

It was manifest from the beginning that Great Britain could not undertake any program of payment which would conform to the limitations of time and interest rates which the commission had been authorized to grant. But here was a great nation acknowledging its obligations and seeking terms in which it might repay. So your commission proceeded to negotiate in a business way for a fair and just settlement. Such a settlement had to take into consideration the approximately normal interest rates payable, as the commission suggests, "by strong Governments over a long term of years," with a temporary interest rate and suitable options adjusted to the tremendous problems of readjustment and recuperation. Your commission went so far as it believed the American sense of fair play would justify. Even then the British Debt Commission did not feel justified by its instructions to accept the proposal. Only after submission to the British Cabinet was the proposal of your commission accepted, and I bring it to you, with the earnest recommendation that it be given, so far as legislative procedure will admit, a cordial and prompt approval.

A transaction of such vast importance naturally has attracted widespread attention and much of commendation. It is a very gratifying thing to note the press and public have uttered substantially unanimous approval. It means vastly more than the mere funding and the ultimate discharge of the largest international loan ever contracted. It is a recommitment of the English-speaking world to the validity of contract; it is in effect a plight against war and war expenditures and a rigid adherence to that production and retrenchment which enhances stability precisely as it discharges obligations.

It can not be unseemly to say it, and it is too important to be omitted, the failure of the British undertaking would have spread political and economic discouragement throughout the world and general repudiation would have likely followed in its wake. But here is kept faith—willingly kept, let it be recorded,—and a covenant of peace no less effective than it would be if joint British and American opposition to war were expressly agreed upon. It is a covenant of peace and recuperation, of respect and co-operation. It is a new element of financial and economic stabilization, when the world is sadly needing a reminder of the ways of peace. It is an example of encouragement and inspiration, when the world is staggering in discouragement and bowed with the sorrows of wars that were and fears of wars which humanity is praying may be avoided.

In the proposed settlement the amount due from the United Kingdom of Great Britain and Ireland under the terms of the Pittman Act amounting to \$61,000,000 is omitted. It is expected that this amount will be paid at a comparatively early date. This leaves the principal to be refunded as of April-May, 1919, at \$4,074,818,358.44.

The modifications of existing law embodied in the proposed legislation are:

1. Interest on the principal of the indebtedness up to December 15, 1922, is to be computed from April and May, 1919, at the rate of $4\frac{1}{2}$ per cent. This makes the amount of such interest \$629,836,106.99.

2. The rate of interest on the bonds to be issued is fixed at 3 per cent, payable semiannually from December 15, 1922, to December 15, 1932, inclusive, and at $3\frac{1}{2}$ per cent, payable semiannually thereafter until final payment.

3. The term of the bonds is fixed at 62 years, with annual payments on the principal which will increase with due regularity during the life of the bonds, the amount being \$23,000,000 for the first year and \$175,000,000 in the last year.

There are also four provisions included in the recommendation of the commission which would seem to be authorized by the existing law:

1. Payments on installments of principal may be made in three year periods;

2. The British Government shall have the right to pay off additional amounts of the principal of the bonds on any interest date, upon 90 days previous notice;

3. For the first five years one-half the interest may be deferred and added to the principal, bonds to be issued therefor similar to those of the original issue; that is, bearing interest at 3 per cent up to December 15, 1932, and at $3\frac{1}{2}$ per cent thereafter; and

4. Any payment of interest or principal may be made in United States Government bonds issued after April 6, 1917, such bonds to be taken at par and accrued interest.

In order that the changes made by the bill from the present law may clearly appear, the original text of the act of February 9, 1922, is set out below, the proposed changes being indicated in stricken-through type and italics, the part struck through being omitted from the bill, and the part in italics being new matter not included in the present law:

[PUBLIC—No. 139—67TH CONGRESS.]

[H. R. 8762.]

AN ACT To create a commission authorized under certain conditions to refund or convert obligations of foreign Governments held by the United States of America, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That a World War Foreign Debt Commission is hereby created consisting of five members, one of whom shall be the Secretary of the Treasury, who shall serve as chairman, and four of whom shall be appointed by the President, by and with the advice and consent of the Senate.

SEC. 2. That, subject to the approval of the President, the commission created by section 1 is hereby authorized to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign Government now held by the United States of America, or any obligation of any foreign Government hereafter received by the United States of America (including obligations held by the United States Grain Corporation, the War Department, the Navy Department, or the American Relief Administration), arising out of the World War, into bonds or other obligations of such foreign Government in substitution for the bonds or other obligations of such Government now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America: ~~Provided, That nothing contained in this Act shall be construed to authorize or empower the commission to extend the time of maturity of any such bonds or other obligations due the United States of America by any foreign Government beyond June 15, 1947, or to fix the rate of interest at less than 4 per centum per annum.~~ *Provided, That the settlement of indebtedness of the United Kingdom of Great Britain and Ireland to the United States, recommended by the commission and approved by the President, as set forth by him in a message presented to Congress on February 7, 1923, as contained in House Document Numbered 554, Sixty-seventh Congress, fourth session, as follows:*

"Principal of notes to be refunded.....	\$4,074,818,358.44
"Interest accrued and unpaid up to December 15, 1922, at the rate of 4½ per centum.....	629,836,106.89
	4,704,654,465.45
"Deduct payments made October 16, 1922, and November 15, 1922, with interest at 4½ per centum thereon to December 15, 1922.....	100,526,579.60
	4,604,128,085.74
"To be paid in cash.....	4,128,085.74
	4,600,000,000.00

"The principal of the bonds shall be paid in annual installments on a fixed schedule, subject to the right of the British Government to make these payments in three-year periods. The amount of the first year's installment will be \$23,000,000 and these annual installments will increase with due regularity during the life of the bonds until, in the sixty-second year, the amount of the installment will be \$175,000,000, the aggregate installments being equal to the total principal of the debt.

"The British Government shall have the right to pay off additional amounts of the principal of the bonds on any interest date upon ninety days' previous notice.

"Interest is to be payable upon the unpaid balances at the following rates, on December 15 and June 15 of each year: 3 per centum semi-annually, June 15, 1923, to December 15, 1932, inclusive; 3½ per centum semi-annually, June 15, 1933, until final payment.

"For the first five years one-half the interest may be deferred and added to the principal, bonds to be issued therefor similar to those of the original issue.

"Any payment of interest or of principal may be made in any United States Government bonds issued since April 6, 1917, such bonds to be taken at par and accrued interest," is hereby approved and authorized, and settlements, similar, but not more favorable in terms, with other governments indebted to the United States, as set forth in this section, are hereby authorized to be made, subject to the approval of the President." Provided further, That when the bond or other obligation of any such Government has been refunded or converted, as herein provided, the authority of the commission over such refunded or converted bond or other obligation shall cease.

SEC. 3. That this Act shall not be construed to authorize the exchange of bonds or other obligations of any foreign Government for those of any other foreign Government, or cancellation of any part of such indebtedness except through payment thereof.

SEC. 4. That the authority granted by this Act shall cease and determine at the end of three years from the date of the passage of this Act.

SEC. 5. That the annual report of this commission shall be included in the Annual Report of the Secretary of the Treasury on the state of the finances, but said commission shall immediately transmit to the Congress copies of any refunding agreements entered into, with the approval of the President, by each foreign Government upon the completion of the authority granted under this Act.

Approved, February 9, 1922.

Your committee believes that a further statement showing a schedule of annual interest installments to be paid by the British Government on refunding at the rates provided in the bill, and also showing the annual principal installments, and the total annual payments for each year during the 62 years provided for in the bill will be of interest and value in the consideration of the same, and they, therefore, append the following statement:

REFUNDING FOREIGN DEBTS.

Statement of amounts payable to the United States on account of the proposed refunding bonds to be issued by Great Britain.

Principal.	Schedule of annual interest installments to be paid by British Government on refunding bonds at rate of 3 per cent for first 10 years, 3½ per cent until final payment.	Schedule of annual principal installments to be paid on account of principal.	Total annual payments.	Year.
\$4,600,000,000	\$138,000,000	\$23,000,000	\$161,000,000	1
4,577,000,000	137,310,000	23,000,000	139,310,000	2
4,554,000,000	136,620,000	24,000,000	160,620,000	3
4,530,000,000	135,900,000	25,000,000	160,900,000	4
4,506,000,000	135,150,000	25,000,000	160,150,000	5
4,480,000,000	134,400,000	27,000,000	161,400,000	6
4,453,000,000	133,590,000	27,000,000	160,590,000	7
4,426,000,000	132,780,000	28,000,000	160,780,000	8
4,398,000,000	131,940,000	28,000,000	159,940,000	9
4,370,000,000	131,100,000	30,000,000	161,100,000	10
4,340,000,000	151,900,000	32,000,000	183,900,000	11
4,308,000,000	150,780,000	32,000,000	182,780,000	12
4,276,000,000	149,660,000	32,000,000	181,660,000	13
4,244,000,000	148,540,000	32,000,000	180,540,000	14
4,212,000,000	147,420,000	37,000,000	184,420,000	15
4,175,000,000	146,125,000	37,000,000	183,125,000	16
4,138,000,000	144,830,000	37,000,000	181,830,000	17
4,101,000,000	143,535,000	42,000,000	185,535,000	18
4,059,000,000	142,065,000	42,000,000	184,065,000	19
4,017,000,000	140,595,000	42,000,000	182,595,000	20
3,975,000,000	139,125,000	42,000,000	181,125,000	21
3,933,000,000	137,655,000	46,000,000	183,655,000	22
3,887,000,000	136,045,000	46,000,000	182,045,000	23
3,841,000,000	134,435,000	46,000,000	180,435,000	24
3,795,000,000	132,825,000	51,000,000	183,825,000	25
3,744,000,000	131,040,000	51,000,000	182,040,000	26
3,693,000,000	129,255,000	51,000,000	180,255,000	27
3,642,000,000	127,470,000	53,000,000	180,470,000	28
3,589,000,000	125,615,000	55,000,000	180,615,000	29
3,534,000,000	123,690,000	57,000,000	180,690,000	30
3,477,000,000	121,695,000	60,000,000	181,695,000	31
3,417,000,000	119,595,000	64,000,000	183,595,000	32
3,353,000,000	117,355,000	64,000,000	181,355,000	33
3,289,000,000	115,115,000	64,000,000	179,115,000	34
3,225,000,000	112,875,000	67,000,000	179,875,000	35
3,158,000,000	110,530,000	70,000,000	180,530,000	36
3,088,000,000	108,080,000	72,000,000	180,080,000	37
3,016,000,000	105,560,000	74,000,000	179,560,000	38
2,942,000,000	102,970,000	78,000,000	180,970,000	39
2,864,000,000	100,240,000	78,000,000	178,240,000	40
2,786,000,000	97,510,000	83,000,000	180,510,000	41
2,703,000,000	94,605,000	85,000,000	179,605,000	42
2,618,000,000	91,630,000	89,000,000	180,630,000	43
2,529,000,000	88,515,000	94,000,000	182,515,000	44
2,435,000,000	85,225,000	96,000,000	181,225,000	45
2,339,000,000	81,865,000	100,000,000	181,865,000	46
2,239,000,000	78,365,000	105,000,000	183,365,000	47
2,134,000,000	74,690,000	110,000,000	184,690,000	48
2,024,000,000	70,840,000	114,000,000	184,840,000	49
1,910,000,000	66,850,000	119,000,000	185,850,000	50
1,791,000,000	62,685,000	123,000,000	185,685,000	51
1,668,000,000	58,380,000	127,000,000	185,380,000	52
1,541,000,000	53,935,000	132,000,000	185,935,000	53
1,409,000,000	49,315,000	136,000,000	185,315,000	54
1,273,000,000	44,555,000	141,000,000	185,555,000	55
1,132,000,000	39,620,000	146,000,000	185,620,000	56
986,000,000	34,510,000	151,000,000	185,510,000	57
835,000,000	29,225,000	156,000,000	185,225,000	58
679,000,000	23,765,000	162,000,000	185,765,000	59
517,000,000	18,095,000	167,000,000	185,095,000	60
350,000,000	12,250,000	175,000,000	187,250,000	61
175,000,000	6,125,000	175,000,000	181,125,000	62
	6,505,965,000	4,600,000,000	11,105,965,000	