

# **REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS**

## **HEARINGS**

**BEFORE THE**

### **COMMITTEE ON FINANCE UNITED STATES SENATE**

**SIXTY-SEVENTH CONGRESS**

**FIRST SESSION**

**ON**

## **S. 2135**

**A BILL TO ENABLE THE REFUNDING OF OBLIGATIONS  
OF FOREIGN GOVERNMENTS OWING TO THE UNITED  
STATES OF AMERICA, AND FOR OTHER PURPOSES**

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**THURSDAY, JULY 28, 1921**

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## **PART 5**

**Printed for the use of the Committee on Finance**



**WASHINGTON  
GOVERNMENT PRINTING OFFICE**

**1921.**

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## REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

THURSDAY, JULY 26, 1921.

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

The committee met, pursuant to call of the chairman, at 10.30 o'clock a. m., in room 312, Senate Office Building.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Dillingham, McLean, Watson, Calder, Simmons, Gerry, and Walsh.

Present also: Hon. Andrew W. Mellon, Secretary of the Treasury; Hon. Eliot Wadsworth, Assistant Secretary of the Treasury; and John E. Walker, Esq., chief of the legislative drafting service of the Senate.

The CHAIRMAN. At the request particularly of certain members of the committee, and with the acquiescence of the whole committee, the Secretary of the Treasury is here to respond to certain inquiries regarding his purposes in relation to the funding bills, briefly so called. It is unfortunate that some of those who were particularly anxious to meet the Secretary this morning are not present, but it is impossible to delay this legislation indefinitely, and I will, therefore, request the Secretary to proceed with any written statement he may have prepared for the information of the committee.

### STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY.

Secretary MELLON. Is it your desire to have this letter read?

The CHAIRMAN. I think so; yes, sir.

Secretary MELLON. Mr. Wadsworth will please read it.

Assistant Secretary WADSWORTH (reading):

SECRETARY OF THE TREASURY,  
*Washington, July 26, 1921.*

Hon. BOISE PENROSE,

*Chairman Committee on Finance,  
United States Senate.*

MY DEAR SENATOR: Complying with your request in behalf of the Finance Committee that I put in writing my understanding as to the obligations, if any, on the part of this Government in connection with the funding of foreign loans and the postponement of payment of interest thereon, I beg to advise you as follows:

1. In view of the action of my predecessors I am of the opinion that as to the principal foreign Governments receiving advances from the proceeds of Liberty bonds, this Government is committed to the postponement of the interest for two

or three years (over two years of which have already elapsed) and to the spreading over subsequent years the payment of the postponed interest installments; but that this obligation is contingent upon such foreign Government carrying out with reasonable promptness, after this Government is ready to proceed, a satisfactory funding of its existing short-time obligations to this country. As to the compounding of interest, Secretary Houston, in his annual report to Congress for the year 1920, clearly shows that it was not contemplated that interest should be charged on the postponed interest, at least during the two or three year period. However, I regard the dates suggested by Secretary Houston in his annual report for the payment of this deferred interest as merely tentative and not a binding commitment.

In view of the public announcement on this subject made by Secretary Glass, communicated as it was to the foreign Governments, reported to Congress by both Secretary Glass and Secretary Houston, and acquiesced in for more than two years, I think good faith and fair dealing obligate this Government to the extent I have indicated.

I do not consider that any obligations exist on the part of this Government by reason of anything taking place in the negotiations conducted by Mr. Rathbone with the representatives of the British Government, to which reference has been made in the hearings before your committee.

2. During the peace conference in Paris the representatives of Great Britain, France, and the United States agreed to recommend to their respective Governments to take in satisfaction of their advances made to Belgium prior to November 11, 1918, German reparation bonds out of a special issue of bearer bonds maturing May 1, 1926, to be made under the treaty of Versailles, and this recommendation was communicated to the Senate by the President on February 22, 1921. No action has been taken thereon.

Subsequently the principal European powers and Germany, in fixing the amount of the indemnity to be paid by Germany and the bonds to be issued in connection therewith, provided for an issue of what are designated as series A bonds, which should include the bearer bonds above mentioned. Whether what has been done will make this matter a subject for further consideration, I can not now say.

3. I would like to avail myself of the present opportunity to clear up a matter about which there seems to be some misapprehension, and that is as to the power given by the act to accept bonds of some country other than the debtor country. So far as concerns the principal debtor powers, which together owe us (without accrued interest) over \$9,000,000,000, there is no intention or thought of accepting in payment bonds other than those of the debtor country. The authority now asked, however, covers debts owing to us by Czechoslovakia, Greece, Rumania, Russia, Serbia, Poland, and a large number of other countries. Their resources and their ability to pay differ widely, and the conditions which will have to be dealt with can not now be foreseen. The situation which confronts the Treasury is exceedingly complex, and to deal properly with it the Treasury must have ample powers to enable it, when the condition of each debtor country has been definitely ascertained and the claims of all parties interested have been presented, to deal with the situation broadly in such a way as will, in its judgment, best protect the interests of this country and secure the payment of the principal and interest of the debts now owing to it. The representatives of this Government should have equally as broad powers as the representatives of any other country, so as to be able to demand and accept our share of whatever form of payment and security may be found to be obtainable in any case.

To accomplish this and to cover all contingencies, it was deemed necessary that the act should take the broad form in which it was presented to your committee.

In the present existing conditions I would urge the importance of the passage of this legislation at the earliest practicable date.

Sincerely, yours,

A. W. MELLON, *Secretary.*

Senator WATSON. Mr. Secretary, do you know the amount that the smaller countries, like Poland and Czechoslovakia owe to the nation of Germany or the amounts Germany is indebted to them?

Secretary MELLON. I do not know that Germany is indebted to any of those countries.

Assistant Secretary WADSWORTH. I do not think Germany is indebted to any of them, Senator.

Senator WATSON. I did not know. He spoke there on the subject of accepting German bonds by those particular nations as if they might have German bonds.

Assistant Secretary WADSWORTH. No.

Senator WATSON. Then I got the wrong meaning.

Assistant Secretary WADSWORTH. There is no question regarding German bonds referring to those smaller nations.

Senator McCUMBER. Mr. Mellon, there is one feature of the contention here before the committee that I do not think has been fully answered by your letter, and possibly a little explanation would elucidate the matter. The question has been propounded quite often to what you propose to do when this authority is granted. Will you just briefly state what your proceeding will be and what you expect to accomplish?

Secretary MELLON. The procedure would be to take up, first, I suppose, Great Britain, after that France, the country under consideration, would be expected to make a statement of what they could do or what they desired, and that would be the start of the negotiations.

With Great Britain, France, and Italy, the larger countries, I do not imagine any difficulties are going to arise. There may be a question possibly of some further deferment; I do not know. But that possibly may arise.

Senator SMOOR. That is, you mean, not interest for the future but the accumulated interest to date?

Secretary MELLON. The accumulated interest, and how far, for instance, they expect to go beyond the two years. The two years have expired. I presume in all of those cases we will be expected to defer previous interest.

Senator McCUMBER. What you mean by deferring of the interest is that this interest will simply be deferred as to the time in which it may be paid as an interest obligation?

Secretary MELLON. Yes, sir.

Senator McCUMBER. But that securities or governmental bonds will be taken for that interest that has accumulated?

Secretary MELLON. Yes.

Senator McCUMBER. In other words, that that possibly might be made into long-time bonds the same as the principal?

Secretary MELLON. Yes.

Senator SMOOT. Let me ask you if you have given any consideration or arrived at any conclusion as to the desirability or undesirability of taking the amount of the principal now due in the way of a bond and increasing the rate of interest or to absorb the amount of accumulated interest at the date of the bonds during the life of that bond?

Secretary MELLON. That is the suggestion that the President referred to or made, I think, in an address in New York, and his idea there was that if he added the interest, making a higher rate for the term of the bonds refunded, that that would make them more marketable and more readily disposed of to our own people. He thought that was a good suggestion. But there has been no suggestion on the part of the debtor countries of anything further than that.

Senator **SMOOT**. And you have not made up your mind it is the best policy to pursue?

Secretary **MELLON**. My own opinion would have been that this accumulated deferred interest should be added to the debt and all treated as one amount, and then the refunding made on that basis. That would be the natural way to treat it.

Senator **McCUMBER**. But there would be one thing to be said in favor of the higher rate of interest—that if we were pressed for cash at any time it would be very much easier to transfer those bonds and get cash out of them.

Secretary **MELLON**. It would have that merit, and if the rates of interest prevailing were lower than they are now it would not necessarily make any loss, because the bonds then might be sold at a premium.

The **CHAIRMAN**. Mr. Mellon, there is no intention on the part of the present administration to cancel or forgive any part of this indebtedness of foreign nations, is there?

Secretary **MELLON**. No.

The **CHAIRMAN**. That has been bruited abroad, though so far as conditions are at present it is absolutely without foundation?

Secretary **MELLON**. The examination of all these memoranda that are in the cases shows there has not anything been done nor has there any suggestion been made on the part of the Treasury in that direction. They have all along taken the position that these are obligations owing to this country, and valid obligations that must be eventually paid.

Senator **McCUMBER**. There has been one objection before the committee, if you will recall, about having the accumulated interest represented in the higher rate of interest in bonds that might be issued, that the Governments might pay them immediately and thereby escape accumulated interest. Is it not true that if you were to take bonds of that kind they would be due at such a definite future time and could not be paid on or before without paying the whole interest up to the time at which they became due?

Secretary **MELLON**. That is true, unless they should contain a provision making those payments optional at an early date. But without that they could not be paid.

Senator **McCUMBER**. But you would not allow them to contain that provision unless it would fully take care of that accumulated interest, would you?

Secretary **MELLON**. No.

Assistant Secretary **WADSWORTH**. May I say one word about the procedure: This letter speaks of the necessity of having powers as broad as those other nations will have in negotiation. We will carry on a negotiation—that is, the representatives of this Government—perhaps, with Italy, for example, and Italy will owe money both to England and France; and the Secretary of the Treasury, or whoever represents this Government, should have power to deal jointly with that debt, so there will be no restriction in those negotiations on the part of one of the negotiators.

Senator **McCUMBER**. Otherwise Great Britain could definitely agree with Italy, while all we could do would be to make suggestions.

Assistant Secretary WADSWORTH. Or we could agree only to accepting securities such as are contemplated in the Liberty loan acts, with definite dates of termination and definite rates of interest, etc. We would have no elasticity.

Senator McCUMBER. It would all have to come back to Congress?

Assistant Secretary WADSWORTH. Yes.

The CHAIRMAN. Would your negotiations contemplate any deductions from these foreign debts on account of claims by foreign Governments against us which might develop or which have developed.

Assistant Secretary WADSWORTH. I do not know of any counter-claims; I do not think there are any.

Secretary MELLON. They would have been presented by this time.

The CHAIRMAN. Reference was made to the entirely proper transaction of the payment of a bill for transportation to the English Government, and a good deal of unnecessary commotion was made over it: and I simply wanted to make the point that there would be no deductions from the principal of these debts to foreign Governments against us which might develop or which have developed.

Senator SMOOT. If we owe them anything we will pay it, and if they owe us anything we will expect them to pay us.

Senator McLEAN. Mr. Secretary, you would not expect to get much cash from France or Italy. Do you know whether England would expect to liquidate these bonds in any way other than by changing their identity in some way?

Secretary MELLON. I do not know of anything definite in that direction. There was some a few months ago. I think the budget of Great Britain contained an item of \$40,000,000, which would be ordinarily about \$200,000,000, for payment of interest to this Government. That was in the budget proposed but I have not heard anything since on the subject and I imagine that Great Britain is expecting to meet the payment of the interest, so far as her debt is concerned.

Senator SMOOT. No offers of real estate of any kind?

Secretary MELLON. No.

Senator McCUMBER. Of course, if Great Britain offers cash to pay interest we would accept it?

Secretary MELLON. Of course.

Senator WATSON. Senator Spencer wanted me to ask whether the indebtedness of Poland, Czechoslovakia, or any of those smaller nations was guaranteed by either England or France.

Secretary MELLON. No; I think not.

The CHAIRMAN. Senator Spencer, there is no objection to your asking questions directly, since you are present, if you desire to address any inquiries to the Secretary.

Senator SPENCER. I have no questions to ask. I wanted the information that the Secretary has so clearly given.

Senator WALSH. Mr. Secretary, do you recall the proposed amendment suggested by me at the close of the hearings some days ago, which I will read to you. [Reading:]

The Secretary of the Treasury shall immediately transmit to the Congress copies of any refunding agreements entered into with the approval of the

President by each foreign Government under the application of the authority granted under this act.

You expressed a desire to consider that amendment before commenting upon it. Have you been able to form an opinion as to your wishes in the matter?

Secretary MELLON. My judgment is that that would not be practical, and that is met in this letter which I submitted this morning, in the explanation regarding these smaller Governments owing to other Governments certain amounts. It will be necessary for us have authority to make settlements, that is, agree to plans. Agree to plans of settlement along with the other Governments in the negotiations.

Senator WALSH. What is the objection when you have completed negotiations with, for illustration, Italy, and the terms for refunding have all been agreed upon, to communicating that agreement to the Senate and to Congress?

Secretary MELLON. We may have to proceed immediately with a negotiation similar to that one with some other Government, and it would be detrimental to the proceedings to have publicity of the whole agreement that has previously been made, until we arrived at the same conclusions in regard to the other negotiations.

Senator WALSH. Is not that going to leave all the American people for an indefinite period of time in ignorance and in blindness of what is being done, and what has been done to refund \$10,000,000,000; and long after you are out of office and somebody else comes and takes up the reins of office, this thing will be going on and nobody will know anything about it?

Secretary MELLON. These matters will be made public.

Senator WALSH. In the annual reports, such as you see fit to make; is not that so?

Secretary MELLON. There will be no occasion to keep them secret in any way, except so far as the desirability connected with the negotiations is concerned.

Senator SMOOT. That is, during the negotiation?

Secretary MELLON. During the negotiation.

Senator WALSH. You are of the opinion that making public returns of the conditions upon which you have refunded the debt of one country may have a detrimental effect in making a good trade for our country in negotiating with some other country?

Secretary MELLON. Yes.

Senator WALSH. That means, if that is the fact, then you will keep secret or prevent publicity being given to as many of these agreements as you choose and as much of each agreement as you may choose to do so?

Secretary MELLON. If there seems to be a reason for keeping it secret.

Senator WALSH. Do you want to assume that authority? Would you want to give that authority to anybody else—to any Secretary of the Treasury that any President might name?

Secretary MELLON. I have no desire to assume any authority or responsibility more than can be avoided. It is only what may be required and what may be necessary under the circumstances, at that time.



We may have simultaneous negotiations with several of those foreign countries, and they go on and one is not finally completed, and another may be completed. But it may be desirable to keep that information in hand until we arrive at a conclusion with the several Governments concerned.

Senator WATSON. It is a little the way a banker deals with a lot of creditors, some of whom are shaky and some are reliable. He does not give them the same terms and treatment, all of them, on the same basis, and the banker does not publish the information to every one in the neighborhood, while he is dealing with each individual debtor.

Secretary MELLON. That is correct; and I might say on the subject of the responsibility: I am at present exercising responsibilities perhaps as great as those given in this bill—not as great in the amount, but as we go along altogether there are very great responsibilities.

Senator WALSH. But they are matters that Congress can at any time interrogate you about?

Secretary MELLON. Yes; but Congress has not interrogated me about them; for instance, the borrowings of the Treasury, the fixing of the rates of interest. They are large amounts that are borrowed.

Senator WALSH. I do not hear you.

Secretary MELLON. I am just speaking of the general responsibilities of the office. They are as great almost as what is asked for in this act.

Senator WALSH. No Treasurer heretofore has had such a vast sum of money to negotiate with foreign governments, propositions relating to the refunding of the sum?

Secretary MELLON. No; not with foreign governments. But what I mean is the floating debt of our own Government. We are borrowing from month to month large amounts of money, and the rate of interest to be paid has to be fixed by the Treasury.

Senator WALSH. That authority every Secretary of the Treasury or every Treasurer in every State of the Union has to a limited degree.

Secretary MELLON. That is the point I am making; it is necessary.

Senator WALSH. And he has to make public as soon as every loan is negotiated, and everybody in the community knows it.

Secretary MELLON. But it is necessary to have that discretion lodged somewhere. In the same way there are in the sinking funds large amounts of Liberty loans purchased and canceled, and there are large transactions all the time. These negotiations are in a general way of some import.

Senator SMOOR. These loans are already made and there is no dispute between this country and the foreign countries as to the amount.

Secretary MELLON. No.

Senator SMOOR. And the only question is as to the terms of payment?

Secretary MELLON. That is the whole thing. Here are amounts of money that are due and owing. The procedure is to make an agreement to say when the payments shall be made of the interest and principal; that is the whole thing.

Senator SMOOR. Senator Walsh, do you object to modifying your proposed amendment by requiring a statement to be made upon the completion of the terms agreed upon?

**Senator WALSH.** My amendment only calls for a statement to be made to Congress upon the completion of it in each individual case. I do not know—we all may be dead, and there may be five Secretaries of the Treasury in the meantime before these negotiations have been completed. I suppose you will agree to that. You can not see any end to it, can you?

**Secretary MELLON.** But there is not any doubt in my mind but that in every case where settlement has been made and where it has no bearing on the other cases it would at least be made public.

**Senator WALSH.** What is the objection, then?

**Secretary MELLON.** Simply because you are putting something obligatory in it that may be an obstacle somewhere in the orderly procedure of taking up negotiations either simultaneously or one later than another.

**Senator WALSH.** Would you agree that there could be transmitted to the Senate in executive session the result of your negotiations in each case.

**Secretary MELLON.** That can always be had by the Senate.

**Senator WALSH.** I will not agree that that would necessarily be secret.

**Secretary MELLON.** There is not any time, even if you give this broad authority that is asked, that the Senate is precluded from asking for all of the information and obtaining it in executive session.

**Senator SMOOT.** Senator, another thing, there is the proposed amendment by the chairman which limits this act to five years, so there is not any doubt but what under this act they must be closed within five years or the authority lapses.

**Senator WALSH.** But the difficulty is that we are legislating for this man. We do not know but what there will be another Secretary of the Treasury to-morrow who will not have the business sagacity and the splendid skill in handling financial problems that the present Secretary has, and therefore we must put every safeguard about this to see that the most security surrounds the refunding of these loans.

**Senator SMOOT.** I have not any doubt but what they will all be settled in two years.

**Senator WALSH.** I know secretaries that you would not give this authority to.

**Senator McCUMBER.** With the negotiations that have already been had, say, with Great Britain, would there be any reason why we could not close the British case in a very few months?

**Secretary MELLON.** There is no reason why it should not be settled, as you say, within a few months.

**Senator SMOOT.** I expect to see every one of these cases settled within two years, and I think the Secretary will not handle the thing as he ought if they are not.

**Secretary MELLON.** I do not think it is going to take a long time. They might be taken up one after the other.

**Senator WALSH.** I want to have your position clear. Undoubtedly these are going to be points of attack against the bill as presented by you: First of all, you do not feel, under all the circumstances,

that you ought to agree to submit each of the negotiations to the Senate for their approval?

Secretary MELLON. No.

Senator WALSH. Second, you do not feel under all the circumstances that you ought to be asked to make a separate report of each consummated transaction with each one of the debtor countries?

Secretary MELLON. That objection may not apply to some of the cases. There are likely to be settlements made where they can be immediately reported. It is only in some cases that there may be delay.

Senator WALSH. In other words, you want discretion in that matter?

Secretary MELLON. Yes.

Senator WALSH. In some cases you would feel you could report and in others you would feel that you could not do so. You would not want any obligation imposing that upon you?

Secretary MELLON. No.

Senator McCUMBER. With the more important nations you would not be required to withhold anything.

The CHAIRMAN. I take it, Mr. Secretary, that 90 per cent or more of the debt comes from nations—three or four in number—which are thoroughly responsible?

Secretary MELLON. Yes.

The CHAIRMAN. And that adjustment with them would be accomplished possibly in a few months?

Secretary MELLON. Yes; possibly.

The CHAIRMAN. The long-drawn-out affairs would be with these little debts of new nations—mushroom nations?

Senator SMOOT. With no credit back of them to speak of?

The CHAIRMAN. No credit to speak of, and a factor in the negotiations which the Secretary will be intrusted with.

Secretary MELLON. I think that is a statement of what can be expected.

The CHAIRMAN. I think, Senator Walsh, that ought to be borne in mind.

Senator WALSH. What do you mean, Senator?

The CHAIRMAN. That 90 per cent of this indebtedness represents nations that can make good; nobody doubts their solvency, and those negotiations might be achieved in a few months. In respect of some mushroom nations, it may take several years. They may have no treasury department yet organized; probably have not.

Senator WALSH. The armistice was signed two and a half years ago, and not much progress was made up to the 4th of March last in negotiating for the refunding of these loans?

Secretary MELLON. No.

Senator WALSH. Although there was authority at that time vested in the Secretary of the Treasury to proceed to negotiate.

Senator SMOOT. I doubt it, as to the interest.

Senator WALSH. About interest, I think, that is right.

Senator SMOOT. I doubt it, as to interest.

Senator WALSH. To refund interest?

Senator SMOOT. Yes.

Senator WALSH. I think you are correct.

By the way, I want to repeat what the Senator said, or ask Mr. Mellon to repeat it—do you state as a matter of record that 90 per cent of this indebtedness is secure and safe and collectible?

Secretary MELLON. I believe so. When you say "collectible," I would say, "immediately collectible." I mean that it can be refunded and eventually those obligations will be sound securities.

Senator WALSH. Referring to your letter, page 1, "As to the compounding of interest. Secretary Houston, in his annual report to Congress for the year 1920, clearly shows that it was not contemplated that interest should be charged on the postponed interest, at least during the two or three year period. However, I regard the dates suggested by Secretary Houston in his annual report for the payment of this deferred interest as merely tentative and not a binding commitment."

Will you explain what you mean by that?

Secretary MELLON. In the first place, for the first two or three years it is binding. But the suggested extension of time of payment of deferred interest into the future was only tentative and is not binding.

Senator WALSH. So that you consider that the deferment of interest agreements are not binding up to 1922?

Secretary MELLON. I should say this, if we immediately open negotiations and the subject is concluded that that ends that period—that two or three years. You see that it is indefinite.

Senator WALSH. Pardon me, I wish you would amplify that. I do not quite understand how it is indefinite.

Secretary MELLON. It does not say three years; it says two to three years.

Senator WALSH. Yes.

Secretary MELLON. Well, that is indefinite.

Senator McCUMBER. And over two years have elapsed?

Secretary MELLON. Yes.

Senator WALSH. And three years will be up in 1922?

Secretary MELLON. Yes. I think they could claim deferment of the interest up until that time, but if the negotiations were on hand earlier than that I should think that would be the period that would be taken as the end of the deferment naturally.

Senator WALSH. Do you consider that we are morally bound not to collect interest on the overdue interest?

Secretary MELLON. If you will read further—

Senator WALSH (reading): "In view of the public announcement on this subject made by Secretary Glass, communicated as it was to the foreign Governments, reported to Congress by both Secretary Glass and Secretary Houston, and acquiesced in for more than two years, I think, good faith and fair dealing obligate this Government to the extent I have indicated."

I wish you would explain just to what extent Secretary Glass and Secretary Houston have committed this country to the policy or the position of not collecting interest on overdue interest.

Secretary MELLON. The Treasury made this statement to the foreign Governments.

Senator WALSH. Who was Treasurer at the time of the statement?

Secretary MELLON. I believe Secretary Glass was.

Senator WALSH. Who is it directed to, Mr. Secretary?

Secretary MELLON. To the British Treasury. Mr. Chamberlain replied to it—

Senator WALSH. Have you the date, Mr. Mellon?

Secretary MELLON. Yes; December 2, 1919.

Senator WALSH. Now, give us the communication that you refer to.

Secretary MELLON (reading): "The Treasury is prepared, at the convenience of the Governments of the Allies, to take up with their representatives the funding of the demand obligations which the United States holds into long-time obligations and at the same time refunding during the reconstruction period of, say, for a year or two or three years of the interest on the obligations of foreign Governments acquired by the United States under the Liberty loan acts."

That was stated to the foreign Governments.

Senator WALSH. Do you construe that language to bind our Government to a position of refusing to insist upon compound interest?

Secretary MELLON. I can not see how it could be otherwise. That was replied to by Mr. Chamberlain, of Great Britain.

Senator McCUMBER. May I ask Mr. Mellon a question at that point?

I want to know if, under the instrument which we took from the foreign Governments—the I. O. U., or whatever you call it—and for which we gave them credit, there was anything that provided there should be compound interest in case of any delay in paying the interest?

Secretary MELLON. No; there was not.

Senator McCUMBER. Then, as a legal proposition, could we collect compound interest where the instrument itself does not provide for compounding the interest?

Secretary MELLON. I do not know in international dealings exactly what is meant by legal authority.

Senator McCUMBER. I think it is generally conceded that in the laws of the States and under the common law there is no compounding of interest unless the instrument itself provides for it.

Secretary MELLON. That is so, and I imagine that the international dealings would follow the general custom.

Senator McCUMBER. It often happens that a Government is a little behind in its payments. If the Government of the United States is behind in its payments of interest, it never pays compound interest, does it?

Secretary MELLON. No; it does not.

Senator McCUMBER. Nor does it ever exact compound interest of others on obligations owing the Government, does it, unless the law itself provides for such compounding?

Secretary MELLON. I think that is so, Senator McCumber.

Senator WALSH. As I understand it, the demand notes had no maturity dates and had no definite paying date.

Secretary MELLON. I beg your pardon?

Senator WALSH. I say the demand notes had no maturity dates and no date fixing the interest payments.

Secretary MELLON. No.

Senator WALSH. In fact, it is true that all short-time obligations were not drawn in legal form to comply with the Liberty loan acts; in fact, they bore no interest provision such as is usually contained in the terms and on the face of bonds of the United States?

Secretary MELLON. No.

Senator WALSH. Did they bear interest at all?

Asst. Secretary WADSWORTH. Yes; they all bear interest.

Senator WALSH. But no date of payment of interest was fixed?

Asst. Secretary WADSWORTH. No.

Senator WALSH. Then, how can you collect interest when no date is fixed? How can you insist upon a certain date when there is no time fixed for interest to be collected?

Senator McCUMBER. Doesn't it say that it shall be paid semi-annually?

Asst. Secretary WADSWORTH. The instrument provides that the notes shall be exchanged for bonds of foreign Governments within a reasonable time.

Secretary MELLON. And those bonds shall be as provided for under the Liberty loan acts.

Senator McCUMBER. And those shall bear the same terms as are required in Liberty loan acts? Those provide for semiannual payments, but they do not provide for compounding the interest in the event interest payments are not met.

Senator WALSH. Do you know whether this question was submitted to the Attorney General?

Secretary MELLON. I do not think these questions were.

Senator WALSH. Would it appear, then, that the Treasury Department undertook to lend this money without legal authority?

The CHAIRMAN. Who was the Attorney General at that time?

Senator WALSH. I imagine he was the Texas man.

The CHAIRMAN. Is fame so evanescent that the great war Attorney General is not remembered any longer in this committee?

Senator WALSH. It shows how quickly fame passes away. I may add that that is true also of Senators as well as Attorneys General.

The CHAIRMAN. But we would expect that heroes of the war under the Wilson régime should have left imperishable memories.

Secretary MELLON. In regard to that question, Senator, I wish to say that no government has raised any question about the legality of these instruments.

Senator WALSH. I do not assume that they have. I am simply trying to determine whether there has been compliance with the law as to whether they were issued with proper authority.

Senator McLEAN. You say, Mr. Secretary, that there is no time fixed?

Secretary MELLON. They were to be replaced by the funding bonds, as provided by authority of the Liberty loan act.

Assistant Secretary WADSWORTH. May I read the form of the note?

The CHAIRMAN. I think the committee would be interested in that.

Assistant Secretary WADSWORTH. This form is a skeleton copy:

"The Government of (name of foreign Government), for value received, promises to pay to the United States of America, or assigns, the sum of (number of dollars in words) on demand, with interest from date hereof at the rate of (rate per cent) per cent per

annum. Such principal sum and the interest thereon will be paid without deduction for any (name of foreign Government) taxes, present or future, in gold coin of the United States of America of the present standard of weight and fineness at the Subtreasury of the United States in New York, or, at the option of the holder, at the Treasury of the United States in Washington.

"This certificate will be converted by the Government of (name of foreign Government) if requested by the Secretary of the Treasury of the United States of America, at par with an adjustment of accrued interest into an equal par amount of (rate per cent) per cent convertible gold bonds of the Government of (name of foreign Government), conforming to the provisions of acts of Congress of the United States known, respectively, as second Liberty bond act, third Liberty bond act, and fourth Liberty bond act. If bonds of the United States issued under authority of said acts shall be converted into other United States bonds bearing a higher rate of interest than  $4\frac{1}{2}$  per cent per annum, a proportionate part of the obligations of the Government of (name of foreign Government) of this series acquired by the United States under authority of said acts shall, at the request of said Secretary of the Treasury, be converted into obligations of said Government of (name of foreign Government), bearing interest at a rate exceeding that previously borne by this obligation by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceeds the interest rate of (rate of this obligation) per cent, but not less than the highest rate of interest borne by such bonds of the United States."

Senator WALSH. Isn't it true that the French Minister of Finance has continually held that the demand notes could not be claimed to be actually payable on demand and, further, that no court exists to enforce payments of these notes—no court in the world?

Senator SMOOT. That is true with every foreign obligation.

The CHAIRMAN. About the only way to collect them would be to send an army.

Senator WALSH. It has been suggested that this is for the purpose of putting our Government in the position of being lenient in the matter of collecting interest.

Senator WATSON. Mr. Secretary, do I understand you to mean that because of certain statements made by Secretary Houston and Secretary Glass to these foreign nations that the payment might be deferred for a period of two or three years; you do not think that interest should be collected on the interest on those debts?

Secretary MELLON. Yes.

Senator WATSON. And, supposing that we now enter into negotiations with a nation which can not pay interest; you then propose to take bonds for that interest?

Secretary MELLON. We expect to treat that interest as a part of the principal.

Senator WATSON. Yes. And that bond when thus taken will, of course, carry an interest rate?

Secretary MELLON. In other words, there is no question of having interest on interest for the future.

Senator WATSON. That is the point.

Senator GERRY. I understand your idea to be that there is a certain moral obligation that prevents the United States Government from demanding interest before April, 1922. With regard to the letter written by former Secretary of the Treasury Glass, have you discussed this letter with Senator Glass?

Secretary MELLON. No; I have not. I have only taken the record of the Treasury's proceedings.

Senator GERRY. I did not hear you.

Secretary MELLON. I have taken only the records of the Treasury that we have of the proceedings.

Senator GERRY. Don't you think in a matter of such great importance it would be well to consult Senator Glass in order that you might find out what his idea is?

Secretary MELLON. It is very plain: there is nothing obscure about it; it is clear. That representation was made to the foreign Governments and was accepted on the part of Great Britain.

Senator GERRY. In other words, you state there was a binding agreement not to collect any interest until April, 1922?

Secretary MELLON. For two or three years, of which over two years have now expired.

Senator GERRY. Well, if it was made for two or three years, after the expiration of two years our Government could demand the interest, could it not?

Secretary MELLON. Our Government has not demanded any interest, so that—

Senator GERRY. After the expiration of two years you are not bound by the letter of the former Secretary of the Treasury?

Secretary MELLON. Perhaps this may throw light on the subject. In answer to that representation of the Governments of the Allies, on the part of Great Britain Mr. Chamberlain wrote as follows.

Senator GERRY. The letter from which you read awhile ago was addressed to whom?

Secretary MELLON. To the Secretary of the Treasury.

Senator GERRY. I mean the first letter that Secretary Glass wrote.

Secretary MELLON. To the chancellor of the exchequer.

Senator GERRY. Of Great Britain?

Secretary MELLON. Yes. He replied—

Senator GERRY (interposing). Would you mind reading again the letter addressed to the chancellor of the exchequer?

Secretary MELLON (reading): "The Treasury is prepared, at the convenience of the Governments of the Allies, to take up with their representatives the funding of the demand obligations which the United States holds into long-time obligations, and at the same time refunding during the reconstruction period, say for a period of two or three years, of the interest on the obligations of foreign Governments acquired by the United States under the Liberty loan acts."

The chancellor replies as follows:

"You are already aware that the British Government accepts, as far as they are concerned, the suggestions of the United States that the demand obligations of the Allies should be funded into long-time obligations and that for a period of two or three years—



preferably three—the interest on the obligations of foreign Governments acquired by the United States should also be funded, and that we are ready to extend similar treatment to our allies in respect of their obligations to us.”

Senator SMOOT. Do I understand you believe, Senator, that this Government ought now to demand interest on interest?

Senator GERRY. Oh, no. I did not say any such thing as that. What I wanted to do was to get the views of the Secretary of the Treasury as to whether or not we are bound.

Secretary MELLON. I had already stated that in the letter.

Senator GERRY. I wanted to get your reason for stating it. I thought the matter was of such importance that I desired to know if you based your reasons upon the letter of Secretary Glass.

Secretary MELLON. Here is a copy of the communications between the Governments which arrived at that understanding.

Senator WALSH. I suppose there is a legal question whether we could not, as well as the moral question which you are now discussing.

Secretary MELLON. I beg pardon?

Senator WALSH. There is a legal question, is there not, as to whether we could collect compound interest?

Senator GERRY. According to the letters that the Secretary read from, it was two or three years. It was not definite.

Senator McLEAN. The chancellor of the exchequer chose three years. There was no question on the part of our Government.

Senator GERRY. I question that.

Senator McLEAN. Why raise the question when we have not got to the place for asking for it?

Secretary MELLON. Three years will be up soon.

The CHAIRMAN. I hope the examination will not drift into argumentative form.

Senator SMOOT. Why discuss it at all?

Senator GERRY. The committee seemed to think it was a matter of sufficient importance to ask the Secretary of the Treasury to come here, and since he is here I would like to get the information.

The CHAIRMAN. It seems to me, Senator, that an executive session on the floor of the Senate is the time for arguing these questions. We are here inquiring of the Secretary of the Treasury about these matters. My idea is to get this information and let him go, because he is a very busy man.

I want to say for one that I do not intend to allow much delay in the consideration of this bill on account of absence of members of the committee or on account of interminable examination.

Senator WATSON. I want to ask Senator Walsh if he wants to ask any more questions.

Senator WALSH. No. I was concerned about the Treasury's position on this proposed amendment.

Senator WATSON. I now want to ask Senator Gerry if he wants to ask any more questions.

Senator GERRY. No; I simply wanted to get at his reasons.

Senator WATSON. Then, Mr. Chairman, I move that we have an executive session of the committee.

Senator WALSH. I do not want to block progress in any way, shape, or form, but I do want to communicate to the committee what Senator Reed has said to me.

The CHAIRMAN. The committee has not heard from Senator Reed, but has been treated with considerable discourtesy, in my opinion.

Senator WALSH. However, I want to communicate the fact that he is now at the Attorney General's office, and he says he expects to get here just as soon as he can.

The CHAIRMAN. You do not happen to know the purpose of his business?

Senator WALSH. I understood that it was a pardon case that some of his constituents are deeply interested.

Senator WATSON. I now renew my motion to have an executive session.

(The motion having been seconded and carried, the committee went into executive session at 11.35 a. m.)