

# Calendar No. 279.

67TH CONGRESS, }  
1st Session. }

SENATE.

{ REPT. 264,  
{ Part 1.

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## REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

August 19 (calendar day, August 20), 1921.—Ordered to be printed.

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

### REPORT.

[To accompany S. 2135.]

The Committee on Finance, to whom was referred the bill (S. 2135) to enable the refunding of obligations of foreign Governments owing to the United States of America, and for other purposes, having had the bill under consideration, reports favorably thereon with an amendment, and, as amended, recommends that the bill do pass.

The amendment provides that the authority granted in this bill shall cease and determine at the end of five years from the date of its approval.

#### THE BILL.

The bill gives the Secretary of the Treasury, with the approval of the President, broad authority 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 owing to the United States, or any obligation of any foreign Government hereafter received by the United States (including obligations held by the United States Grain Corporation) arising out of the European war, into bonds or other obligations of such, or of any other foreign Government, and to receive bonds and obligations of any foreign Government in substitution for those now or hereafter held by the United States.

The bill provides that the obligations received under its provisions shall be 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 by the Secretary of the Treasury, with the approval of the President, for the best interests of the United States.

The bill also authorizes the Secretary of the Treasury, with the approval of the President, to adjust and settle any and all claims, not

now represented by bonds or obligations, which the United States now has or hereafter may have against any foreign Government and to accept securities therefor.

#### FOREIGN OBLIGATIONS.

The Treasury holds \$10,141,267,585.68 of obligations of foreign Governments, distributed as follows:

##### Obligations of foreign Governments:

Held for advances made under the various Liberty bond acts..	\$9,435,225,329.24
Received from the Secretary of War and from the Secretary of the Navy on account of sale of surplus war materials.....	565,048,413.80
Held by the United States Grain Corporation.....	56,899,879.09
Received from the American Relief Administration.....	84,093,963.55

Total..... 10,141,267,585.68

The interest accrued and unpaid up to and including the last interest period upon the obligations of foreign Governments and so-called governments held by the United States amounts to \$943,534,755.99, and the amount of interest heretofore paid on such obligations is \$465,271,688.92. (See Appendix A for obligations of foreign Governments and interest on such obligations, paid, and accrued and unpaid.)

#### THE PURPOSE OF THE BILL.

The purpose of the bill is to give the Secretary of the Treasury, with the approval of the President, ample power to enable him, when the condition of each debtor country shall have been definitely ascertained, and the claims of all parties interested shall have been presented, to deal with the situation, promptly and broadly in such a way as will, in his judgment, best protect the interests of the United States and secure the payment of the principal and interest of the debts now owing to it.

It is the opinion of your committee that the representatives of the United States should have equally as broad powers as the representatives of any other country, in order that they may be able to demand and accept such form of payment and security as may be found to be obtainable, and that the provisions of existing law are too limited to afford a satisfactory basis for the complicated refunding operations involved. For further statements relative to the necessity for this legislation see the letter of the Secretary of the Treasury to the President in Appendix B, and the excerpt from the statement of the Secretary of the Treasury to the Committee on Finance in Appendix D.

This bill gives no authority to cancel any part of the indebtedness of any foreign Government to the United States.

#### ACCEPTANCE OF OBLIGATIONS OF COUNTRIES OTHER THAN THE DEBTOR COUNTRIES.

The bill gives the Secretary of the Treasury, with the approval of the President, power to accept the obligations of countries other than the debtor countries. There has been some discussion concerning the intention or thought on the part of the Secretary of the

Treasury of accepting obligations other than those of the debtor country, particularly German bonds. In the letter of the Secretary, Appendix C, it is clearly stated that the Secretary of the Treasury does not intend to accept obligations other than those of the debtor country in the case of the principal debtor countries which owe the United States in the aggregate, without accrued interest, over \$9,000,000,000; and as to the other debtor countries that it is not his intention to accept any German bonds unless it becomes necessary or desirable to do so in some now unforeseen special cases.

This bill provides for the refunding or conversion of the debts owing to the United States by Czechoslovakia, Greece, Rumania, Russia, Serbia, Poland, and other countries. These countries also owe large amounts to countries other than the United States. Their resources and their ability to pay differ widely, and the conditions that will have to be dealt with can not be foreseen. It may be, in the case of some of these countries, that the Secretary of the Treasury, with the approval of the President, may deem it advisable to accept obligations other than those of the debtor country in settlement of their debts to the United States.

#### COMMITMENTS OF THE UNITED STATES IN CONNECTION WITH REFUNDING.

The Secretary of the Treasury is of the opinion, in which your committee concurs, that in the case of the principal foreign Governments receiving advances from the proceeds of Liberty bonds, the United States is committed (1) to the postponement of the interest for two or three years (over two years of which have elapsed) and also to the spreading over subsequent years of the payment of the postponed interest installments, and (2) not to charge interest on the postponed interest at least during the two or three years period. However, this obligation is contingent upon the foreign Government concerned carrying out with reasonable promptness a satisfactory funding of its short-time obligations held by the United States, after the United States shall be ready to proceed with such negotiations.

The situation in connection with commitments is covered fully by the letter of the Secretary of the Treasury, Appendix C.

#### CONCLUSION.

The indebtedness of the foreign countries to the United States actually exists, and it is necessary that some one be authorized promptly to deal with the situation it presents. After careful consideration your committee approves the proposed bill, as amended, as affording the best and most practicable method of handling the matter.

4 REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

APPENDIX A.

The following tables show the obligations of foreign Governments, and so-called governments, held by the United States:

TABLE 1.—Amount of obligations of foreign Governments held by the Treasury for advances made under the various Liberty bond acts.

Country.	First Liberty bond act.	Subsequent Liberty bond acts.	Total Liberty bond acts.	Present interest rate.	Maturity.
				<i>Per cent.</i>	
Belgium.....	\$35,000,000.00	\$312,691,566.23	\$347,691,566.23	5	Demand or overdue
Cuba.....		9,025,500.00	9,025,500.00	5	Do.
Czechoslovakia.....		61,256,206.74	61,256,206.74	5	Do.
France.....	650,000,000.00	2,300,762,938.19	2,950,762,938.19	5	Do.
Great Britain.....	1,155,000,000.00	3,011,318,358.44	4,166,318,358.44	5	Do.
Greece.....		15,000,000.00	15,000,000.00	5	Do.
Italy.....	175,000,000.00	1,478,084,050.90	1,648,084,050.90	5	Do.
Liberia.....		26,000.00	26,000.00	5	Do.
Rumania.....		23,205,819.52	23,205,819.52	5	Do.
Russia.....	97,500,000.00	90,229,750.00	187,729,750.00	5	Do.
Serbia.....	1,500,000.00	24,675,139.22	26,175,139.22	5	Do.
Total.....	2,114,000,000.00	7,321,225,329.24	9,435,225,329.24		

<sup>1</sup> Advances up to Sept. 24, 1917.

TABLE 2.—Obligations received from the Secretary of War and from the Secretary of the Navy on account of sale of surplus war materials.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Belgium.....	\$19,000,000.00		Apr. 10, 1919	Apr. 10, 1922	5
	8,392,097.57		Aug. 5, 1919	Aug. 5, 1922	5
	193,483.57		Aug. 21, 1919	Aug. 21, 1922	5
		\$27,585,581.14			
Czechoslovakia.....	5,000,000.00		May 29, 1919	June 30, 1922	5
	5,000,000.00		June 15, 1919	June 30, 1923	5
	4,904,994.94		Aug. 10, 1919	June 30, 1924	5
	2,464,950.38		Oct. 14, 1919	Oct. 14, 1922	5
	1,291,904.85		Feb. 10, 1920	Jan. 28, 1923	5
	1,982,145.37		May 1, 1920	June 30, 1925	5
		20,621,991.54			
Estonia.....	5,000,000.00		June 6, 1919	June 30, 1922	5
	5,000,000.00		June 11, 1919	June 30, 1923	5
	2,213,377.88		June 29, 1919	June 30, 1924	5
		12,213,377.88			
France.....	400,000,000.00	400,000,000.00	Aug. 1, 1919	Aug. 1, 1929	5
Latvia.....	2,521,869.32	2,521,869.32	June 28, 1919	June 30, 1922	5
Lithuania.....	4,159,491.96	4,159,491.96	do.	do.	5
Poland.....	10,000,000.00		June 3, 1919	June 22, 1922	5
	10,000,000.00		do.	June 30, 1923	5
	10,000,000.00		July 19, 1919	June 30, 1924	5
	10,000,000.00		July 22, 1919	do.	5
	7,890,939.27		July 31, 1919	do.	5
	5,538,887.71		Oct. 1, 1919	Oct. 1, 1925	5
	3,941,803.61		Oct. 15, 1919	Oct. 15, 1925	5
	2,266,709.66		Apr. 22, 1920	Mar. 27, 1926	5
		59,636,320.25			
Rumania.....	5,000,000.00		June 27, 1919	June 30, 1922	5
	5,000,000.00		do.	June 30, 1923	5
	2,922,675.42		Aug. 13, 1919	June 30, 1924	5
		12,922,675.42			
Russia.....	406,082.30	403,082.30	Aug. 8, 1919	June 30, 1922	5
Serbs, Croats, and Slovenes.....	5,000,000.00		June 13, 1919	do.	5
	5,000,000.00		Aug. 30, 1919	June 30, 1923	5
	10,000,000.00		do.	June 30, 1924	5
	50,350.28		Dec. 20, 1919	do.	5
	281,205.51		Apr. 15, 1920	Apr. 15, 1924	5
	4,646,465.20		Apr. 29, 1920	June 30, 1925	5
		24,978,020.99			
Total.....		565,048,413.80			

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

TABLE 3.—Obligations received by the Treasury from the American Relief Administration.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					Per cent.
Armenia.....	\$8,028,412.15	\$8,028,412.15	June 30, 1919	June 30, 1921	5
Czechoslovakia.....	6,428,089.19	6,428,089.19	.....do.....	June 30, 1923	5
Estonia.....	1,785,767.72	1,785,767.72	Aug. 11, 1919	June 30, 1921	5
Finland.....	3,269,276.98	.....	June 30, 1919	.....do.....	5
	4,902,642.19	8,281,928.17	July 1, 1920	.....do.....	5
Latvia.....	2,610,417.82	2,610,417.82	June 30, 1919	.....do.....	5
Lithuania.....	822,136.07	822,136.07	.....do.....	.....do.....	5
Poland.....	10,000,000.00	.....	.....do.....	.....do.....	5
	10,000,000.00	.....	.....do.....	June 30, 1922	5
	31,671,749.36	51,671,749.36	.....do.....	June 30, 1923	5
Russia.....	4,465,465.07	4,465,465.07	July 1, 1919	June 30, 1921	5
Total.....		84,003,963.58			

TABLE 4.—Obligations held by the United States Grain Corporation.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					Per cent.
Armenia.....	\$793,733.40	.....	Nov. 26, 1919	June 30, 1921	5
	472,533.00	.....	Nov. 29, 1919	.....do.....	5
	656,190.00	.....	Dec. 10, 1919	.....do.....	5
	748,725.00	.....	Jan. 26, 1920	.....do.....	5
	129,406.00	.....	Jan. 29, 1920	.....do.....	5
	949,665.11	.....	May 20, 1920	.....do.....	5
	181,253.83	.....	June 17, 1920	.....do.....	5
		\$3,931,508.34			
Austria.....	24,056,708.92	24,056,708.92	Sept. 4, 1920	Jan. 21, 1925	6
Czechoslovakia.....	2,873,238.25	2,873,238.25	July 30, 1920	Jan. 1, 1925	6
Hungary.....	1,685,835.61	1,685,835.61	May 29, 1920	.....do.....	6
Poland.....	682,147.50	.....	Dec. 1, 1919	June 30, 1921	5
	146,682.50	.....	Dec. 19, 1919	.....do.....	5
	2,146,539.37	.....	Mar. 12, 1920	.....do.....	5
	961,875.89	.....	Mar. 22, 1920	.....do.....	5
	1,005,065.03	.....	Mar. 26, 1920	.....do.....	5
	1,054,133.86	.....	Apr. 2, 1920	.....do.....	5
	804,591.99	.....	Apr. 9, 1920	.....do.....	5
	951,392.04	.....	Apr. 13, 1920	.....do.....	5
	1,147,318.34	.....	Apr. 23, 1920	.....do.....	5
	829,682.04	.....	Apr. 26, 1920	.....do.....	5
	455,965.98	.....	May 10, 1920	.....do.....	5
	799,134.29	.....	May 12, 1920	.....do.....	5
	448,331.49	.....	May 13, 1920	.....do.....	5
	65,553.18	.....	May 14, 1920	.....do.....	5
	47,877.06	.....	June 2, 1920	.....do.....	5
	30,720.85	.....	July 7, 1920	.....do.....	5
	62,106.98	.....	July 14, 1920	.....do.....	5
	12,152,878.75	.....	July 13, 1920	.....do.....	6
		24,358,500.97			
Total.....		58,899,878.09			

TABLE 5.—Total obligations of foreign Governments held by the Treasury and United States Grain Corporation, interest accrued thereon and unpaid, and interest that has been paid into the Treasury.

Class.....	Amount of obligations.	Interest due and unpaid.	Interest paid.
Liberty bond acts.....	\$9,435,226,329.24	\$922,550,143.22	\$451,736,985.21
American relief.....	84,003,963.58	8,168,687.29	.....
War Department <sup>1</sup> .....	562,781,704.14	10,929,130.39	13,420,537.04
Navy Department <sup>1</sup> .....	2,266,709.66	.....	114,166.67
United States Grain Corporation.....	58,899,879.09	1,886,795.09	.....
Total.....	10,141,267,585.68	943,534,755.99	465,271,688.92

<sup>1</sup> Combined in letter as obligations received from Secretary of War and Secretary of the Navy amounting to \$565,048,413.80.

TABLE 6.—Statement showing obligations of foreign Governments and so-called governments held by the United States, interest accrued and unpaid thereon, up to and including the last interest period, and interest heretofore paid on such obligations.

Country.	Total obligations.	Interest accrued and unpaid up to and including last interest period.	Total debt to United States.	Interest heretofore paid.
Armenia.....	\$11,959,917.49	\$1,009,868.67	\$12,969,786.16	.....
Austria.....	24,055,708.92	721,671.27	24,777,380.19	.....
Belgium.....	375,280,147.37	34,007,409.62	409,287,557.99	\$13,014,918.42
Cuba.....	9,025,500.00	.....	9,025,500.00	1,282,369.54
Czechoslovakia.....	91,179,528.72	8,125,165.24	99,304,693.96	304,178.09
Estonia.....	13,999,145.00	1,389,668.37	15,388,813.37	.....
Finland.....	8,281,926.17	598,339.79	8,880,265.96	.....
France.....	3,350,762,938.19	284,148,863.64	3,634,911,801.83	139,570,376.13
Great Britain.....	4,166,318,358.44	407,303,283.93	4,573,621,642.37	245,557,185.50
Greece.....	15,000,000.00	.....	15,000,000.00	784,153.34
Hungary.....	1,685,835.61	50,575.07	1,736,410.68	.....
Italy.....	1,648,634,050.90	161,078,880.80	1,809,712,931.70	57,598,852.62
Latvia.....	5,132,287.14	386,062.52	5,519,249.66	126,266.19
Liberia.....	26,000.00	1,568.85	27,568.85	861.10
Lithuania.....	4,981,628.03	498,162.80	5,479,790.83	.....
Poland.....	135,661,660.58	9,837,443.36	145,499,103.94	1,290,620.78
Rumania.....	36,128,494.94	3,477,534.09	39,606,029.03	263,313.74
Russia.....	192,601,297.37	26,120,560.18	218,721,857.55	4,842,534.33
Serbia.....	51,153,160.21	4,778,797.79	55,931,958.00	636,059.14
Total.....	10,141,267,585.68	943,534,755.99	11,084,802,341.67	465,271,688.92

## APPENDIX B.

Letter of the President inclosing a letter of the Secretary of the Treasury relative to refunding the foreign obligations owing to the United States.

THE WHITE HOUSE,  
Washington, June 22, 1921.

MY DEAR SENATOR: I am inclosing to you herewith a copy of a letter which I have received from the Secretary of the Treasury relating to the obligations of foreign Governments to the United States which arose out of the World War and our participation therein. The statement is a comprehensive one, showing the detailed obligations which are owing to the United States, and the Secretary points out the urgent necessity of broad powers granted by the Congress for the arrangement for the refunding or conversion or extension of the time of payment of principal and interest on these obligations, and the adjustment of other claims of the United States against foreign Governments.

All the circumstances suggest the grant of broad powers to the Secretary of the Treasury to handle this problem in such a manner as best to protect the interests of our Government.

I hope your committee and the Congress will find it consistent promptly to sanction such an act as that which is suggested by the inclosed draft. If the Congress will promptly sanction such a grant of authority, the Secretary of the Treasury may proceed to the prompt exercise of the powers granted to him, and we reasonably may expect a satisfactory handling of the obligations due and the claims of our Government which are awaiting settlement.

Sincerely, yours,

WARREN G. HARDING.

HON. BOIES PENROSE,  
Committee on Finance, United States Senate.

TREASURY DEPARTMENT,  
Washington, June 21, 1921.

MY DEAR MR. PRESIDENT: I desire to call to your attention the situation respecting the matter of the refunding of the debt of foreign Governments to the United States arising out of the European war.

This debt as now held, summarized, is as follows:

Obligations for advances made under the various Liberty bond acts.....	\$9, 435, 225, 329. 24
Obligations received from the American relief administration....	84, 093, 963. 55
Obligations received from the Secretary of War and from the Secretary of the Navy on account of the sales of surplus war materials.....	565, 048, 413. 80
Obligations held by the United States Grain Corporation.....	56, 899, 879. 09
Total.....	10, 141, 267, 585. 68

Annexed hereto are statements showing in detail the obligations above referred to, giving, as to each class, the amount owing by each country and, in the case of loans from the proceeds of Liberty loan bonds, the amount thereof loaned from the proceeds of the first Liberty loan bonds and the amount from subsequent Liberty loan bonds.<sup>1</sup>

From this statement it will be seen that the obligations in respect of loans from the proceeds of Liberty bonds are all demand or overdue obligations, while the other classes referred to mature at various dates, beginning June 30, 1921, and extending to August 1, 1929. The obligations mentioned as being held by the United States Grain Corporation were received by that corporation from foreign Governments on account of the sale of flour under the act of March 30, 1920. As they may at any time be turned into the United States Treasury, and some of them mature on June 30 next, they are included here, so that they may be dealt with along with other like obligations.

From the statement it will also be seen that the obligations of the various classes named are largely owing by the same debtors; that is to say, this Government in the refunding of the various classes of these obligations will to a considerable extent have to deal with the same Governments.

I am advised that, except as to the advances made out of the proceeds of Liberty loan bonds, this department is without authority to consent to any extension of the time for payment of the principal or of the interest of these obligations or to proceed with the refunding thereof. As to the advances made out of the proceeds of Liberty loan bonds, the existing authority contains such diverse provisions as to interest rates, the maturity, and other terms of the refunding bonds that may be accepted by the department as makes it difficult to formulate a plan whereby the interests of this Government may be as well protected and the bonds to be received be in as desirable form as would be the case if the entire debt of each country could be dealt with as a whole and free from such restrictions.

In some cases the debtor nations owe large amounts to other countries as well as to the United States, and it may be advisable, and in some cases indeed necessary, to consider comprehensively the entire debt of such countries, its financial condition and resources, so as to work out a refunding plan reasonably within the ability of such country to carry out.

In the case of some of the debtor countries it is impossible for them to make payment of their obligations as they now mature. It is impossible for some of them to make payment of the maturing interest. To insist on payment might be disastrous to the peoples of such countries; and besides there may have to be given consideration to the bearing of the adverse foreign exchange rates existing at the time against these debtor countries and which may make it desirable to defer payment of interest.

Under the circumstance I have briefly referred to, it is, I think, clear that by reason of the lack of any authority as to a part of these foreign obligations and the restrictions upon the existing authority as to the others, it is impossible in any refunding, under the varying conditions that exist, to deal fairly with the debtor countries and at the same time protect the interests of this country. To do this, it is essential that the department have full authority as to all such foreign indebtedness to determine the form and terms of the settlements and of the refunding obligations, the rate or rates of interest, the maturity dates, and the right to extend the time for the payment of interest on the indebtedness to be refunded. It is also of importance that the department should have adequate authority to adjust and settle claims against foreign Governments, which are not in the form of bonds or obligations, as, for example, the claim for costs of our military forces of occupation.

<sup>1</sup> The statement referred to will be found as Table I-4, inclusive, of Appendix A.

I have had prepared a draft of an act of Congress to accomplish the purpose stated and should you transmit this communication to Congress shall be glad to appear before the appropriate committees relative to the situation and the necessity for the authority requested.

Faithfully, yours,

A. W. MELLON, *Secretary.*

The PRESIDENT,  
*The White House.*

APPENDIX C.

Letter of the Secretary of the Treasury advising the Committee on Finance of the extent to which he regards the United States bound by negotiations and correspondence between the United States and foreign countries:

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

Hon. BOIES 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. These countries also owe large amounts to the 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.*

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APPENDIX D.

Excerpt from the statement of the Secretary of the Treasury to the Committee on Finance relative to the necessity for the proposed legislation.

The request for authority to deal with the debtor nations relating to their obligations is necessary to the Treasury Department. The department is without authority to consent to any extension of the time for payment of principal and interest of the debts of a number of the debtor nations, and in the case of those where the debts arose from advances out of the proceeds of Liberty loan bonds the authority is, to a large extent, restricted. Without the broad authority provided in the act submitted to you, it would be difficult, and in some cases impossible, to proceed and procure the new securities in a form that will protect the interests of the Government. The reasons for asking the broad authority which will cover any contingencies that may arise in the negotiations is that it is essential to have the new securities in the most substantial form, so that they may be available to this Government for any future use. It is essential that the authority be complete, so that no question may arise in the future respecting their legality.

In the case of some of the debtor countries it is impossible for them to make payment of their obligations as they now mature. It is impossible for some of them to make payment of the maturing interest. To insist upon payment might be disastrous to the peoples of such countries; and, besides, consideration may have to be given to the bearing of the adverse foreign exchange rates existing at the time against these debtor countries, and which may make it desirable to defer payment of interest.

It is of the utmost importance that the department shall have adequate authority relating to these claims so that the negotiations may proceed and the adjustments and refunding be accomplished in a sound and businesslike manner. The problem is one that has grown out of the war. The authority asked, while it may appear broad, is no more than actually is needed. The United States is a creditor nation to the extent of over \$10,000,000,000. This great asset must be dealt with by the Government, and if the power be granted to the Secretary of the Treasury it will be used to serve the best interests of the Government and of the people.



# Calendar No. 279.

67TH CONGRESS, }  
1st Session. }

SENATE.

{ REPT. 264,  
Part 2.

## REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

AUGUST 19 (calendar day, AUGUST 20), 1921.—Ordered to be printed.

Mr. LA FOLLETTE, from the Committee on Finance, submitted the following

### MINORITY REPORT.

[To accompany S. 2135.]

The undersigned members of the Committee on Finance are unable to approve the report made by a majority of the members of that committee accompanying the bill S. 2135 for the following reasons:

This is a bill to give the Secretary of the Treasury blanket powers to dispose of \$11,000,000,000 of the obligations of foreign Governments to the United States arising out of loans made to these Governments from the proceeds of the sale of Liberty bonds to the people of the United States.

In all the history of this Nation no such sweeping powers have ever been demanded by or granted to any official in time of peace. Even in time of war, when there was a disposition to grant almost unlimited authority to the Executive, Congress, in originally authorizing these loans, specifically and in detail provided that the only obligations of foreign Governments which should be accepted by the Secretary of the Treasury should be those "bearing the same rate of interest and containing in their essentials the same terms and conditions as those of the United States issued under authority of this act." There was added the further proviso that "if any of the bonds of the United States issued and used for the purchase of such foreign obligations shall thereafter be converted into other bonds of the United States bearing a higher rate of interest," the rate of interest upon such foreign obligations should likewise be increased. Without such specific and detailed provisions it is doubtful if it would have been possible to induce the people of the United States to pour out their treasure without stint for the support of those foreign nations with whom we were associated in the Great War.

Under this bill the Secretary of the Treasury now asks that Congress confer upon him the power to convert any of the obligations

now held into obligations of any other form or of any rate of interest or dates of maturity which he may deem advisable. He asks that he be authorized to exchange obligations now held by him for obligations of countries other than the original debtors, should he deem that course advisable. Under the authority requested he would be empowered to permit England or France to substitute German bonds or Turkish bonds or the unsecured and unguaranteed obligations of any of the newly created Balkan States. The Secretary of the Treasury not only asks for authorization to refund the demand obligations now held by the United States but also requests the extraordinary power "to adjust and settle any and all claims, not now represented by bonds or obligations, which the United States of America now has or hereafter may have against any foreign Government and to accept securities therefor." The Secretary is unwilling that his power should be restricted even by the provision that in the event of the substitution of the bonds of one nation for those of another the debtor nation should be required to guarantee the substituted bonds. Under the terms of the bill as reported to the Senate, the Secretary of the Treasury will be empowered to make any bargain he wants to make, accept any bonds he wants to accept, defer any debts or interest he wants to defer, and bind or by substitution release any debtor nation at his own will and pleasure. The sole obligation which the majority of the committee have sought to impose upon him is that the negotiations shall be completed within the period of five years. The Secretary of the Treasury will thus become, if the bill passes, the absolute dictator of the disposition of \$11,000,000,000—a sum ten times greater than the entire national debt of the United States at the time of our entrance into the Great War.

No man has ever lived who should be intrusted with such a gigantic responsibility. We are amazed that any man would seek to wield such enormous powers without submitting his acts for the approval of the elected representatives of the people. No man should ever be given such untrammelled control over the finances of this country and the destinies of other nations.

Such plenary powers should not be granted by Congress to an executive official even if the only questions involved were the mere technical adjustments of the terms of a financial settlement.

The unlimited and absolute authority sought to be conferred upon the Secretary of the Treasury runs with the office and might be exercised by a successor to the present Secretary wholly unknown, uninformed, and inexperienced in public finance and international intrigue.

The inevitable result of the bestowal of such complete power and authority will be to weaken the hands of the Secretary of the Treasury in his negotiations with other Governments. If the representatives of foreign nations understand that any settlement which is made by the Secretary of the Treasury must run the gauntlet of congressional criticism and ratification, they will be less likely to propose to the Secretary of the Treasury terms of settlement which it would be embarrassing for him to submit for congressional approval. If, however, they see in him the sole and final judge and arbiter of the terms of settlement, they are not likely to spare either importunity or intrigue to secure an adjustment which will relieve them of their burden of debt.

Knowingly and deliberately, the Secretary of the Treasury would undoubtedly never consent for a moment to any arrangement not in his own country's interest. Nevertheless, if this blanket power be conferred upon him, the legislative arm of the United States Government will have given notice to the world that it has abdicated its control over this important subject. The debtor countries will then be aware, and doubtless complacently aware, that they have one branch of the executive arm of the Government with which alone to deal and using all the artifices which the wit of hard-pressed financial officers can devise, they will ply that one department with appeal and excuse, with argument, threat, and cajolery, presented in every form and subject to every delay that the skilled negotiator can invest, with the one object of preventing satisfactory settlement of this question.

Furthermore, the official documents which have passed between the United States and the debtor nations, the most important of which have not yet been made public, demonstrate that the negotiations contemplated by this act are not concerned merely with technical financial adjustments, but involve questions of foreign relations of such delicacy that in the words of Austen Chamberlain, chancellor of the exchequer of Great Britain, they raise "questions of great importance unsuited for departmental treatment between our two treasuries." Negotiations between Great Britain and the United States were accordingly taken completely out of the hands of the Treasury officials of the two nations, and were made the subject of direct communications between Premier Lloyd George and President Wilson. In the letter of the British prime minister to the President of the United States, dated August 5, 1920, an extract from which has been printed in the Congressional Record, the British premier proposes the cancellation of the entire indebtedness. It is true that President Wilson rejected this proposal for cancellation, but this does not offset the fact that the British prime minister has served formal notice that his Government would press for the reduction or cancellation of interallied indebtedness. The Senate has only a portion of this letter, and can only infer the considerations which may have been presented in the omitted sections. Nevertheless, in the portion which has been printed, the British premier makes this unequivocal statement:

When the British Government decided that it could not deal with the question of the debts owed to it by its allies except as part and parcel of an all-around arrangement of interallied debts, the chancellor of the exchequer told Mr. Rathbone that he could not proceed any further with the negotiations which they had been conducting together with regard to the postponement of the payment of interest on the funding of Great Britain's debts to America. I should like to make it plain that this is due to no reluctance on the part of Great Britain to fund its debt, but solely to the fact that it can not bind itself by any arrangement which would prejudice the working of any interallied arrangement which may be reached in the future. If some method can be found for funding the British debt which does not prejudice the larger question, the British Government would be glad to fall in with it.

This ultimatum of the British Government, involving "the larger question" with any negotiations which may be carried on, still stands and, we submit, carries the entire transaction out of the field which under the Constitution of the United States can be intrusted to the Secretary of the Treasury, or even to the President himself, without congressional approval of any settlements which may be made.

For years, possibly a century, Congress will be raising revenue to meet the obligations which were intended to be discharged from the proceeds of these foreign loans. By this sweeping piece of legislation this Congress, the Sixty-seventh, imposes a constraint upon every succeeding Congress for many years to come in respect to the raising of revenue for the meeting of fiscal charges. It may be questioned whether, even if it be conceded that this delegation of power is not prohibited by the strict letter of the Constitution, a measure of this kind will not constitute a precedent repugnant to the spirit of the Constitution, which may easily develop in the course of years into a complete surrender of the legislative branch of the Government to the executive.

This bill should not be enacted. The Secretary of the Treasury has not shown that sufficient ground exists for demanding such extraordinary powers. He has, on the contrary, disclosed a state of confusion in his department as to the status of these obligations. He has failed to indicate a knowledge of the course that the negotiations have taken in the past and the highly significant efforts that have been made to involve them in political negotiations. He has not justified the extraordinary jurisdiction over the settlement of claims, which, in defiance of many statutory regulations already on our books, he seeks to annex. He has shown that his department is officially unaware of the financial condition of the debtor nations, of the purposes for which their revenues are now being spent, of the manner in which they are preparing to meet their obligations. The record of the correspondence already had with the debtor nations upon the subject of these loans, even if hastily examined, indicates a disingenuousness and evasiveness on the part of some of the foreign negotiators which may well warrant the suspicion that their only intention is to draw the subject out until of its own tenuousness our hold upon them evaporates.

The committee could get no information as to the future policy of the Treasury. It is frankly admitted that it has none. Yet it is significant to note that the Treasury has very determined and fixed views on these points, viz, that its negotiations shall be secret, without congressional knowledge or approval, and that its authority shall be absolute and final.

No reason is seen why the present authority of the Treasury Department is not adequate for such purposes as the Secretary has declared he has in mind. No reason is seen why he can not proceed to frame an agreement of a detailed and definite character on the basis of such authorization as the law now gives him, or, if he finds that legislative permission must be sought before one or another deal in a comprehensive conversion plan could be carried out, then come to Congress and frankly ask for the authorization.

Disabled veterans have been subjected to so many checks and paper records and other forms of scrutiny as if we had conferred a great favor on them in permitting them to go to war for us and were now being obliged to adopt a more circumspect and cautious attitude in distributing our largesse. Yet we propose to give to the Secretary of the Treasury the power to dispose of a sum greater by many millions of dollars than the aggregate of all the money that has been at issue between all the veterans of the late war and the Federal Government on any account whatsoever.

The Secretary of the Treasury, under the Liberty loan acts, now has authority, and, in fact, is legally required, to fund the demand obligations of these foreign Governments into bonds which will bear the same rate of interest and other terms of the Liberty bonds which our own hold. If the Secretary of the Treasury seeks for broader powers, it must necessarily be to accept from foreign Governments obligations less advantageous to the United States than the terms of our Liberty bonds. We do not believe that the American people are willing to permit the refunding of these loans upon any less advantageous terms than those of the bonds which they themselves hold, nor do we believe that they will ever give their consent to such refunding until after every effort has been made to secure the refunding of foreign obligations upon those terms. Even then it will be necessary, in order to satisfy the American people, that there be a plain and unequivocal statement which will convince them of the necessity of making such a readjustment.

The bill, as amended, should not pass because of the great burden which an unwise settlement will inevitably place on a people already hard pressed, and because of the danger to which it will expose our foreign and domestic peace.

The Congress of the United States has already demonstrated that it is not disposed to hamper the Executive in the exercise of any of its legitimate functions, but it should not be asked to abdicate its fundamental prerogative of controlling the financial affairs of the Government.

Let the Secretary of the Treasury seek, therefore, to refund these foreign obligations upon the terms provided in the Liberty loan acts. In the meantime, let the situation remain as it is with these demand obligations in their present form, until our Government shall have sufficiently crystallized its policy to know exactly to what use they can best be put. If, in the course of his negotiations, the Secretary of the Treasury finds that he needs a larger authority of definite character, he can be certain of receiving cordial attention and cooperation from Congress, if he will come and ask reasonable, businesslike things.

Respectfully submitted.

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