

TO REPEAL THE JOHNSON ACT

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

FIRST SESSION

ON

S. 636

A BILL TO REPEAL THE ACT ENTITLED "AN ACT
TO PROHIBIT FINANCIAL TRANSACTIONS
WITH ANY FOREIGN GOVERNMENT IN
DEFAULT ON ITS OBLIGATIONS TO
THE UNITED STATES", AP-
PROVED APRIL 13, 1934

MAY 17, 24, AND JUNE 7, 1945

Printed for the use of the Committee on Finance



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1945

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TO REPEAL THE JOHNSON ACT

THURSDAY, MAY 17, 1945

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

The committee met, pursuant to notice, at 10:30 a. m., in the Finance Committee room, United States Capitol, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Barkley, Bailey, Byrd, Lucas, McMahon, Taft, Butler, and Bushfield.

The CHAIRMAN. The committee will please come to order.

We have before the committee S. 633, a bill to repeal the act entitled "An act to prohibit financial transactions with any foreign government in default on its obligations to the United States."

(S. 636 is as follows:)

[S. 636, 79th Cong., 1st sess.]

A BILL To repeal the Act entitled "An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States," approved April 13, 1934

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Act entitled "An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States", approved April 13, 1934, is hereby repealed.

The CHAIRMAN. Mr. Lynch, will you come forward, please, and make to the committee such statement as you wish to make about this bill?

STATEMENT OF THOMAS J. LYNCH, ASSISTANT GENERAL COUNSEL, TREASURY DEPARTMENT

Mr. LYNCH. I should say from a departmental standpoint that the Treasury Department was not the prime sponsor of this bill. It is fully in accord with the bill and has written the committee that it favors the repeal of the bill.

The recommendation for the repeal of the Johnson Act was made in the message of the President on the Bretton Woods legislation and it is from that standpoint, of course, that the Treasury is primarily interested.

And also another recommendation for the repeal of the Johnson Act was made by the President in transmitting the Budget message for 1946. The statement contained there is as follows:

At present our foreign investment programs are impeded by legislation which restricts loans to those countries which are in default on loans arising out of World War I. For both the International Bank and the Export-Import Bank to operate effectively as well as to achieve an adequate flow of private investment it is essential that these restrictions be removed.

I am quoting from the President's Budget message for 1946.

The President in his message transmitting recommendations for the passage of what we have referred to as the Bretton Woods proposals—that is, Seventy-ninth Congress, Document No. 70, House of Representatives—makes a similar recommendation in which after referring to the proposals for international economic cooperation he states:

It will also be necessary, of course, to repeal the Johnson Act.

In the so-called Bretton Woods legislation, which, as you know, has been the subject of quite extensive hearings before the House Banking and Currency Committee, and will, we expect, soon be before the Senate Banking and Currency Committee, there is also a proposal relating to the Johnson Act.

Senator BYRD. About the Bretton Woods proposals, do they provide for direct loans by this Government to the other governments?

Mr. LYNCH. For United States participation in loans by the International Bank.

Senator BYRD. Is that prohibited by the Johnson Act?

Mr. LYNCH. It has been so construed.

Senator TAFT. The Johnson Act doesn't cover the Government.

Mr. LYNCH. There is a specific provision in the export-import legislation equivalent to the prohibition of the Johnson Act, and, of course, in the International Bank the proposal is not only for Government loans, but for bank guaranties of private lending.

Senator TAFT. That is the principal effect of the Bretton Woods proposals. There the idea is for loans by persons covered by this act to be guaranteed by the International Bank.

The CHAIRMAN. Does the legislation carrying into effect the Bretton Woods agreement expressly repeal the Johnson Act?

Mr. LYNCH. That was the point to which I was addressing myself, Mr. Chairman, and I wanted to point out that in that legislation there is what we call a pro tanto repeal of the Johnson Act only to the extent necessary to carry out the purposes of the fund and the bank, and the reason for that proposal in that legislation was that so far as the bank and the fund were concerned that was all that was necessary strictly for its purposes, but I do want to point out that the Treasury Department does not oppose the total repeal of the Johnson Act, has favored its total repeal, and there would be no conflict between the provisions of the present bill totally repealing the Johnson Act and the present Bretton Woods bills.

Senator BARKLEY. If the Johnson Act were repealed outright it would not be necessary to mention it in any other legislation.

Mr. LYNCH. Correct, sir.

Senator LUCAS. But the Bretton Woods legislation only partially repeals it?

Mr. LYNCH. That is correct.

Senator LUCAS. Just as you need it?

Mr. LYNCH. Yes. I will read the provision of the Bretton Woods legislation referring to the act:

The Johnson Act is amended by adding a provision as follows: "While any foreign government is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development, this act shall not apply to the sale or purchase of bonds, securities, or other obligations of

such government, or any political subdivision thereof, or of any organization acting for or on behalf of such government or political subdivision, or to the making of any loans to such government, political subdivision, organization, or association.

And, as I said, that was put in in such circumscribed terms because it was felt in passing this legislation that that was as far as it was necessary to go for the purposes of the Bretton Woods proposals, but that doesn't reflect at all, I am sure, any expression of opinion on the part of the sponsors of that legislation that the Johnson Act repeal might not go further.

The CHAIRMAN. You say that the Treasury does recommend outright repeal?

Mr. LYNCH. Yes, Mr. Chairman.

The CHAIRMAN. Of the Johnson Act?

Mr. LYNCH. Yes, sir.

The CHAIRMAN. And is in favor, necessarily, of the changes suggested in the Export-Import Bank?

Mr. LYNCH. Yes.

Senator BYRD. Have you got a copy of the Johnson Act there?

Mr. LYNCH. Yes.

(Copy of Johnson Act handed to Senator Byrd.)

Senator LUCAS. The Export-Import Bank came about after the Johnson Act was passed?

Mr. LYNCH. Yes.

Senator BARKLEY. Mr. Chairman, let us have the Johnson Act read.

The CHAIRMAN. Yes. Will you read the Johnson Act, please, Mr. Lynch?

Mr. LYNCH. Yes, I will. The Johnson Act, so-called, is Public, No. 151, Seventy-third Congress, approved April 13, 1934. Not reading the enacting clause:

That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. Any person violating the provisions of this Act shall upon conviction thereof be fined not more than \$10,000 or imprisoned for not more than five years, or both.

SEC. 2. As used in this Act the term "person" includes individual, partnership, corporation, or association other than a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercises a controlling interest through stock ownership or otherwise.

Senator BUSHFIELD. That act prohibits foreign countries from floating foreign loans, doesn't it, in this country?

Mr. LYNCH. Yes, sir.

Senator BUSHFIELD. I would like to have an explanation of why it is thought that that prohibition should not be continued.

Mr. LYNCH. As I said, sir, from a departmental point of view, as far as the Treasury Department is concerned, and its interest in the Bretton Woods proposals, it believes that the repeal, at least to the

extent of the Bretton Woods proposals, is necessary in order to effectuate them.

Senator BUSHFIELD. The Bretton Woods proposals are more or less in the nature of Government loans. We are furnishing the money.

Mr. LYNCH. Yes. Either a Government loan or a Government guaranty of a private loan.

Senator BUSHFIELD. Speaking of the prohibition. That prohibits banks from floating loans of foreign countries?

Mr. LYNCH. I don't feel qualified to speak upon that larger point, so far as any personal experience or personal study I have made of it is concerned. I do not purport to be qualified.

Senator LUCAS. Insofar as the Government guaranteed a personal loan the Johnson Act would affect it?

Mr. LYNCH. Oh, yes.

Senator BYRD. This repeal goes further than the Bretton Woods proposals.

Senator LUCAS. I understand.

Senator TAFT. Could you tell us what governments are affected; that is, those that are in default?

Mr. LYNCH. I don't have that data with me, Senator.

The CHAIRMAN. We are going to have that put in the record.

Senator TAFT. I suppose it includes nearly all of the European governments.

Senator BARKLEY. It would include any government in which there was a city that had issued bonds or obligations which have been sold in this country that have been defaulted.

Senator TAFT. It has to be an obligation to the United States Government which is in default. It would apply to England, France, primarily, and Italy.

Senator BARKLEY. And if there was any city within those countries that had issued obligations and had defaulted.

Senator TAFT. Yes. But the mere fact that South American bonds, for instance, are in default, loans are not barred to them.

Mr. LYNCH. It is the default of an obligation of the United States.

Senator TAFT. Yes.

Senator BYRD. If cities made loans over here, and they are in default, that wouldn't apply.

Senator TAFT. No.

Senator BYRD. It would have to be default directly to the United States Government.

Senator TAFT. It is intended to cover that \$10,000,000,000 of war debts that were never paid.

Senator BUTLER. Mr. Chairman, I don't see that there is any urgency about the passage of this bill ahead of the Bretton Woods measure. If there isn't any urgency I would suggest letting this await action on the Bretton Woods proposals because they are so tied together that we pretty nearly have to consider them together.

Senator TAFT. It seems to me that if anything is done at all it ought to be a complete repeal rather than a partial repeal, because if you do put through the International Bank and provide for loans by individuals and banks in this country to be then guaranteed by the International Bank, you see, that loan is exempt, but if a bank wants to make a loan without the international guaranty—and surely we

would like to have them do that—then that is barred, and in order to make a loan at all they have got to go and get an international guaranty.

So I think if it is repealed it would be desirable to repeal it entirely. But I agree with Senator Butler; I don't see why we don't consider the whole thing together.

Mr. LYNCH. Mr. Senator, in connection with your last statement, I believe the effect of the provision in the Bretton Woods proposal is that the Johnson Act is repealed as to such countries as are members of the fund.

Senator TAFT. Then it is complete repeal for all practical purposes outside of, probably, Italy and some of the other enemy nations.

Mr. LYNCH. It is a question of when they may become members, when they may become qualified to membership.

I should like to state in reference to the larger question, as to the background for the proposed repeal of the Johnson Act in toto that, of course, although I wouldn't want to make a pretense here that I am an expert on that, from a departmental standpoint that proposal has been sponsored, and I think sponsored quite assiduously by the State Department, as well as by the President, in the messages that I have read; it is the general feeling that in the postwar situation that is faced, and the problem of reconstruction and development and restoration of international trade, that it would be a serious impediment if the, what we might call the dregs of the last World War were to offer a serious impediment to things that were economically advisable, that might necessarily be carried through by transactions that would now be prohibited by the Johnson Act.

And it was, furthermore, the feeling that the situation arising as the result of the last World War, that is, the lingering default of Government debts, that that situation could best be handled, cleaned up, if possible, in connection with resolution of the many other questions arising between governments at the end of the present war.

In other words, that situation ought to be left, if it could, for resolution between the governments with due protection for the interests of the United States, and that the impediment of the Johnson Act should be removed, because it may offer a serious barrier to action that we might generally consider desirable in connection with reconstruction development and better postwar international economic relations.

Now, on the details of it I should be glad to seek to get any information as to what countries are affected and what the amounts involved are. I would suggest to the committee, if they should desire to go further into the background of it, that the State Department representatives would be much better qualified to appear as witnesses before the committee.

The CHAIRMAN. The State Department desires the repeal outright of the Johnson Act. They are not here this morning. They haven't sent anyone down this morning to represent them before the committee. They have contented themselves with a request for the outright repeal, because, as they say, it is more or less of an impediment in their way now in some reconstruction programs.

Senator BAILEY. Isn't it an impediment in the way of other nations too?

The CHAIRMAN. Yes.

Senator BAILEY. My judgment is that we are in a trading situation now with all nations. Here is a great concession. Why should we make it until we get something from them? I would rather start trade with those nations. They will give you their shirt if you will trade with them.

Senator LUCAS. That is all they have—their shirt.

Senator BARKLEY. I don't believe that anybody now expects these debts ever to be paid but it might be a good idea to hold them in abeyance for a little while.

Senator BAILEY. Yes. Get something for it.

Senator BARKLEY. In view of the fact that neither the Treasury nor the State Department have initiated this originally, although they favor it, it might be sound not to hurry into it by taking action right now, although I am for the repeal.

Mr. LYNCH. Mr. Chairman, I believe it is the fact that the State Department has sponsored a repeal of the Johnson Act.

The CHAIRMAN. Yes, they have.

Mr. LYNCH. I mean, it hasn't only expressed approval but has sponsored legislation.

The CHAIRMAN. Yes.

Senator McMAHON. Where, in the House?

The CHAIRMAN. They have from time to time advocated it. No specific legislation.

Senator McMAHON. They didn't sponsor this bill, S. 636?

Mr. LYNCH. No. I mean the general proposal.

The CHAIRMAN. We have here the State Department report, which I would be glad to read to the committee. It is short. It is from Mr. Grew, the Acting Secretary:

MY DEAR SENATOR GEORGE: Under date of April 10 you were informed that the Department would soon give you its comments on S. 636, a bill "to repeal the act entitled 'An act to prohibit financial transactions with any foreign government in default on its obligations to the United States, approved April 13, 1934.'"

This act, known as the Johnson Act, prevents the extension of private credits to most of the governments of Europe. Several of these governments are in urgent need of financial assistance to meet costs of reconstruction and to restore their economies to a productive basis. It is generally believed to be in the interests of the United States and of general security that the countries devastated by war be restored as promptly as possible.

These countries, formerly good customers of the United States, are greatly in need of our goods, but unable to make immediate payment for all their requirements. If aided financially, they can also provide an outlet for much of this country's greatly expanded productive capacity, thereby facilitating conversion of industry to a more normal basis.

So long as private advances to these countries are prohibited, their alternative in financing their necessary purchases here is to request aid from this Government.

Since the above act was adopted in April 1934, moreover, the proposed legislation providing for United States participation in the International Monetary Fund and the International Bank for Reconstruction and Development contains a provision exempting members of these institutions from the prohibitions of this act.

In view of the above circumstances, the State Department would be glad to see the Johnson Act repealed as provided in S. 636.

The Department has been informed by the Bureau of the Budget that there is no objection to the submission of this report.

Senator BARKLEY. The more private credit that is advanced to these countries the less we will be called upon to help them, that is, the

Government of the United States, and if the private lending institutions are willing to take a chance on making these advancements, I don't see why we shouldn't facilitate it.

The CHAIRMAN. The only instance that I have any knowledge about as to that is in regard to sales of cotton and wool—raw cotton and raw wool. France and the other countries of Europe are badly in need of raw material. They can't start their industries until they get it.

Senator BUTLER. They get it from our Government, don't they, Mr. Chairman?

The CHAIRMAN. No. They are arranging it through private brokers or merchants for it. They are not in position to pay entirely. The governments, or de facto governments, or the existing governments, in France and the other countries, are willing to guarantee the loans. They are willing to stand back of the loans—whatever that may be worth.

But they are not able to make complete cash settlements. And they have pointed out, I know, that the Johnson Act stood in their way, and the State Department has been anxious to have the Johnson Act lifted in order to enable these advances to be made to certain of these countries who now desire to purchase raw material for their use.

Senator BYRD. Of course, a loan could be made by a private organization anyway, couldn't it? The Johnson Act doesn't prohibit that.

The CHAIRMAN. I don't think the Johnson Act prohibits a loan to individuals or firms, but the proposal has been for the governments of these countries to step in and acquire the raw material.

Senator BYRD. It seems to me that when the Bretton Woods plan is adopted, if it is, that private organizations or banks would be making a great mistake by endorsing an unguaranteed loan if they can get it guaranteed through the Bretton Woods plan.

I shouldn't think they would want to make it without a guaranty.

The CHAIRMAN. They might not want to make them through the Bretton Woods plan; I don't know. I simply make mention of that fact as the only immediate thing that has been brought to my attention.

Senator LUCAS. That is sufficient for me. In other words, here you have men in your section of the country who want to make disposition of their cotton, and the Johnson Act stands in their way. Why should we delay repeal of the Johnson Act under those circumstances?

The Johnson Act affects those individuals in this country who want to send their private money to other countries. It doesn't affect the Government at all. The truth of the matter is that the act was passed, you might say, at the time to serve notice on these other countries that they must pay their debts.

To try to force them, or coerce them, into paying their debts. That is water over the dam. We are not going to get that money. It seems to me that the proper place to settle the debt question is when we settle these other war problems. The longer we delay this, just that much longer we keep private capital from going into these countries to aid in reconstruction.

As far as I am concerned, I would like to see the committee act on it immediately—not delay it until Bretton Woods plan is put into effect. We don't know whether that is going to pass or not. I hope it does.

But here is something that is of immediate necessity, it seems to me. These countries want to get back on their feet as fast as possible, and as long as this act is on the statute books there isn't a dollar of private capital that can go into these countries.

Senator BYRD. Except by individuals.

Senator LUCAS. Yes; but those countries are dealing primarily through their governments.

Senator BYRD. I don't believe the public will buy any of these bonds like they did the last time.

The CHAIRMAN. There was an abuse in the last war. Of course, many of our larger banks did sell many of these securities of other governments. Our people bought them largely on the faith of the bank making the recommendation at the time, probably.

Senator TAFT. I was told—I don't know whether the story is true—that the Russians went to the General Electric Co. and wanted, I forget how many millions of dollars' worth of electric equipment, fifty or a hundred million, and they wanted it for 20 years; and General Electric Co. at their meeting hemmed and hawed and cut it down and finally said that if they got rid of the Johnson Act they would make it for 10 years, and then I understood the British gave them the credit for that time, and it was all over.

I don't know whether that is true or not, but that is the story. The New York banks, a number of them, are very anxious to make loans to foreign governments themselves. Some of them have talked to me about it.

The CHAIRMAN. They have had branch banks, of course, in these foreign countries. Many want to deal with the governments, of course.

Senator TAFT. Chase, and the others, I think, are all willing to give credit.

Senator BARKLEY. Chase and the National City are now in the process of reopening their branches in Paris, to deal directly with the French people.

The CHAIRMAN. So is the Guaranty Trust Co. They are getting ready for business and are doing business, but their business has been largely business with the governments.

Senator TAFT. In Russia, of course, you can't do business with anybody but the government.

The CHAIRMAN. That is right. It has to be a Government transaction. It comes to that.

Senator BARKLEY. Would Russia be included—were there loans to Russia?

Senator TAFT. Yes; there were, and Stalin repudiated them. He refused to recognize the Czaristic obligations.

Senator LUCAS. You will find very few individuals in these stricken countries that will be in a position for some time to float loans.

The CHAIRMAN. The situation in Italy is desperate. I regard the situation in France as far less than desperate so far as reopening industry and putting their people back to work is concerned. They have got to have three things. They have got to have certain raw materials, say, wool and cotton, in order to put their mills back.

They have got to have some lumber, in order to prop their mines, so that they can get coal to produce power, and to keep them from

freezing this winter. And they have got to get their transportation moving.

Their big problem today is the lack of adequate transportation. They don't get the things that they are producing in France into the centers where they are needed, where the consumptive power exists.

Those are the conditions that exist. And they are probably in a more desperate condition in Italy. Now, Italy and France always have been pretty large users of cotton, and they have been pretty heavy users of wool, which they didn't get entirely from us, but they got some of it from us. And they need the lumber badly.

Senator LUCAS. Every day counts, Mr. Chairman, it seems to me.

Senator BUSHFIELD. Mr. Chairman, if we remove this prohibition, won't we be right back where we were 20 years ago, with these large financial institutions flooding the country with foreign loans, making suckers of our people?

The CHAIRMAN. Senator, that is a matter that I couldn't answer. I would doubt very much whether they would do it again, but they might do it again. I don't know. They might attempt it.

Senator LUCAS. Can they do it?

The CHAIRMAN. Our people might not buy again. I would hope, certainly, that they wouldn't buy.

Mr. LYNCH. The Securities Exchange Act puts restrictions in force that were not in force at the time.

The CHAIRMAN. Yes. I should say during the hearings, the so-called Pecora hearings, which led, you might say, to the passage of the securities and exchange legislation, the most noteworthy incident related to South American and other foreign loans that were floated in this country by our banking system.

I think that was one of the prime circumstances that led to the enactment of the securities and exchange legislation.

Senator BARKLEY. I don't think any banks now either would or could under the law go out and do what they did at that time—just put on a program of inducement to the American people to buy these bonds because they were handling them, they were underwriting them, especially South American countries and municipalities.

Senator TAFT. I am not sure that we may not have to have a law putting some limit on loans later, but I don't think the way to do it is just to prohibit the loans to countries that happen to be in default in the World War debt.

Senator BYRD. Does the Securities and Exchange Commission have jurisdiction over these loans?

Senator TAFT. If they are floated; yes.

Senator LUCAS. It was the bankers that took the bonds,

The CHAIRMAN. The bankers acted as fiscal agents. They acted as the fiscal agents for governments and municipalities and simply underwrote and sold to the American public. That is the truth about it. It was an outrageous procedure.

Mr. LYNCH. They had their securities affiliates, as you know. At that time each one of the banks had a securities affiliate. And those affiliates, of course, in the meantime have become unlawful.

Senator TAFT. I read the House postwar report on foreign trade, and they insisted that our people must invest money abroad at the rate of two or three billion dollars a year for all time to come, I think

it was. I didn't approve of the report, but that is what they are proposing.

Senator BARKLEY. Is that the Colmer report?

Senator TAFT. Yes.

Senator McMAHON. In view of Senator Taft's example—which, of course, he doesn't underwrite, but nevertheless it sounds quite probable—it would seem to me that we ought to get this out as quickly as possible.

The CHAIRMAN. I had hoped that we might. I think the act is a mistake. I think it stands as a constant reminder of the type of legislation that was not very effective, of course, because it came after the horse had been taken out of the stable, anyway, and it isn't going to affect the future situation very much, but it does hamper right at the moment.

Senator Fulbright couldn't be here. His secretary is here.

Do you have any statement that you wish to make to the committee?

Mr. REYNOLDS. Senator, all that I would like to comment on—and I don't propose to tell the committee anything about it—is that the Bretton Woods agreement has an angle to it that if it is handled in that way some of these nations may not be inclined to participate in that, and it would tend to be a coercion; whereas if it is repealed outright, it would have nothing to do with the Bretton Woods agreement.

That was the only point I had to make.

The CHAIRMAN. Yes, sir.

Well, what is the pleasure of the committee?

Senator LUCAS. I move it be reported favorably, Mr. Chairman.

The CHAIRMAN. You hear the motion. Do you also include the amendment that is made?

Senator LUCAS. Yes, sir.

The CHAIRMAN. Mr. Boots, let us understand this amendment before we proceed.

Mr. BOOTS. The Export-Import Bank?

The CHAIRMAN. Yes.

Mr. BOOTS. The present law on that reads as follows:

That the Export-Import Bank of Washington shall not make any loans to any government which was in default of the payment of its obligations or any part thereof to the Government of the United States on April 13, 1934, or in violation of international law, * * *

And so forth.

Senator TAFT. That is involving the question of our Government loaning money, which is part of this bargaining question that Senator Bailey raised. I don't think this will accomplish it. It is private money that we want to make immediately available.

You are going to have an Export-Import Bank law up here, I assume, pretty soon.

The CHAIRMAN. Are we?

Senator TAFT. I understand they are proposing an increase from \$700,000,000 to \$2,000,000,000, I think.

The CHAIRMAN. I think myself that the Export-Import Bank ought to make whatever loans we are going to make to any foreign government. I feel that way very strongly.

Senator TAFT. I think so, too.

The CHAIRMAN. I wouldn't loan any government more than a billion dollars. See what they are going to do with it. And I think it ought to be funneled in such a way as to prevent them from getting a great big credit and destroying our economy by buying everything we have in sort supply.

Senator BARKLEY. The legislation on the Export-Import Bank is in the Banking and Currency Committee.

The CHAIRMAN. Yes.

Senator BARKLEY. And I rather feel that they ought to make their own case in behalf of the repeal of that part of the act that affects them.

The CHAIRMAN. Senator Lucas.

Senator LUCAS. I will withdraw that.

The CHAIRMAN. Make it the Johnson Act.

Senator LUCAS. I think Senator Barkley is right.

The CHAIRMAN. I gave Senator Johnson notice. He was the author. He said he wouldn't be here today. I presume Senator Johnson would be against the repeal of the act.

Senator BAILEY. Mr. Chairman, if we should repeal the Johnson Act would we just open the door for foreign nations and cities in default to come over here and sell their bonds without any supervision?

The CHAIRMAN. Senator Bailey, I don't so understand. I think under the Securities and Exchange Act, they would have to sell them under supervision.

Senator BARKLEY. They would have to register them.

The CHAIRMAN. They would have to satisfy the Securities and Exchange Commission.

Senator BARKLEY. They would go through all of the steps that would be required of a domestic corporation.

Senator BYRD. Is that definite?

The CHAIRMAN. Yes.

Senator BARKLEY. They would have to go through the same supervision as if a private corporation were going to sell bonds.

The CHAIRMAN. I think it is even more rigid in some respects. I wouldn't myself be in favor of repealing it unless we have some such safeguard, because we might have some bankers who would try to float these loans again, and the American people might buy them.

Senator BAILEY. I would like to go along, but I don't want to give away our position. I would like to hear from the State Department.

The CHAIRMAN. This is their formal statement, Senator. I am sure that Mr. Clayton, of the State Department, would have more accurate and a wider knowledge of this matter than almost anybody else connected with the State Department, unless it be Mr. Stettinius himself; and he, of course, is not here.

Senator BYRD. I am inclined to vote for the repeal. I do think, however, that we ought to hear from the State Department. It is a very important matter. I expect to vote for the repeal. If it is true that the Securities and Exchange Commission can control the securities that would be offered by foreign countries here, I would vote for the repeal.

Senator LUCAS. It would be unbelievable if we would control our own securities and not those of foreign countries.

The CHAIRMAN. Mr. Boots, have you got the act here?

Mr. BOOTS. No; I haven't got it here, but I believe that is true.

Mr. LYNCH. Mr. Chairman, I don't want to appear as an interloper speaking on behalf of the Securities and Exchange Commission; I think we can verify it very shortly from title 15 of the code, but I am satisfied of the fact that foreign-government issues are subject to regulation; that is, when there is a public offering in the United States.

Senator TAFT. We could confine it to private credits and loans without authorizing any public offering. That would be a possible compromise. I do think it ought to be repealed as to private corporations and banks.

The CHAIRMAN. Have you got that act there?

Mr. BOOTS. I have the code here.

Senator BUSHFIELD. It seems to me, Senator Taft, that is the reason it should be kept to prevent these private corporation from flooding our country with securities that might be worthless.

Senator TAFT. I was talking about loans like the one I referred to by the General Electric, or by cotton brokers, or by banks in New York making loans of their own money.

Senator BAILEY. What do you say to opening the door to our people buying foreign bonds at a discount? You have got to deal with the foreign nations. This is a very unusual situation. The foreign nation comes over here to sell its bonds and asks permission from the Securities and Exchange Commission and you run into this whole international situation at once.

I have been attached to the Johnson Act. I was here when it was passed. I thought we passed it with a view to making those foreign nations pay up in 1934. They had defaulted 2 years before.

As I recall, the Congress was rather indignant and we thought we were passing an act that would make them come up and pay but they couldn't do it. I don't think the act is so well-founded.

Senator BYRD. How could Securities and Exchange, for example, determine whether some town in England, or some town in France, was solvent? That is one of the main considerations as to whether the securities that are offered are backed by sound values.

Senator TAFT. My impresison is that there are no such towns barred by the Johnson Act. I think the loans were all to nations. I agree if England put on a sale of bonds here, I don't think the Securities and Exchange Commission could stop it under the securities and exchange law. They would have to file their statement—I am positive of that—but certainly the SEC couldn't say the British Government wasn't good.

Senator BYRD. It says any foreign government or political subdivision thereof.

Senator TAFT. Which is in default to the United States Government.

Senator BARKLEY. The Government of the United States made no loans to cities.

Senator BYRD. It says any foreign government or any political subdivision thereof. Certainly a town or city in England or in any other country is a subdivision of a foreign government.

Senator BARKLEY. What that means, Senator, is that no private loan can be made by citizens of the United States to a city or a country.

Senator BYRD. I understand; but the point I am making is that it does involve the solvency of the city.

Senator TAFT. There may be one or two, but I don't think there are any cities. I think regardless of the Johnson Act the banks could flood this country with foreign and municipal bonds today if they get the SEC to approve them.

There isn't anything in the Securities Act to prevent that.

Senator BYRD. Take a city in France. Can the Securities and Exchange Commission determine whether a city in France, which is prohibited from selling bonds over here to individuals under the Johnson Act, can they say whether that city is solvent?

If they can say it, and the law provides for it, I am in favor of repealing the Johnson Act.

Senator BAILEY. How many million dollars of bonds were lost by the American people after the First World War, South American, Mexican, and other bonds?

Senator TAFT. I think various South American countries are in default about \$300,000,000.

Senator BARKLEY. Mr. Chairman, in view of the uncertainty about this thing, I think it might be well to have Mr. Clayton and someone from the Securities and Exchange Commission down here to explain it. I think that the committee would be better satisfied.

Senator LUCAS. I will withhold my motion.

The CHAIRMAN. Senator Lucas is withholding his motion.

Senator LUCAS. I think, Mr. Chairman, however, that we ought to do that as soon as possible.

The CHAIRMAN. Would you desire it to go over to next Thursday?

Senator LUCAS. That is all right.

The CHAIRMAN. That will give you an opportunity, Mr. Lynch, to supply for the record the countries that are in default and the amounts, at least of the principal. I don't know that you want the interest calculated up to date on this thing?

Senator BUSHFIELD. No.

The CHAIRMAN. We will ask Mr. Clayton to come down on the Johnson Act, or anyone else they wish to send, and also ask the Securities and Exchange Commission to send someone down.

That will be all for today. Next Thursday morning.

(Whereupon, the committee adjourned.)

TO REPEAL THE JOHNSON ACT

THURSDAY, MAY 24, 1945

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

The committee met, pursuant to adjournment, at 10:30 a.m., in the committee room of the Committee on Finance, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Walsh, Barkley, Gerry, Guffey, Johnson, Lucas, McMahon, Taft, and Bushfield.

Also present: Senator Hiram W. Johnson of California, and Senator William J. Fulbright.

The CHAIRMAN: We have before us this bill by the Senator from Arkansas, Senator Fulbright. Is Senator Fulbright present?

Senator FULBRIGHT. Yes.

The CHAIRMAN: Senator, come around here, if you wish, and have a seat with the committee, or down here by Senator Johnson.

We have this morning a witness from the State Department, Mr. Clayton, who is present, as well as a witness from the Securities and Exchange Commission, Mr. Purcell, who is also present.

Mr. Clayton, will you come around, please. You are listed first.

Mr. Secretary, the committee has under consideration S. 636, which is an act to repeal the act entitled "An Act to prohibit foreign transactions with any foreign government in default of its obligations to the United States," approved April 13, 1934, and the members of the committee desire to have your views upon this proposal.

You may make such statement as you wish and then we may desire to ask you some questions.

Senator Johnson, if you wish to ask any questions you may feel free to do so. Senator Fulbright, the same goes for you. After Mr. Clayton makes his statement, you may ask whatever questions you have.

STATEMENT OF WILLIAM L. CLAYTON, ASSISTANT SECRETARY OF STATE

Mr. CLAYTON. Mr. Chairman and gentlemen of the committee, I have no prepared statement to present. I would like to say for the Department of State that we support Senator Fulbright's bill. I think that the Department's view regarding this matter has been very well stated by Mr. Dean Acheson, Assistant Secretary of State, in a statement which he made before the Colmer committee of the House.

I will read a short paragraph from that statement:

It would be equally desirable to remove the ban imposed by the Johnson Act on private lending to governments in default to this Government. That act as well as the provisions of the Export-Import Bank statute which is referred to was directed at governments in default on debts arising out of the First World War. Conditions have changed greatly since this act was adopted but it still stands in the way of extension of urgently needed loans to the principal European governments and is, therefore, a barrier to American participation in the rehabilitation of international trade. The unavailability of private capital due to the act increases the need for Government loans for reconstruction and other purposes.

I would like to emphasize that last point made by Mr. Acheson. As we all know, the devastation wrought by the war in Europe has been very great and it will be very necessary in the next few years to do a great deal of reconstruction work in those countries. The United States is almost the only country in the world that is in position to furnish the necessary equipment, machine tools, machinery, and technical knowledge of all kinds that is so essential in this reconstruction work.

It is highly important to this country, from many points of view, that we should be in position to furnish the necessary machinery, tools, equipment, and so on, and that we should furnish it. For one thing, we have greatly developed during the war, as we all know, our productive facilities in capital and producer goods far beyond any ability of the United States to absorb such products. So it is very necessary for us to find markets abroad for these products if we are going to maintain postwar anything like a high level or a satisfactory level of employment in the United States. We want, for the next few years after the war, all the markets that we can possibly get for goods of this type.

Now, these goods will be needed in many countries that now are under a ban against participation by Americans in loans to their governments due to the Johnson Act, and we think it is very important that that ban be lifted.

Senator WALSH. Is there any estimate of what may be the amount necessary to give that relief?

Mr. CLAYTON. Do you speak of relief, Senator, or reconstruction?

Senator WALSH. Reconstruction.

Mr. CLAYTON. Oh, there have been many estimates. I do not know of any authentic estimates. We are trying to pull some figures together in the State Department now. It is extremely difficult to estimate just what it will amount to, but it is going to be a very large amount.

The CHAIRMAN. There is no prohibition in the statute, Mr. Clayton, against the extension of credit to individuals and firms within these countries?

Mr. CLAYTON. That is correct, Senator; but in many of these countries, in order to do a reconstruction job, it is probably going to be necessary for the governments of those countries to float loans for very large amounts of money. In many of these countries the governments own the railroads. As you know, railway bridges are down, railway track is torn up. They have lost equipment. Locomotives and railroad cars, things like that, have to be purchased in order to restore the transportation system of the countries. Public buildings have been destroyed, which will have to be reconstructed by government funds. So that when you look at the picture you can't help

but realize that very large sums of money will be required by the governments themselves to do the reconstruction job.

Senator TAFT. Is there any ban in this act on loans to municipalities?

Mr. CLAYTON. I believe there is not.

Senator TAFT. The question is, Were there any municipalities covered, actually covered, by the terms of the act, that owed money to the United States Government?

Mr. CLAYTON. Do you know, Mr. Collado?

Mr. COLLADO (E. G. Collado, Director, Office of Financial and Development Policy, Department of State). Yes; there were several. Quite a few municipalities were covered by the terms of the act. They were in default.

Senator TAFT. To the United States Government?

Mr. COLLADO. No, no. I am sorry. The only defaulters are the governments themselves, as the result of the intergovernmental debts of the last war and the period just following the last war.

Senator TAFT. This act does not prohibit any Government loans or credits to individuals or to municipalities of Europe, but, only to governments; is that correct?

Mr. COLLADO. There is a question, Senator, on municipalities. It is a question of legal opinion. As I understand it, the opinion of the Attorney General has been that a municipality which is carrying on the ordinary operations that are customary for municipalities, there is no prohibition on that. If the municipality goes outside of the ordinary field of municipality functions, then it may be considered a political subdivision of the government in question, and may be banned for that reason.

Mr. CLAYTON. That puts the credit, of course, of a municipality under a cloud. I mean, if bankers have to make decisions on some fine points of division, as to whether the thing is legal or not, why of course, it is very difficult.

Senator TAFT. I didn't see why any municipality would be covered myself, unless they had actually owed money to the United States Government.

Mr. CLAYTON. I spoke of one phase of the reconstruction problem, and pointed out that our market was certainly the major and principal market for the kind of things these countries must have in order to reconstruct and pointed out the importance to this country of being able to supply those goods. I would just like to mention one other aspect of the reconstruction problem and that is that it is very important from our point of view, leaving aside entirely any humanitarian question at all, and just looking at it purely from a material and commercial point of view, it is very important to us that these countries should reconstruct and should restore their economies and their commercial life as quickly as possible, because we certainly cannot expect very long in this country to maintain a condition or a satisfactory level of employment and prosperity in the United States if the rest of the world is suffering in the throes of unemployment and depression, which would certainly come about from a failure to restore their transportation systems and the agencies which contribute to the economic life.

Senator BUSHFIELD. Mr. Secretary, do you think that the United States Government should loan money to these foreign countries for the purpose of building public buildings, for instance?

Mr. CLAYTON. That is a question that we have not gone into. I think that loans by this Government for reconstruction will be highly desirable and that we are going to do it.

Senator BUSHFIELD. They are highly desirable to the foreign countries, but are they to us; that is the point.

Mr. CLAYTON. I think so. I wouldn't say for the rebuilding of public buildings. As to any specific aspect of the loans, we haven't gone into it far enough to be able to answer with any degree of finality as to what our opinion on it is, but I think that it is in our interest to make available to these countries that have to reconstruct the necessary tools, equipment and technical knowledge and assistance, without which they cannot reconstruct. This is about the only country in the world from which they can obtain these things in any great volume. We do know many of them are not in position to pay cash.

Senator BUSHFIELD. We are operating on borrowed money ourselves, aren't we, Mr. Secretary?

Mr. CLAYTON. That is right.

Senator BUSHFIELD. You advocate still further borrowing in order to loan the foreign countries then?

Mr. CLAYTON. I think it is going to be absolutely essential that we should do a certain amount of that after we carefully study the whole situation and make up our minds as what is the right program, because I think without it that many of these countries will be so long delayed in reconstructing and restoring their economies that it will be a good business move for us to assist them financially to get on their feet quicker than they could otherwise do, and I think that if we do not help them that in many cases we will find chaos and a condition in these countries that cannot but reflect very unfavorably on us here in the United States. We cannot be entirely aloof in that situation.

Senator BUSHFIELD. May I ask a further question? If these loans are granted by our Government, no matter what country it is, are we to have any supervision over how that money is to be spent by these foreign countries, or will it be just a straight loan without strings on it?

Mr. CLAYTON. In practically all the loans that the Export-Import Bank makes, I think in all of them as a matter of fact, they do make conditions as to why and where the money is to be spent. Practically all of it is spent in the United States, as you know, and we can make any reasonable conditions in connection with those loans that we want to make.

Senator TAFT. As to the \$6,000,000,000, under Bretton Woods, we can't make any condition.

Mr. CLAYTON. Bretton Woods can.

Senator TAFT. Yes; the institution can, but that is not before us.

Mr. CLAYTON. The institution there can make the conditions.

Senator TAFT. They can't make any conditions in the International Stabilization Fund at all, and when you come to the bank all they can do is do what the Board wants to do, which is controlled by the debtor countries.

Mr. CLAYTON. I think the monetary fund does set up conditions.

Senator TAFT. There seems to be an automatic right of every nation to draw its quota.

Mr. CLAYTON. I don't so read it, Senator. You may be right, but I don't so understand.

Senator BUSHFIELD. May I ask a further question?

Mr. Secretary, you said naturally most of the money from the loans will be spent within this country. I will grant you that up to date during this war they have been, but after the war is finished and when they still want this money, do you still think that it will be all spent in this country, or will it be spent in the various countries to whom the loans go?

Mr. CLAYTON. Senator, you cannot make a loan of dollars to any country without it either being spent in the United States or they taking gold for it, or paying a debt. There is no other way they can get rid of it.

Senator BUSHFIELD. You mean that this \$11,000,000,000 that the European countries have forgotten about wasn't paid in gold out of the Federal Treasury of the United States, or did I misunderstand you?

Mr. CLAYTON. The \$11,000,000,000 that was advanced to the European countries at the time of the other war was spent in the United States; yes, sir.

Senator BUSHFIELD. And it was money that was placed to the credit of those foreign countries, Belgium and all the other countries in Europe that got that money, and it was just the same as they had it in their pocket, wasn't it?

Mr. CLAYTON. But they spent it here.

Senator BUSHFIELD. Certainly, they spent it here.

Mr. CLAYTON. I thought that was what you were discussing. Your question was as to where the money would be spent, and I made the statement—and I think perhaps the Treasury would bear me out—and economists—that if you make a loan of United States dollars that money either has to be spent in the United States—let me put it this way: There are only three ways they can avail themselves of the money. One is to spend it in the United States. Another is to take gold for it. And the third way would be to pay a debt here with it.

Senator BUSHFIELD. But the amount of that loan comes out of the Federal Treasury of the United States?

Mr. CLAYTON. Yes; if the Federal Treasury makes the loan.

Senator BUSHFIELD. And, in the first instance, out of the taxpayers' pockets.

Mr. CLAYTON. Certainly.

Senator BUSHFIELD. So, before we go into this new loan scheme, we have got \$11,000,000,000 loaned to all the countries in Europe 25 years ago, and we have never gotten much out of it; isn't that true?

Mr. CLAYTON. That is correct.

Senator BUSHFIELD. Just one further question. Would you care to comment, Mr. Secretary, upon what the policy or feeling is of your Department as to those old loans to European countries, as to whether or not there is any chance of them ever being paid?

Mr. CLAYTON. Well, we have never discussed it in the Department since I have been in the Department of State. I have only been

there 4½ months. But my judgment is that they cannot and will not be paid. That is my personal judgment.

Senator BUSHFIELD. And that this country will make no effort to collect them?

Mr. CLAYTON. Well, I don't know anything about that. I can't answer on that. I merely say that it is my personal opinion they cannot and will not be paid. There is a great deal to be said on that question, and I don't want to start a long argument on it, but—

Senator JOHNSON of California. We will have some long arguments on it no doubt, and you might just as well start now.

Mr. CLAYTON. Fine. It suits me if you want to take the time.

After the First World War it is true we did lend a great deal of money to these countries in helping them and helping us win the First World War, but very soon after the war we started making it impossible for them to pay by raising the tariff so that they couldn't buy. The only way they could ever pay would be in goods or services. We gave them the money with the right hand and with the left hand we said, "We will be damned if we will let you pay."

Senator TAFT. Mr. Clayton, you are talking about the 10 years after the last war?

Mr. CLAYTON. That is right.

Senator TAFT. We had the largest import trade we ever had under the Republican tariff. We imported over \$4,000,000,000 worth of goods right straight through, all along from 1925 to 1929, during all that time. More than we have before or since. There was nothing which shut out imports. That was the largest percentage of the national income that we have ever taken in imports. I say, it just isn't true that the tariff that existed at that time, certainly up to the Smoot-Hawley tariff of 1930, prevented their paying the United States.

Mr. CLAYTON. Senator, if you look at the export figures you will find that they exceeded the imports and the imports of which you speak were not sufficient to pay for the exports that we made to those countries, so that they could pay for the exports and for the loans, too.

Senator TAFT. Of course, they didn't have to buy from us. They could have paid their debts. They were obtaining every year from us \$4,000,000,000 which could have been applied to the payment of debts. But we apparently were willing to sell other stuff to them.

Mr. CLAYTON. They had to have this stuff and they bought more from us than they sold to us by from a billion to two billion dollars a year, and they were sending us gold all the time to pay for that excess.

Senator BUSHFIELD. That wasn't true of farm products, was it?

Mr. CLAYTON. I beg your pardon.

Senator BUSHFIELD. Your statement that the exports exceeded the imports does not refer to farm products, does it?

Mr. CLAYTON. Yes, sir.

Senator TAFT. I cannot agree that they sent us gold from 1920 to 1929 to any considerable extent. It was minor, as I remember it. The difference was, practically, made up by loans, additional loans, from this country rather than by gold payments.

Mr. CLAYTON. The big movement of gold started when the depression started, that is correct, and that excess of exports over imports was taken care of largely in the first 10 years after the war by our loans to Europe and to the rest of the world.

Senator BARKLEY. Isn't it true that the industry of the United States which was manufacturing these things to be exported was more anxious to sell goods to the foreign countries than that the Government should collect those debts?

Mr. CLAYTON. Certainly.

Senator BARKLEY. Generally speaking, the man who makes something that can be sold to a foreign country is more interested in the market.

Senator TAFT. I was only questioning the statement, Mr. Clayton, that the tariff policy in the twenties prevented their paying their debts. I maintain it did not. I maintain that the imports during that period were twice as much as they have been under the reciprocal-trade-treaty agreement. There was no lack of imports into this country when we were reasonably prosperous. The real problem is whether we can make ourselves prosperous. Then we will have the imports.

Mr. CLAYTON. If you want to contemplate American farmers and American industry sacrificing the market that they had abroad for about \$5,000,000,000 worth of goods a year, you are perhaps right; but these countries could not possibly have maintained their economies without buying these goods from us.

Senator TAFT. I am not debating the question of whether they should have paid their debts. I am debating the question that you raised, that the tariffs prevented them from doing it, and I say that wasn't true during the twenties as shown by the tremendous imports.

Mr. CLAYTON. With all due respect, I still maintain my position. I think I am right. Take an item that I happen to know something about, raw cotton. We exported to Europe for 10 years after the war raw cotton at a value of nearly a billion dollars a year. What would have happened to the United States if we couldn't have exported that raw cotton?

Senator TAFT. I am not objecting to exporting. I am in favor of it.

Mr. CLAYTON. I am saying also that if these countries could not have received these goods from us they would not have been able to export these goods to us of which you speak.

Senator TAFT. As a matter of fact, the claim that it was unwise to insist on the payment of \$10,000,000,000 is probably sound. I am not disagreeing with you on that. I was only objecting to you using the thing as an argument against tariffs in favor of this new reciprocal trade bill, that is all.

Mr. CLAYTON. I did not have in mind the reciprocal trade thing at all; but I still stick to my statement.

The CHAIRMAN. Mr. Secretary, it is hoped, I believe, that if this act is repealed much of the credit even to governments might be supplied through private sources in the United States and will not fall directly on the Government?

Mr. CLAYTON. I think that is true, Mr. Chairman. I think that in many cases these governments will be buying the necessary reconstruction materials in this country, buying them for themselves, and in some cases they could get credit from the suppliers, some of these governments I think have good credit in the United States, they could float their bonds and obtain credit in that way with which to make purchases.

Senator BARKLEY. They would be permitted under the repeal to buy goods directly from the producer on credit with the flotation of bonds if the producer was willing to give 6, 12, 18 months or 2 years in which to pay?

Mr. CLAYTON. That is, if this act is repealed.

Senator BARKLEY. Yes.

Mr. CLAYTON. That is right. They might pay that way, they might get credit that way, and they might get credit in the usual way, floating their bonds.

Senator JOHNSON of Colorado. Mr. Secretary, isn't the approach in S. 636 an indirect approach to the problem in this way: You say that we cannot—and I agree with you—ever expect repayment of the \$11,000,000,000. Why don't we approach it straight across the table then and find a way of canceling that \$11,000,000,000 debt, get it out of the way and out of the picture; if it is going to be paid, why have that hanging over the world any longer; why not cancel it out and wipe the slate clean instead of coming in here with a bill and placing the stamp of approval upon the nonpayment of debts?

Mr. CLAYTON. Well, that is something that we have never discussed in the State Department, so far as I know—I mean it hasn't been discussed with me, Senator.

Senator JOHNSON of Colorado. If we did cancel the debt there would be no need for this bill; isn't that so?

Mr. CLAYTON. I imagine so; I don't know.

Senator BARKLEY. Mr. Chairman, this bill, the Johnson Act, relates to private loans to governments that have defaulted. Even if we canceled the debt due the Government of the United States it would not necessarily mean that private loans could be made to communities, cities, or subdivisions of governments that have floated bonds in this country.

Senator LUCAS. It would still keep private capital from investing.

Senator JOHNSON of Colorado. The act says: "An act entitled 'An act to prohibit financial transactions with any foreign government in default on its obligations to the United States.'"

Now, if you cancel those debts, if they are no good, that would wipe the slate clean. That is what a bank does. When a bank can't collect a debt it wipes it off and starts over again. It doesn't have that fictitious burden hanging over it constantly. It seems to me that that is the sensible thing to do. It seems to me that that is what this country ought to do. It seems to me that it would be in line with stability. As long as we keep the idea that this is a valuable thing, that the \$11,000,000,000 debt is an asset, why, of course, we can't cooperate, the world can't go ahead, and we can't go ahead on a reasonable basis.

Mr. CLAYTON. I assume that would take action of Congress.

Senator JOHNSON of Colorado. Certainly it would, just as this does.

The CHAIRMAN. Of course, if the debts owed the United States were wiped out, then the bill wouldn't apply to any transaction in that country.

Mr. CLAYTON. That is correct.

The CHAIRMAN. And to that government.

Mr. CLAYTON. That is correct.

The CHAIRMAN. That is the situation. This bill takes the other approach.

Senator JOHNSON of Colorado. The approach is indirect and that is the point I am trying to make.

The CHAIRMAN. Are there any further questions? Senator Johnson.

Senator TAFT. I would like to ask one other question after the Senator is finished.

Senator JOHNSON of California. Mr. Chairman, I would like to ask for a week or two delay in this matter. We are dealing here with a fabulous sum. We can't, in justice to ourselves, at one stroke of the pen repeal this statute. We can, but, of course, it takes a strong arm.

Now, I am perhaps the only individual here that has this peculiar view on these debts. I would like to have, inasmuch as this bill has been placed before your committee, sir, a week or 2 weeks to look into the matter and to look at it carefully.

The reason I ask that, sir, is because just prior to this question arising a question arose as to whether we should aid a small country, that perhaps needs it, in taking a part of our water. That is a question of itself that is of tremendous importance to a part of the people affected by this bill. I would most respectfully ask of you, sir, because my engagements have been such that I have to spend days upon the prior question, the one whether or not we would divide up the waters of the Colorado River and give to one of the smaller countries asking our generosity, if you may express it that way—I would ask you to give me, inasmuch as I am the only man here, probably, who stands in opposition to the statements that have been made by the Secretary who has addressed you, that you give me, because of the constant engagement that I had with that water treaty, a week or two in order to perfect myself in presenting this matter.

The CHAIRMAN. Well, Senator, we will, of course, be glad to consider your request. I thought that we would get through with the two witnesses today, and what subsequent postponement or action will be taken would be taken up as soon as we finish that testimony.

Senator TAFT. I see no particular hurry.

The CHAIRMAN. We will be glad to consider your request; yes, indeed.

Senator JOHNSON of California. Thank you very much.

The CHAIRMAN. I would like to finish with the Secretary.

Senator JOHNSON of California. If that prejudices giving me the slight time that I ask in behalf of this bill—

The CHAIRMAN. It certainly does not prejudice your request, Senator; it does not preclude it, but I thought we would finish with this testimony and so have it in the record, and we will then certainly consider your request. All we want to do this morning is to finish this testimony. Your request certainly will be considered.

Senator JOHNSON of California. All right. I will take that as a half a granting of the request that I make.

The CHAIRMAN. You are a very good trader, Senator. But you certainly won't prejudice your case. Your request is before us.

Senator JOHNSON of California. I do hope, because of the importance of this thing, because of the fact that it has not prevented either the one side or the other, that I will be given a reasonable time to present, if I can, the reasons why we do not—one of us, at least, doesn't believe in the cancellation of these debts, and I ask that I be given the opportunity to present our side of the case.

Now, it is a pretty tough proposition that you are laying upon one man in this body, the sole duty, what he assumes to be his duty, of preventing, if he can, the repeal of this statute.

The CHAIRMAN. Well, we will certainly give you an opportunity to be heard in this matter, and we will certainly consider your request for a postponement. We would very much like to finish with this testimony at the moment.

Senator JOHNSON of California. But how far does that take me?

The CHAIRMAN. Well, the committee will have to decide on the granting of an extension, how long, and so forth.

Senator JOHNSON of California. I have had a considerable amount of experience with the esprit de corps of the State Department, and in that experience I felt that we have done things which weren't entirely appropriate.

Now, if you place me in the position of attempting now of presenting all the opposition that exists in this country—I won't say in this country, but in many American homes, concerning the repeal of this statute, I hope that you will be kind enough to let me have a week or 2 weeks. I don't want to take up your time unnecessarily.

Senator BARKLEY. Mr. Chairman, in order that Senator Johnson may know where he stands at the moment, I move that he be given until next Thursday to present whatever evidence he wishes to present, and if at that time further time is needed, then the committee can consider it.

Senator JOHNSON of California. That is a very clever lawyer statement, because it puts upon me——

Senator BARKLEY. If the Senator wants to put it on the ground of cleverness, I withdraw my motion.

The CHAIRMAN. That will give you a full week, Senator, and wouldn't necessarily end your activities, of course.

Senator JOHNSON of California. I would hope not.

Senator BUSHFIELD. I second the motion.

The CHAIRMAN. All those who agree to a postponement, that is, to giving Senator Johnson 1 week from today in which to present whatever he wishes to present on this bill, say "Aye."

(Chorus of "ayes.")

Senator TAFT. You understand that means we might postpone it further if you wish to make a request.

Senator JOHNSON of California. Yes.

The CHAIRMAN. Now, are there any further questions?

Senator TAFT. I want to ask Mr. Clayton one other question.

The CHAIRMAN. Senator Taft.

Senator TAFT. In the course of your remarks, Mr. Clayton, as to the necessity for loans after the war, you suggested one of the reasons for the necessity of loans was because we had created certain capital-goods industries in the course of this war which had to be maintained and that we would have to make loans to foreign countries to keep these industries going.

Now, some of your other reasons I agree with. That is, the desirability of getting the economic machinery of these countries running, I see that, and that might be necessary, it might be necessary even though we are going to lose the loans, but I am wondering about this other argument. Do you think that loans should be made in

order to keep our industries going unless those loans are likely to be repaid?

Mr. CLAYTON. No; I do not, and I am sorry if I gave any such impression. I merely stated that, Senator, as one argument, one reason which I thought existed for considering the advisability of making loans to help restore the devastated parts of Europe.

Senator TAFT. How large loan program abroad do you think that we can undertake with any hope that it is going to be repaid? After all, we are here to decide now that this \$10,000,000,000 cannot be repaid, in effect. I mean, if we pass this bill, that is a decision that this \$10,000,000,000 can't be repaid.

Mr. CLAYTON. Yes.

Senator TAFT. How large a loan program can we undertake after the war with any likelihood that it will be repaid?

Mr. CLAYTON. Senator, I don't want to provoke another tariff argument into the question, but I think it depends a good deal on how much we want to be repaid.

Senator JOHNSON of California. You determine that in advance?

Mr. CLAYTON. We will determine it, Senator, a good deal by the policy that we follow in the postwar period, our commercial and economic policy.

Senator TAFT. But won't the same condition exist that you say existed after the First World War? No matter how much we increase our exports by loans it means that we are exporting more than we are importing. If we loan them \$2,000,000,000 it means we are going to export \$2,000,000,000 probably more than we import. You can have as large a tariff as you want and still our exports will run that way.

Mr. CLAYTON. That is right.

Senator TAFT. In other words, there will always be the same difficulty about repaying as there was after the First World War. I am wondering how far we can go. I think we are going to loan abroad, but my impression is that we would be making a mistake if we get that figure up too high. In the beginning it will have to be a little larger, but after you get going, if it is more than a billion dollars a year, and if we begin at \$5,000,000,000 a year, if we start on a program of that kind, for 2 or 3 years, we might just as well kiss it all good-bye, in which case I don't see that it would do us any good.

Mr. CLAYTON. Senator, I have not given any careful study to that question. I am just not prepared to say as to how much I think we should lend abroad. There are certainly two aspects of it. One has to do, in case you gentlemen approve it, with the Bretton Woods proposal for the setting of a bank for reconstruction and development. If that is approved, that bank will be available for making loans, and only to the extent that we contribute our capital will we be involved in that so far as money is concerned.

Senator TAFT. Well, you have got about \$6,000,000,000 in Bretton Woods, a billion and a half probable increase to the Export-Import Bank, I don't know how much lend-lease will run in the postwar, but before we get through it looks to me like a program of loaning in the next 4 years at the rate of four or five billion dollars a year. That is what alarms me.

Mr. CLAYTON. Of course, we don't know how fast the Bretton Woods money will be availed of. It will take some time to study all those applications for loans and to put the money out. It can't be done quickly.

Senator TAFT. My suggestion is that it be based on the actual necessities of the case and not on the idea that we can keep some industries in this country going by lending. That seemed to me to be a very questionable suggestion, and that is what I understood you to say.

Mr. CLAYTON. Senator, excuse me, but I gave that as one of the reasons why I thought that we should carefully study this question of making loans and why I thought we should make some loans. I certainly would not suggest for a moment that in order to keep some industries going, making machine tools, or what have you, to sell abroad, that we should make loans that we didn't think were good loans. I certainly would not suggest that. I would be opposed to it. But I think that if we adopt the right policy that there are loans that can be made and which will be good loans, and they incidentally will help a lot of these industries keep going after the war.

Senator TAFT. Well, I think so, too.

Mr. CLAYTON. That was the point I was trying to make.

Senator TAFT. Except in a way, if the business is questionable at all, it seems to me to be a subsidy of those industries, which is just what you objected to, subsidizing ourselves by an abnormal Government action.

Mr. CLAYTON. Senator, I certainly would not put out any money that could be properly classified as a subsidy to any industry to keep it going. I would certainly be opposed to that.

Senator TAFT. I gathered, not only from your remarks here but from the speech that you made in Chicago, I gathered the same impression, that we had built up these heavy goods industries and now we have got to keep them going, and I rather questioned that.

Mr. CLAYTON. I don't think the speech I made could properly be so interpreted, and I will say right now that I am not for that.

Senator TAFT. I am sorry, I misunderstood you.

Mr. CLAYTON. I am sorry if I gave the wrong impression. I am not proposing that the United States Government should make loans which may be considered uncollectible for the purpose of keeping industries going. What I do think we should do is to assist these countries to reconstruct following the war, and in doing that we are going to advance them some money, and in doing that I think we will help ourselves in two ways: One will be that we can help keep these industries going and keep people employed. That is one aspect of it. The other is that I do not think we can long maintain a condition of prosperity in this country and a high level of employment if the rest of the world is down and not functioning.

Senator TAFT. I agree.

Mr. CLAYTON. I think it is in our interest to assist them to get on their feet again.

Senator BUSHFIELD. Mr. Secretary, I want to be sure that I understood. You do not mean, do you, that the loans that we might make to these various countries for the purpose of keeping them going are in the nature of gifts rather than loans, do you?

Mr. CLAYTON. No, sir. I do not suggest that for a moment.

Senator BUSHFIELD. We have this unfortunate experience of 25 years ago. Now, the suggestion is that we can kiss those loans goodby. Certainly, any loaning institution that I ever heard of would take that as one reason why they could not make a loan.

Mr. CLAYTON. Those loans, Senator, were for the most part made during the war, to help win the war, and I think they are in a different category from the kind of loans that I am talking about. Take the experience of the Export-Import Bank, for example. In 11 years it has loaned a lot of money abroad.

Senator BUSHFIELD. That is right.

Mr. CLAYTON. And it has made money; it has had almost no defaults, practically none. If you take the experience in Latin America, in the eyes of a good many people there are countries in this hemisphere that are not considered very good credit risks.

Senator BUSHFIELD. A lot of people in this country have found that out to their sorrow.

Mr. CLAYTON. Yes, sir; but there is a lot to be said on that, too. The Export-Import Bank has made loans, made commitments to Latin-American countries in 11 years of \$800,000,000. They put out \$263,000,000. Of that money, \$132,000,000 has been repaid. Not one single loan that the bank has made is in default. Every one of them have been paid on time.

Senator TAFT. That is the point I wanted to make. They have loaned \$800,000,000 in 11 years. If that were the volume of loaning, I would have no concern, but we seem to be discussing the matter of loaning \$10,000,000,000 in 2 or 3 years. That is a very different thing.

Mr. CLAYTON. That is right.

Senator TAFT. That is the thing that concerns me. It is not the principle of the thing. It is the volume that seems to be contemplated.

The CHAIRMAN. Are there any other questions?

Senator BUSHFIELD. Mr. Secretary, as I recall it you mentioned the subject a moment ago that there were a lot of securities sold in this country against some foreign countries. As I recall it, most of them were South-American countries. They were handled through New York banking institutions as I recall, and they were peddled all over this country. Little bondholders and little investment people all over the country had a piece of that, and most of them lost money on it. Could you tell me where we could get a list of that class of bonds which was peddled all over the country at that time?

Mr. CLAYTON. I am not sure, Senator, that there is such a list, but a great many of the transactions to which you refer were investigated by a Senate investigating committee about 1932 or 1933 at great length—there is a tremendous record—and I imagine that in that investigation there would be found a list of those.

Senator TAFT. I think you will find a complete list in the hearings on the last bill to expand the Export-Import Bank.

Mr. CLAYTON. There is an institution in New York called the Foreign Bondholders Protective Council, and I think they probably would have a list of those securities.

Senator JOHNSON of California. Could we obtain that list?

Mr. CLAYTON. I think so, Senator. I think if the clerk of this committee would write to the Foreign Bondholders Protective Council in

New York a list could be obtained. Whether it is complete or not, I don't know, but I think it will be fairly well complete.

Senator JOHNSON of California. The list was originally kept by Mr. Jesse Jones; he had a list that showed every loan that had been made by the United States. We might as a starter in this hearing take that list, and, if it be certified as an accurate list, we would then have something authentic. I had one at one time, but that is 4 or 5 years ago.

Mr. CLAYTON. Yes, sir.

Senator JOHNSON of California. I haven't been able to obtain a list as it exists today.

Mr. CLAYTON. Yes, sir. Well, the Foreign Bondholders Protective Council in New York has been acting in an effort to protect the interests of American citizens who hold these foreign bonds, and I think they would have a pretty complete list of the bonds that are outstanding.

Senator JOHNSON of California. And do you think upon inquiry made by the secretary of this committee they would furnish it?

Mr. CLAYTON. Yes, sir; I am sure they would.

Senator FULBRIGHT. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Fulbright.

Senator FULBRIGHT. Mr. Secretary, do you think that this matter is simply a financial matter, or do you think it has any bearing whatever on the proposed plans for political cooperation in the world for the prevention of war?

Senator JOHNSON of California. What was the question?

Senator FULBRIGHT. Does he think it is simply a financial matter solely by itself and that it has no relation to political matters such as are being discussed at San Francisco.

In other words, does it have any bearing, in your opinion, upon political cooperation?

Senator JOHNSON of California. It is not for me to suggest any political methods.

Senator FULBRIGHT. I was asking the Secretary.

Senator JOHNSON of California. Oh.

Mr. CLAYTON. Yes, Senator; I think it has a direct bearing on what we are trying to do at San Francisco. The existence of this publication or ban on further loans to certain governments, and most of the governments in Europe, I think is a source of considerable irritation, and I think that the repeal of that ban, or the doing away with that ban, would have a very salutary effect on the effects that we are making to try to build some kind of an organization which will give us some reasonable hope for peace in the world.

Senator FULBRIGHT. Do you feel that we could have any success as the result of that conference if the economic matter—and this is one phase of the economic matter—if nothing is done on that, do you feel there would be much hope of success?

Mr. CLAYTON. Well, the economic aspects of a world organization I think certainly have as great importance as the political aspects.

Senator FULBRIGHT. Would you say that whether or not we do this depends upon our basic policy; that is, whether or not we continue to go it alone, so to speak, as a nation and not enter into these international organizations, then we take another line, and if we follow

the policy of cooperation, if I may use that word, participation in an international organization, then it is quite consistent and logical and necessary that we do this, while if we follow the other policy then it is perfectly all right to retain this and set all of our sights along the line of having nothing to do with those people; do you agree with that?

Mr. CLAYTON. Yes, sir. I think that there are only two roads we can follow after this war. One would be to follow a policy of attempting to cooperate with the other nations of the world in setting up a peace organization which has two aspects, one political and one economic, and I think the economic is just as important as the political. We cannot long expect successfully to cooperate in the political field if we can't cooperate in the economic field and if we start some economic warfare among the nations of the world. This matter we are discussing here today is part of the economic aspect of the whole postwar situation. I think we can do that or we can do the other thing. We can take a back track and adopt a policy of economic isolationism and live in that field if we want to. But there is no standing still. The world is going too fast now. We cannot stand still. We have to take one road or the other.

Senator FULBRIGHT. Wouldn't you say our present Government is committed to the policy, insofar as it can be until something is presented to the Senate, of cooperation?

Mr. CLAYTON. I think so; yes, sir.

Senator FULBRIGHT. Therefore, if we refuse to act on this it will certainly be inconsistent with that over-all policy that we are trying to follow, isn't that true?

Mr. CLAYTON. I think that is true.

Senator JOHNSON of California. Cancel every indebtedness?

Senator FULBRIGHT. No. This has nothing to do with the cancellation of those debts. You can handle this in some other manner or you can cancel them, as was brought out a moment ago.

Senator JOHNSON of California. Then you would still have them remaining.

Senator FULBRIGHT. There are some of those debts that I think are still valid. I personally think they ought to be canceled. The policy in this war was simply not to make them in the first place. That is what lend-lease did. We recognized that this war was our war, that we were involved in it, and it was not somebody else's war. I think our attitude in the First World War was that we were just helping; I don't think that was the true situation but that was our policy. Therefore, we regarded whatever we supplied to them not as saving our own skins but as saving somebody's else's skin, and it took the form of a debt, which has not been paid.

Senator JOHNSON of California. That is a pretty fair designation of the situation but how long would you keep that up?

Senator FULBRIGHT. Keep up paying for a war?

Senator JOHNSON of California. Yes.

Senator FULBRIGHT. I would keep it up as long as I thought the country's safety was endangered. I think if we hadn't entered the war when we did we would have probably in the long run been defeated and have suffered much the same fate as did France.

Senator TAFT. A great many of these war debts were not war debts, they were relief and rehabilitation loans. They were not war debts. In fact, most of these countries, other than the large countries, borrowed the money after the war for relief and rehabilitation. That is exactly what we are now considering.

Senator FULBRIGHT. How much of it was what you consider a war debt?

Senator TAFT. Two or three billion dollars of the 11 I think was postwar.

Senator McMAHON. Mr. Secretary, the Johnson Act prohibits loans from private individuals and private institutions to foreign governments. It does not prohibit the loans by this Government to foreign governments. What we are concerned with, if we repeal this act, is giving to private banking institutions and private commercial firms the right to loan to foreign governments. Isn't that what we are considering?

Mr. CLAYTON. That is right.

Senator McMAHON. In other words, if the Chase National Bank wanted to make a loan it couldn't do so today to a country in default. If we repeal this act, then they could. Or the General Electric Co. could sell to Russia, or to Belgium, goods on long-term loans. That is the purpose behind the repealer; isn't that correct?

Mr. CLAYTON. That is right. I stated in the beginning, and as you have just stated, the United States Government is not prohibited from making loans to these governments, but citizens of the United States are so prohibited. Therefore, whatever financial assistance may be extended falls completely on the Government, on our Government, under the present conditions, whereas there may be private citizens who would be perfectly willing to extend credit or make loans if they were permitted by law to do so.

Senator McMAHON. And that would relieve the burden on the Government.

Mr. CLAYTON. Yes, sir.

Senator McMAHON. Pro tanto.

Mr. CLAYTON. Yes, sir.

Senator BUSHFIELD. There are two sides to that question, Mr. Secretary. If large financial institutions are able to loan this money, and if they were given that power, would they go right back into the same thing they did 25 years ago, floating loans all over this country to our people?

Senator JOHNSON of California. Why, certainly.

Mr. CLAYTON. I doubt it, Senator. Of course, I am no authority in that field but I doubt it because we have enacted legislation since that happened. We have the Securities and Exchange Commission which certainly has a certain amount of jurisdiction in that field.

The CHAIRMAN. We are to hear from a representative of the Securities and Exchange Commission.

Senator TAFT. I want to state, in answer to Senator Fulbright, that of the World War indebtedness \$7,000,000,000 was war, \$3,273,000,000 was postwar cash advances for relief and rehabilitation. That made \$10,350,000,000. The difference was interest.

Senator BUSHFIELD. One more question. I assume that the securities law would apply to any securities banks would try to sell in this

country but would the State Department or the Securities and Exchange Commission turn down a request to float loans of some foreign country?

Mr. CLAYTON. Float the loans of some foreign country in the United States?

Senator BUSHFIELD. Yes, sir.

Mr. CLAYTON. That would depend, I would think, Senator, on the results of the investigations that were made at the time. I don't think you could announce a blanket policy on that.

Senator BUSHFIELD. I realize that, Mr. Secretary, that you could not announce a policy, but I am wondering what you thought, yourself, the Securities and Exchange Commission would do if the request were made under those circumstances.

Mr. CLAYTON. Well, one of the main aspects of the Securities and Exchange Act is that it requires complete disclosure of the whole situation surrounding the flotation of a security or bond or piece of stock, whatever it may be. That is the bulwark of the law, that when you give all the facts and tell the whole truth about it, why, then people have a basis on which to form a judgment as to whether it is a sound security or not.

Senator BUSHFIELD. Would the Securities Commission, or the State Department, strictly construe that law in regard to an application to peddle foreign securities?

Mr. CLAYTON. I don't know just what jurisdiction the State Department might have in that field but I am sure we would strictly construe the law and, as I understand it, the Securities and Exchange Commission certainly does.

Senator BUSHFIELD. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions?

Senator JOHNSON of California. Isn't it obvious that the situation is such as I described a few moments ago?

The CHAIRMAN. We have to take it step by step, Senator.

Senator JOHNSON of California. Have to what?

The CHAIRMAN. We have to take the steps one by one to try to develop the case.

Senator JOHNSON of California. That is quite so.

The CHAIRMAN. As to the merits of this bill.

Senator JOHNSON of California. But the merits of this bill are in its repeal of a former law.

The CHAIRMAN. That is quite true and that is what we are trying to do now, to see whether we would recommend it or not.

Senator JOHNSON of California. Well, what I am driving at is that the situation is so confused that it is impossible for us to determine in a shotgun method the exact thing that we would do in respect to loans that were attempted now. Of course, if you construed the law strictly, why, the school that I belong to, it would insist that no loans would be made at this time of the sort prohibited by the original act.

The CHAIRMAN. Well, we will be glad to hear from you on that question, of course. We have another witness that I am very anxious to hear this morning.

Senator JOHNSON of California. All right.

Senator BARKLEY. The Senate meets in a few minutes and I suppose we will take up the legislative appropriation bill, so if the

Senator wants to hold us a little while beyond 12, I think he will be safe in doing it.

The CHAIRMAN. Mr. Purcell, will you please come around, sir?

STATEMENT OF GANSON PURCELL, CHAIRMAN, SECURITIES AND EXCHANGE COMMISSION

The CHAIRMAN. Mr. Purcell, I take it you have gathered from the questions what the members of the committee principally desire to have you discuss and that is what protection would be afforded if the Johnson Act were lifted to the purchasers of securities in this country.

Mr. PURCELL. Generally, the Commission is of the opinion that the repeal of the act of April 13, 1934, is essential if our foreign economic policies envisage the encouragement of private foreign investment. Unless this step is taken our private financial institutions will be unable to underwrite and offer to investors the dollar bonds of the governments of such countries as the United Kingdom, France, and Belgium. In other words, our capital markets would be closed to some of our staunchest allies. It would be closed to some countries who have already indicated an interest in our capital markets, whose credit standing is very high. In other words, the act of April 13, 1934, would prevent the willing American investor from making his investment in the reconstruction and development of a large part of Europe.

It is, I believe, quite generally recognized that one of the principal causes for the failure of American foreign investments which followed World War I was the haphazard manner in which the lending was done. At that time very little information was offered to the public investor in connection with the offering and sale of foreign securities, and very little attention at all was paid either to the purposes for which the loan was to be used or to the capacity of the foreign borrower to service the debt. Fortunately there is provided under the Securities Act of 1933, the means whereby information will be available with respect to loans made to foreign governments and their subdivisions and also with respect to loans and investments in foreign private enterprise, at least with respect to such loans and investments as are underwritten for sale to the public. While the Securities Act does not, of course, give the Commission the right to pass upon the merits of a foreign loan or investment it does impose a duty upon the Commission to make sure that the United States investor will have certain information on important items of Government finance.

Schedule B of the Securities Act of 1933 sets forth the type of information required to be filed by a foreign government or subdivision in registering an issue of securities for sale to the public.

Senator TAFT. Is your power more limited in the case of foreign governments than with regard to foreign corporations?

Mr. PURCELL. Well, Senator, our powers of enforcement and the like are more or less the same, but the statutory requirements of disclosure are more limited in the case of foreign governments. I presume the Congress felt that certain types of information, included in schedule A, to be required from corporate enterprises, whether foreign or domestic, were not appropriate to be required, or perhaps it wouldn't be feasible

to require the same type of information from a foreign government subdivision. I presume that is the reason. There are differences. I should say that schedule B was somewhat less extensive than schedule A.

Senator TAFT. Is there any difference in the requirements as between foreign commercial enterprises and domestic enterprises?

Mr. PURCELL. None.

Senator TAFT. But when you come to the security of a foreign government it is not quite so comprehensive.

Mr. PURCELL. That is correct.

Senator BUSHFIELD. Would the regulations be the same, for instance, as an illustration, if the Republic of France made an application rather than having some banker in this country handle it?

Mr. PURCELL. It would depend on who were the issuers of the securities. If the Republic of France were an issuer of securities it would file on a different form. Now, the Republic of France would file on a different form than would, say, some French automobile company that wanted to issue its securities. I should correct that statement a little: Actually, because of the limited number of governmental issues registered with the Commission it never has adopted a form for registration of foreign government issues as such. Up to date the Commission has merely adopted a rule calling for the furnishing of the information specified in schedule B of the Securities Act plus one additional item showing the balance of payments as between the issuing foreign governmental unit and the United States. The French automobile company would file on the same form that General Motors in this country would file on.

Senator BUSHFIELD. Well, I was thinking particularly of this: Suppose J. P. Morgan & Co. would float an issue of bonds for the French Republic here, would the same procedure be followed?

Mr. PURCELL. It would be exactly the same because J. P. Morgan would only be the underwriter. The issuer would still be the Republic involve a public offering of securities.

outstanding debt, the receipts and expenditures during several preceding fiscal years. This type of information is required of foreign governments or their subdivisions. With respect to the issues of foreign private corporations the same requirements apply as to domestic corporations.

I should like to point out, however, that information is filed with the Commission only as to transactions, loans, or investments which of France.

Going on further to describe schedule B:

This schedule includes such items as the specific purposes in detail and the approximate amounts to be devoted to such purposes, the

Senator McMAHON. If Morgan & Co. was to buy a relatively small issue of French bonds, \$50,000,000, if they were to attempt to put them up for collateral on a loan, would they then have to register them with the Securities and Exchange Commission? Not distribute them to the public.

Mr. PURCELL. In other words, you are addressing yourself to the question of their loan value under the margin provisions of the Exchange Act?

Senator McMAHON. That is correct.

Mr. PURCELL. And you are asking whether they wouldn't have to register, not under the Securities Act but under the Exchange Act, and list those securities, those \$50,000,000 of securities in order to obtain collateral value for them?

Senator McMAHON. That is right.

Mr. PURCELL. That is true to the extent that the loan to be made on that collateral would be subject to the Federal Reserve Board's jurisdiction under the Exchange Act. Now, there are methods by which—perfectly legitimate ones—by which Morgan under those circumstances could obtain a loan on those securities putting up those securities as collateral. That would be for the reason that the credit sought was not sought for the purpose of purchasing and carrying securities in the market.

Now, it may well be that a considerable volume of foreign loans and investments will take place that do not involve a public offering. As to these, no information is required. There has been some thought that in view of the potential importance of American capital exports to international trade and commerce during the next decade some method should be devised for providing more adequate data as to private capital transactions not now required to be reported. By this method there would be made available to the Government more complete data relative to private international financial transactions which might be exceedingly helpful to those officials of the Government who are called upon to make decisions with respect to financial transactions of public agencies such as the Export-Import Bank and the proposed International Investment Bank. By broadening the information coverage as to foreign loans and investments there may be brought about a closer correlation of our foreign investment and our export of capital with our more general foreign economic program than we have heretofore been able to achieve.

That is an expression of the Commission's views. I shall be glad to answer any questions that I can.

The CHAIRMAN. Any questions?

Senator TAFT. You are suggesting only information as to private foreign loans, is that all? You are not suggesting that the Government have a veto power on them?

Mr. PURCELL. That is all that I am suggesting at this time. We have not considered Government veto power ourselves. That, of course, is pretty much out of keeping with the philosophy of the statutes which we administer. We have been exploring and we have had discussions with officials of other agencies, such as the State Department, as to the possibility of suggesting an expansion of the registration requirements. There are difficulties there and we are unable at the moment to make a specific suggestion. But what we wanted to do here, in a broad way, was to suggest that more information ought to be obtained, or it would be helpful, at least, in the overall picture.

Senator TAFT. I remember after the World War, in the twenties, the Government was criticized for not interfering, if you please, with the very large foreign loans that were made, not so much for the protection of the public as by reason of the fact that it had created an artificial condition. In other words, if private people reached out and loaned 2 or 3 billion dollars in a year it might make the whole

thing unsound, although any one of the loans appeared to be sound at the time.

Mr. PURCELL. That is right.

Senator TAFT. I am wondering whether there should be any control of credit granted abroad.

Mr. PURCELL. I am not sure on that point, Senator, but at least you would have the information on the basis of which you could determine what ought to be done.

Senator TAFT. There is another thing in thinking of a foreign loan that ought to be emphasized. That is, there is no law by which you can collect the loan if the debtor says, "I won't pay."

Mr. PURCELL. That is right.

Senator TAFT. That is the big difference, as I see it, between a Government loan and a private loan, and that has happened pretty often recently. I think it ought to be emphasized in the prospectus somewhere.

Senator McMAHON. Did you bring any of those forms with you?

Mr. PURCELL. No; I haven't them with me, but I can supply them for the record. We have had, of course, very few foreign government issues since the statute went into effect in 1933. Not more than a handful. We have had little experience with them. But I think there is no question about it that following this war there is going to be a great increase.

The CHAIRMAN. If you will furnish us with the forms we will put them in the record.

Mr. PURCELL. I will be glad to furnish them.

The CHAIRMAN. The forms that are applicable both to government and to foreign corporations who desire to float an issue of stock securities in this country. What we want to find out, Mr. Purcell, is if this Johnson Act, so-called, should be repealed, how far the American public would be protected under the Securities and Exchange Commission procedure.

Mr. PURCELL. That is the protection which is afforded by the disclosure provisions as Mr. Clayton mentions.

The CHAIRMAN. Yes.

Mr. PURCELL. The theory being that if the Commission does its job properly and sees to it, as the statute calls upon it to do, that all the pertinent information is set forth, and in a true manner—of course, within the limits of its ability to obtain information and check its accuracy—that it is up to the individual thereafter to make his own determination, and not for the Government to make a determination as to whether he shall be permitted to invest in whatever it may be. There will be a considerable task on the Commission after the war if foreign flotations are sought in the degree that I think they will be, but then that is a governmental task. It will cost money but that is a governmental charge which must necessarily be undertaken if the spirit of the Securities Act is really properly to be carried out.

Senator McMAHON. On this half-dozen that you have handled, have you held hearings?

Mr. PURCELL. Not that I remember, Senator, have we ever had any so-called stop-order hearings with respect to them. We had considerable trouble getting the information that we wanted from the

German Government on a couple of issues coming out of Germany. In one case of an exchange offering of German dollar bonds I remember that in view of the refusal to furnish information called for, the Commission issued a public release pointing out the inadequacies of the registration statement. I don't think we had any hearing in that case, or in any other that I can think of.

The CHAIRMAN. Any further questions?

If you will furnish the information it will be included in the record. Have you completed your statement?

Mr. PURSELL. Yes, sir.

The CHAIRMAN. We thank you very much.

At the last meeting certain information was called for from the Treasury Department regarding foreign loans. Do you desire to have these in the record?

Senator TAFT. No.

The CHAIRMAN. I think all the members have copies.

On this bill, Senator Johnson, we will have no further hearings until next Thursday.

(Whereupon, the committee adjourned until Thursday, May 31, 1945.)

TO REPEAL THE JOHNSON ACT

THURSDAY, JUNE 7, 1945

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

The Committee met, pursuant to call, at 10 a. m., in the committee room of the Committee on Finance, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Barkley, Gerry, Johnson, McMahon, La Follette, and Bushfield.

Also present: Senator Hiram W. Johnson of California, and Senator William J. Fulbright.

The CHAIRMAN. The committee will be in order.

Senator Johnson, this is a hearing called at your request in order that you might present your opposition to the bill now under consideration by the committee, S. 636, which bill is designed to repeal what is sometimes referred to as the Johnson Act.

You may proceed in any way you desire, Senator.

Senator JOHNSON of California. I will call Mr. Flynn.

The CHAIRMAN. Will you come forward, Mr. Flynn, state your name and occupation, and then proceed in any manner you wish.

STATEMENT OF JOHN T. FLYNN, WRITER AND ECONOMIST

Mr. FLYNN. My name is John T. Flynn. I do not represent any organization or anybody else here. I come wholly as an individual. I am a writer on economic subjects and have been for many years, for many of our leading magazines. I don't hold myself out as an expert on anything. I merely come here as a citizen to talk about a subject in which I am profoundly interested.

I have come here at the request of Senator Johnson, for whom I have had a great and profound admiration for many years, as one of the most courageous warriors in the cause of good government in this country that I have known in all my years of experience, coming to Washington. So when he asked me to come I was only too happy to come at his request.

Now, gentlemen, as I see this the matter is not an unimportant one. I try to approach it with complete realism. I know the problem that confronts Europe and the world, and America, is an appalling one, and that every possible effort must be made to do something about this dreadful economic situation in which this world finds itself.

I am wondering what contribution a repeal of the Johnson Act can make to that. Now as I understand it, the Johnson Act prohibits the

sale of the obligations of foreign governments in the United States to private persons or corporations—and that is all that it does. There is nothing in the act which will prevent any foreign individual or foreign bank or foreign corporation from coming into the United States and floating its securities here, and there is nothing in the act which will prevent any foreign government from obtaining loans from the United States Government.

The law merely prohibits the flotation of the obligations of foreign governments here to private individuals.

Now what is to be accomplished by the repeal of the Act? It does not, as I understand it, apply to Russia, and therefore Russia, plus that part of Poland which she has taken, Estonia, Lithuania, Latvia, and a part of Rumania—all of which are prohibited from selling their obligations here—are now part of the Russian Soviet Union of Republics, and there is nothing to prevent Russia from making loans here if the people of the United States are willing to buy the obligations of the Russian Government.

Now as to Austria and Germany and Italy, I cannot conceive at any time, certainly not within the next year, of any private corporation in any of these countries being able to present a record of credit which would justify loans by private savers to any Austrian or Italian or German corporation in existence or to be brought into existence. As to the German Government, the Austrian Government, and the Italian Government which might be formed—I am going through the list of countries affected by this act—I cannot conceive of the United States Government opening the door for these governments to make loans from the citizens of the United States individually, the savers of the United States, to bring their obligations in here and sell them to American investors.

The same thing applies to all of the Balkan countries, Yugoslavia, Albania, Rumania, and Bulgaria. All of these countries are not only economically and fiscally bankrupt, but they are in a state of revolution and nobody knows how long this revolutionary situation is going to continue. And with the best will in the world I cannot conceive that this Government is now going to take a positive act to permit or encourage the sale of the securities of revolutionary governments in this country.

Perhaps sometime in the future, in a year or two, or maybe 6 or 8 months—but I can't conceive of it—these countries may settle down to some kind of orderly life.

Senator BUSHFIELD. Mr. Chairman, may I ask a question at this point?

The CHAIRMAN. Yes, sir.

Senator BUSHFIELD. I understood you to say something about not permitting revolutionary governments to float loans in this country, but a moment ago you stated—or I understood you to state—that there is nothing to prevent Russia from floating loans in this country, and is that not a revolutionary government?

Mr. FLYNN. Well, Senator, I am now taking the act as it is. I said there was nothing in the act to prevent Russia from selling bonds or floating loans in this country. As to Russia being a revolutionary government—and I am not saying anything for Russia in this case—

Senator BUSHFIELD (interposing). Well, that is an historical fact, isn't it?

Mr. FLYNN. Well, I think it was a revolutionary government 25 years ago, but I don't think it is a revolutionary government now. It is a government completely entrenched in power, and the only man who is a revolutionist in Russia is the fellow who is against the Russian Government.

Senator JOHNSON of Colorado. What about the United States being a revolutionary government, if Russia is?

Mr. FLYNN. Well, there we go back a little further than with Russia. Most of the governments of the world began in revolution. But I should say that it must be conceded now that the Russian Government in power is thoroughly in power. I don't mean that it is in power by the free consent of its people, but it is in power and can hardly be dealt with as a revolutionary government now. I think, if the question arises as to making loans to Russia, that the decision would have to pass on other points.

I am merely taking the various countries that are affected by the Johnson Act and trying to show that with the exception of a few of them, the idea of supposing that the United States citizens are going to make loans to these governments for one reason or another—and in the case of those I have just mentioned, they are in a state of revolution, they are in a state of actual revolution, and I don't see how any man can foresee how long that is going to run—and certainly it would be an act of betrayal by the United States Government if she, by any positive or affirmative action, undertook to encourage loans by individual American savers to these governments.

Now that leaves Poland, Greece, France, Belgium, and Great Britain. I think the same thing is true of Poland, and of course the same thing is true of Greece.

As to France, Belgium, and Great Britain, here again you have two countries—let's leave out Great Britain—but France and Belgium are two countries which are economically bankrupt. Now I don't rejoice in that fact, I think that that is a melancholy fact, but I am now putting the case of the American investors.

If there is any political reason for making advances to the Governments of Belgium and France, political reasons, which are not always founded on the credit of the borrower but on political considerations, then I don't think we can expect American investors to be asked or encouraged to make loans where the object is a political reason, even though the credit of the borrower is not good. In that case the United States Government should make the loan itself and let the whole citizenry of the United States assume the responsibilities.

I am not advocating that now; I think that that is a matter to be considered in each case as it arises, but I think the man who would make a loan to the French Government now, the individual investor who would make a loan to the French Government now, or at any time within the next year, or the Belgian Government, would be a fool from the point of view of an investor; and I think the banking houses that would offer to sell him a security of the French Government would be committing a crime against that man's savings.

But if the United States Government, for political reasons—and by that I mean high political reasons, for the purpose of advancing the

peace of the world, or hastening the reconstruction or the rehabilitation of the French people—wishes to make such a loan, that is another matter, because there the idea of credit is not the controlling factor.

Now I cannot escape the feeling that the pressure for the repeal of this act is to enable Great Britain to float private loans in this country. I have absolutely no objection to Great Britain floating private loans in this country, and there is nothing in the Johnson Act which will prevent any British corporation—production, utility, transportation, or merchandising—from coming here with its balance sheet, its history of management, and its resources, and floating a loan here if its credit is good. If the credit of the individual English corporation is not good, no American investor should be asked to invest a dollar in it. And I do not have any doubt that there are many, many concerns in Britain which will need money, which can show a record of long and intelligent management and a sound credit history, and a reasonable credit future, which can come here and sell their obligations in the United States.

But I know the point is being made that many of these corporations in both England and France, and other countries, do not have the necessary credit, and that you cannot make loans to them on the basis of orthodox fiscal policy, and that the only way to help these companies is to make the loans to the countries involved and let them parcel out the resources or the revenues from the loans to such private enterprises as may need it, or, perhaps, to have the loans guaranteed by that country.

Now, gentlemen, I think we have to look this matter straight in the face. The war is very nearly over in the world, I hope. It certainly is over in Europe. What faces us in Europe of course is something which must appall every man who looks at it objectively, and I completely agree that this country must do everything reasonably within its power to assist any country in the world, anywhere, and particularly those countries which still hold up the banner of human freedom and economic freedom, to recover from the effects of this war.

But in what we do, it seems to me we must be frank with ourselves and candid with the people, and we have to recognize that all of these governments—and I do not exclude the British Government—can hardly be considered the best form of investment for the private investor in America today.

The British Government has a debt, as a result of this war, which cannot be less than \$80,000,000,000. The British economic system has lost its export balance, it is in grave difficulties around the world, and I do not think this is a favorable development but it is a fact. And certainly if I, or anybody that I was interested in, were asked to lend money to the British Government when this war is over, I would not consider that a good investment.

I don't mean that British private industry, to rehabilitate their affairs, would be considered bad risks in this country. I don't think the guaranty of the British Government would add anything to the risk, or rather to the safety of a bond which had behind it the backing of a good, well-managed corporation in England. But if there is any reason why we should make loans to Britain on the basis of political considerations, I say the same policy ought to apply, namely, that

the United States Government should make those loans, and not go through the comedy, it seems to me, of asking the individual investors and savers in the United States to make the loans and assume the risks.

Now I notice in one of the hearings, the record of which I had the opportunity of reading, that the distinguished chairman of this committee, for whom I have a very great respect, suggested that from the point of view of this country, as well as Europe, there was a great need for getting into their hands our raw cotton and our raw wool, and I have no doubt the same thing is true of other commodities. But, Senator, if I may be permitted to suggest, one can hardly think of a sale of a consumable commodity, such as raw cotton, raw wool, or wheat or grain, or anything else, as being the basis for a long-term loan. I do not think there is any doubt that Great Britain can buy in this country, on short-term credits—which are the only kind that could possibly be considered in connection with the sale of raw cotton and raw wool, or raw wheat, or any raw material—could obtain the necessary short-term credits without the slightest difficulty, and it does not seem to me that the Johnson Act impinges on that situation at all.

I think the same thing applies to relief. Undoubtedly there is a relief problem in Europe, and certainly this Government ought to do something about food and clothing and medicinal supplies and whatever immediate relief can be brought to the people of Europe everywhere, and, as I say, particularly to our Allies and particularly to those countries which hold up this torch of human freedom. But we cannot ask investors in the United States to invest in the bonds of foreign governments for relief. If the United States wants to lend them money for that purpose, then the United States should do so itself and assume the risk. Or it might make an outright grant of relief to these countries. But under no circumstances should this be made the basis of investment.

Now, gentlemen, I want to put a good deal of emphasis on this point. One of the most important things, I think, in this country, is the revival of private investment. I rejoice to see some of my radical friends now coming around to an understanding of this fact. They have got a new phrase for it; they call it "total outlay," and this is the term of the Beveridge plan.

Actually, it means nothing more—and Sir William Beveridge seems to think that it was discovered by John Maynard Keynes somewhere around 1936 or 1938—actually it is nothing more than a fact, it seems to me, well known by those economists who for the past 25 years have been studying this business cycle, that the continuance of production and employment in a capitalist society depends upon a continuous reinvestment of savings. The thing that breaks down the capitalist system is whatever may interfere with the flow of savings into investment, and this is what happened to us in 1929—it had been going on for several years—and it was caused by a good many things which I needn't go into. But certainly one of them was the bad reputation which investment got in this country, from the flotation, and pressing upon the investors and savers of America, of all kinds of securities which turned out to be worthless, and amongst them were an immense flood of foreign securities.

Now it has been my business for a great many years to watch business—to have a sort of seat on the press bench—and to write about it for American magazines, and in those early days I was raising a very feeble voice against what was going on in America. I do not remember how much was sold to the American people but I should say that between 1925 and 1929 it was more than 2 to 3 billion dollars a year—and I think the total amount in 1929 was somewhere near 8 or 9 billion dollars—of foreign securities marketed in this country for new capital, but I can't be sure of that figure, my recollection may be at fault. But certainly it was several billion dollars every year.

Now we had loaned Europe a vast amount of money for use in those years during the war, none of which we ever got back. I never believed we would ever get it back. I was perfectly willing to forget it—but to remember the experience. Then, after the war, private investors began unloading their investments here and they were not wholly at fault. Our banking houses went to Europe, and I could tell you some stories about that, and pointed out to these European companies that weren't dreaming about investments, how easy it was to unload securities in the United States, and I assure you it was easy and it might be easy to do it again.

I remember—I can't recall the time but it was sometime in 1925 or 1926, I was writing then, as I continued to do for many years after, a column in American newspapers on economic subjects and business—that I received a telegram one day from the St. Louis Globe-Democrat, I believe, one of the St. Louis papers, calling my attention to something that had escaped me, that the Supreme Court of Germany had decided that the bonds of the German Government, the old German Government, were completely worthless.

Prior to this the supreme court had held that the bonds of private corporations in Germany, which had apparently been liquidated by the inflation, were redeemable at 15 percent of their value, in gold, and the holders of the bonds of the old German Government thought they could get the same ruling on the imperial bonds, so they filed a suit in the courts of Germany and the Supreme Court of Germany had that day held that these bonds were worthless.

But the paper wanted a special piece about it and I didn't know enough about the subject, so I went down to a large Wall Street house which specialized in foreign bonds, in Continental bonds, particularly, and also particularly in German bonds. When I got down there I found a crowd of people on the street pressing to get into the office, and the office itself crowded, so I had difficulty in getting in. When I got to the manager of the house I said, "Well, these people seem to be excited about this supreme court decision," which I hadn't known about, this final, authoritative coup de grace to the credit of the old German Government, "what can they do about it?" The manager said, "They are not down here about that, they are down here fighting to subscribe to the securities of the present German Government which have just been put on the market today."

In other words, here were investors in New York fighting to get the bonds of a nation, the bonds of whose Imperial Government, which were far more stable when they were sold, had that very day been declared worthless.

Senator BARKLEY That couldn't happen today under the regulations of the Securities and Exchange Commission, could it?

Mr. FLYNN. I am not so sure that it couldn't happen now. The Securities Exchange Act has nothing to do with passing upon the credit value of bonds. It is merely empowered to enforce, in the prospectus and in the public offerings, a full statement of all the facts.

Senator BARKLEY. That is true as to domestic bonds, too.

Mr. FLYNN. That is true of all bonds, domestic and foreign, but they do not pass on the credit value of the bonds, or whether or not they are a good investment, and I hope they will never get around to doing that.

Senator BARKLEY. That would be practically a guranty of their payment by the Government of the United States, would it not?

Mr. FLYNN. That is right, and that is one of the things that our Government made a mistake in doing before the last depression, and that was having bonds and offerings submitted to the State Department, and the State Department making the statement that they had no objection to the bond issue, or the stock issue. This was used everywhere as Government approval of that issue, and I have no doubt that to some extent that could happen now, because if the Securities and Exchange Commission were to pass upon the validity of the prospectus, and its complete compliance with all the requisites of the law, that could be—it has already been done—used as some kind of oblique and vague approval of the whole issue by the Government. Now that would be wrong, but nevertheless it could be done.

I am not bringing up that matter, I am merely bringing up the point that it is easy, when people have savings and are looking around for investments with good interest, to sell securities which sell below par and bring a high rate of interest.

Now I think this has an important bearing on this problem here, because it was that frightful experience, not merely in foreign bonds and stocks but in domestic bonds and stocks also, which broke down the confidence of the American public in investment. And I recall very well it was at that time that this whole movement for what is called "security," as distinguished from Social Security, arose among investors, and we had this wave of investment trusts which swept over the country, offering security—which really offered less security, although the idea is a good one—and the investing public in America has never gotten over that experience.

The investing public in America has received a shock which has rendered them wary of investment, and this is one of the problems which we face here in our own area, when the war is over. We have got to get the American public to start investing again, and it would be nothing less than an act of dereliction on the part of the Congress if Congress were to open the way for foreign securities, securities of foreign governments rather, to be sold in this country to investors, all of which countries are in this condition that I have been describing.

I don't say that this should be so forever. A time may come in a year or 2 when we can look with some realism on this whole scene. I am not in favor of perpetuating this prohibition against dealings with foreign countries, as is involved in this act. I think a time must come when we must take this subject, and the whole subject of our own domestic fiscal problems, and our interest in a stronger and more

vigorous foreign world, and settle them all together, and we must perhaps do what we do in the case of a railroad that has no more credit, just declare it bankrupt and wipe out its obligations and go forward again.

But we cannot do that in this foreign situation now with reference to American investors, and this Government ought not put itself in the position of saying—as will certainly be said by the repeal of this act—that now it is all right, “Come on and sell your foreign government bonds in this country, Congress has thought the time is all right to do that now.”

Now I know, of course, that there is a theory going about that our own domestic economic security depends on the sale of the securities of these foreign governments. I know that there are men who are publicly saying that we must devote a large part of our productive capacity to turning out goods for foreign countries, to be paid for by the securities of those countries. Now it so happens that there is nothing to prevent us from turning out productive goods for foreign countries, for the corporations and business enterprises which will use them if they have the credit. And the Johnson Act plays no part in that at all, it applies only to the governments, and the only governments that can be interested in floating securities here for productive purposes, for enterprise purposes, are the collectivist governments of Europe. I want to come to that in a moment, and then I shall be through. But I merely now want to point out that I think that this is a very dangerous course to follow.

I believe it is important to see other countries prosper. Prosperous countries, great industrialist countries, buy more of our goods than countries which are not developed. If we could see Mexico now built up industrially as great as Canada, she would buy from us 10 times as much as she does, but little Canada, with only about half of the population of Mexico, buys two or three times as much as Mexico because Canada is an industrially developed country with appetites which the Mexican does not have.

So I am in favor of that but I do think we have to proceed intelligently and prudently and reasonably.

Now short-term credits to foreign countries—which England has used upon an enormous scale throughout her whole existence as a great industrial empire and on which she has lost very little money—can be used for this purpose and can be used through private channels, and there is nothing in the Johnson Act to prevent it. Long-term loans, however, if they are not paid, are too big a price to pay for this foreign trade. I am for foreign trade but I am not for foreign trade at any price.

Now if you will look over the record of our foreign trade between 1926 and 1935, I think we had an excess of exports in those years of about a billion and a half dollars, which is not very enormous, after all. But during that time we loaned those people countless billions of dollars which they defaulted on, both private corporations and governments, but principally governments. The result is that whatever we got in excess of our imports, whatever export excess we got, we paid for in this country. And I call the attention of you gentlemen to the fact that at the end of that era, in 1932, the Democratic Party made a great point of denouncing the administration that had been in

power for encouraging foreign loans for the purpose of paying for surplus exports, and I agreed with them completely, I think it was good economic philosophy then, and I think it is good economic philosophy now.

We had in this country a short time ago a member of the English Parliament, Mr. Boothby. He was at one time the parliamentary secretary of Mr. Churchill. He is a member of the Conservative Party. He is interested in the British Empire. He is what is known, I think, as the leader of the Young Conservatives in the British Parliament.

He was on a lecture tour here and one of the things he said was that England, in her own interest, must make up her mind that she must not attempt to rebuild and prosper on dollar credits in the United States; that it is far better for her to pull in her belt; and that that probably would be the last flame to destroy the British Government if she defaulted on any more debts to any other country in the world.

He said that the United States might very well make the mistake of supposing that they could prosper by giving dollar credits to the British and selling them goods bought with those dollars, but that neither the United States nor England would benefit in the long run, and that is my complete belief, but I offer it to you now out of the mouth of a member, a Conservative member, of the British Parliament, who is not without influence in his country.

Let us be certain that the loans that are made for business are good loans, let the United States Government have no part in encouraging loans for purely political purposes by private investors, or they will pay the penalty in loss of respect in the future when those loans go bad.

If loans must be made in the immediate future for political purposes, for relief, then the United States Government must assume that burden, little as I like to see the United States Government engaging in foreign lending.

Now, in the meantime we are going to need every dollar of investment money that we can possibly bring into energetic action when this situation is over and business stops living off of the Government. The only way business can live by its own energy is by the flow of savings into private investment. Now, private investment has been hurt by the factor which I have just described, namely, the bad history, but it has been hurt by many other things. It has been hurt by the strangulation of business, by labor unions, by trade associations, by businessmen, by trusts and cartels of all kinds in this country, by impositions on it by cities and States and the Federal Government, and by taxes. But it has been hurt by something else. Well, perhaps I ought not to say "something else." It has been hurt by this mania for security which has seized the mind of the American people.

Now, I am not against social security and I don't want that written down, because I was a member of the American Association for Social Security which fought for years to bring about social-security laws. But there is such a thing as preoccupation with this subject to the exclusion of every other subject.

Now this business of security that I am talking about now has to do with the investor. He doesn't want any more risk investments. After the collapse of the investment trusts, the investment business

in New York went out to sell the investor the theory that he should never take a risk, and that the way never to take a risk was to buy nothing but old stocks, the securities of corporations with a long history of good management and good profits, and they sold that idea to the American people. So that now money is seeking security investments.

But aside from that, the enormous taxes which this Government imposes now for the war, and must continue to impose when the war is over, will pretty nearly absorb almost all the investing resources of the people of the United States.

Now I am amazed at the easy manner in which the gentlemen who are preparing plans for the postwar world begin with the assumption that we will have an income of \$150,000,000,000 a year. They should begin with some plans to produce \$150,000,000,000 a year of national income, or \$160,000,000,000. I think we are going to have to have an income of that much and maybe 200 billions to service the Government obligations which we have assumed. I don't want to talk too much about that unless it is off the record.

But when this income drops—and I think that the people here in Washington are going to be a little bit surprised at the rapidity with which it can vanish—then the tax rate is going to have to remain up, no matter how much we want to see it down, and all of that vast pool of savings which is created by the savings of the small man will no longer be available for savings because they will be taken by taxes, and the same thing is true of the big-income man.

So that what is left for the private investment will be very, very limited unless we can find some means of dealing with this appalling problem, and I don't think we can even discuss it safely until the war is over.

Now, are we going to have the European industries come in here and compete with higher interest rates against our own business enterprises that are seeking investment money in a pool of savings which has already been dangerously reduced? This is one of the things I think we have to think about in connection with this whole problem of both foreign and domestic investment. It is not just one subject.

There is one more point I should like to make, and it has nothing to do with economics except that it has to do with a struggle which is now going on in the world, which is both a political and an economic struggle.

I don't see how anyone can close his eyes to the fact that with the end of the war there now resumes, on a scale never before known, a struggle between two systems of political and economic life, between the system of free government, free representative government, on the one side, and controlled autocratic government on the other side; and in the field of economics, between the system of capitalism, which is the best way to describe it, a system where production and distribution takes place through private ownership within the framework of money economy on one side, and the collectivist system of production on the other side.

Now where you have the collectivist system, and particularly the Fascist collectivist system—I am opposed, as I am sure everybody on this committee is opposed, to communism. I have no objection to the

Russians having communism. I believe that we should have recognized the Russian Government long before we did, because I think the people of Russia have got to settle this problem for themselves, as the people of all other countries in complete independence do as they choose within their own borders. But I don't want it here, and if it succeeds in Russia I don't see how you are going to keep it away from here, and I certainly don't see how you are going to keep it out of Asia and the rest of Europe.

Today, if you take the map of Europe, which looks like a big ham bone, all that part of Europe which is included in the bulk of the ham—Russia and all that group of satellite countries around here, with a population of over 150,000,000 people, excluding Germany, which would be more—is under the dominion, two-thirds of the population and three-fourths of the land area of Europe are now under the dominion of the Communist ideology. Outside of that, in the hock of this ham, is France and Spain and the Low Countries and Italy. Who knows where Italy is going and who knows where France is going? Certainly they are not going to a free representative government or a free economic system. They are going to a French form of nationalist socialism as they have already gone in Spain and as they will probably do in the Low Countries.

Leaving them out of it, however, for a moment, is the United States going to assume the burden in this struggle between two systems of civilization and live? If she believes in her own system—and I believe in it, I believe it is full of faults and defects which I think should be corrected, and which have never been corrected and not even approached—but if they believe in it are they going to assume the burden of supporting, with their funds, the success of their own economic and political system, and at the same time, by vast loans to these collectivist and semicollectivist governments, take on the burden of making them successful, too? What is the most successful thing in Europe today? Russia, the great military power of Russia. And what has made it successful? You hear people talking about the great Russian Army, and they say to themselves, "There must be something in this extraordinary system which has produced this power." But that success has been made possible, of course, by the bravery of her own soldiers, no one will take that away from them; but their soldiers would have been almost empty-handed, regardless of their bravery, if they had not been provided with the means of carrying on that war with weapons and the material which they got from this decadent capitalism.

Now, nothing succeeds like success, and all Europe is looking to Russia. Now comes the struggle in the economic and political field. It is all over on the military field. Are we now going to drive home this lesson of the success of Russian communism and European collectivism in the other countries, which are only vestibules to communism, by supporting, by financial loans to their governments, their economic activities? Are we going to, while we are engaged in that contest, assume the burden of supporting our own economic system and supporting theirs?

I am not opposed to loans to private enterprises in Europe. But I look with askance on loans to government enterprises in collectivist governments.

Senator BARKLEY. According to your theory, then, would you advocate that instead of repealing this law, which prohibits loans to governments which have defaulted, that it ought to be amended to prohibit loans to those governments on the ground that it might help them succeed?

Mr. FLYNN. No, sir; I don't want to do that. I don't want to do anything with this. I am coming to that now. I am urging this committee to put off action on this bill, and I am not doing that because I think it will be easier to perpetuate it later. I don't think you can perpetuate this kind of policy. I think this policy is based on a collection of facts which have got to be faced and changed. I am for putting off action on this bill until we can see with greater clarity the whole situation, and then dealing with the whole situation.

As I say, I make that statement in complete good faith. I believe that if you repeal this bill now, it is practically holding out a hope to Europe which you are going to perhaps fail in, because I don't think you can sell any European bonds in this country now. I don't agree that there is any urgency about this bill. Whether it is good or bad, certainly it is not urgent. It ought to take its place in a consideration of the whole economic and fiscal problems of the United States Government, not only as a government itself and as an economic system, but in the world; and I suggest, Senator—and I say this also in good faith—that I do not believe there has been any very real dealing with that subject. We have been in a war, it is difficult to deal with it, it is difficult to talk about many of these things. I don't think you can talk now about the problem of our debt. I think this will bring on a series of opinions which might very well get in the way of floating war loans. We can't discuss them freely, and we don't know the facts: We don't know what these governments in Europe are going to be; we don't know whether they are going to be Fascist governments or Communist governments or free governments, and it is going to be some time before we know.

And certainly no American citizen, while Europe is in this state of fluctuation, is going to be asked by anybody, and certainly not by this Government, to make loans to these bankrupt and revolutionary governments. There is no haste about it, there is no urgency about it.

Why, then, can it not take its place in a consideration of the whole subject? I think that this Congress has upon itself the responsibility for doing that. I know there is a committee which is dealing with the subject generally, but it certainly has arrived at no plan or no policy, and cannot arrive at any policy; it cannot arrive at any policy until there is a full public discussion of it and until all the facts are known.

What I ask you to do, therefore, is not to rush this bill through. I can conceive of no reason for rushing it through. After all, gentlemen—I say this with complete respect for the committee—this is a profoundly important subject, it does involve great considerations, and yet it has had little or no public discussion. And while there have been hearings, they have been rather perfunctory, I think—some gentleman came down here and made little more than a mere request, with some elucidation, for the repeal of the act. I do think it deserves some more consideration than that, and it ought to find its place in the whole great problem, domestic and international.

The CHAIRMAN. Are there any questions that anybody wishes to ask? (No response.)

Thank you very much, Mr. Flynn.

Mr. FLYNN. Thank you, Senator.

The CHAIRMAN. Senator Johnson, do you have any other witnesses?

Senator JOHNSON of California. I would like the opportunity of presenting a short statement myself.

The CHAIRMAN. Certainly, Senator, go right ahead.

**STATEMENT OF HON. HIRAM W. JOHNSON, UNITED STATES
SENATOR FROM THE STATE OF CALIFORNIA**

Senator JOHNSON of California. In 1931, the Senate saw fit to authorize my resolution (S. Res. 19, 72d Cong.) to investigate the sale, flotation, and allocation by banks, banking institutions, corporations, or individuals of foreign bonds or securities in the United States. This was an investigation of depreciation in foreign government securities, and of the effect of their uncontrolled marketing on our National economy.

The findings of the committee during those extensive hearings astounded Members of Congress and the citizens of the Nation. The disclosures of financial skulduggery practiced on the people and the banks of the United States by the international bankers and foreign governments in the manipulation and sale of foreign bonds and securities led to the passage of the so-called Johnson Act (S. 682, 73d Cong.) in April 1934. This act prohibited private financial transactions with any foreign government in default of its obligations to the United States Government. The purpose and worthiness of this bill had been instantly recognized earlier in 1934 by the State, Treasury, and Justice Departments, and I was favored with their advice and assistance in perfecting it. This bill was passed with the unanimous consent of both Houses of Congress.

The purpose of this legislation was to give maximum protection to the people of the United States by prohibiting their investment in securities of foreign countries which had defaulted in the payment of their obligations to the Government of the United States. It gave notice to those foreign governments in default that United States private resources were no longer available for their internal financing. It bluntly reminded such nations to honor current payments on World War I debts in order to have access to private United States sources.

The merits of this act are no less desirable today than in April 1934. The financial stability of foreign governments is understandably more precarious as the result of World War II, than in the years preceding 1934. No foreign events have occurred to justify a criterion for the repeal of the Johnson Act. Congress took its position on the Johnson bill in 1934 to protect American citizens from unsound foreign investments. It was an action on the part of Congress for the protection of the people; an action designed to eliminate the element of chance in these types of securities because of the average man's limited knowledge of foreign finance.

The loss by our Government in loans to foreign governments is small as compared with the billions of dollars our citizens have lost in the private purchase of bonds and securities of foreign governments.

Those countries deprived of the private financial resources of the United States were only those countries who defaulted in their payment of obligations on United States Government loans. These loans were made by our Government during and after World War I. To a great extent these loans were made for the very same reasons that are proposed today—for rehabilitation and for the restoration of destroyed towns, cities, and villages. The total amount of principal involved in World War I loans was \$7,000,000,000 for direct war cost, and \$3,273,000,000 for the rehabilitation and reconstruction of European countries. Of the approximate \$12,000,000,000 loaned to 15 foreign countries, the amount due and not paid as of March 22, 1945, is \$4,468,000,000. As each of you are well aware, every effort was made by the United States to ease the repayment of this money. Concessions were made by granting moratoria, reducing rates of interest and lengthening loan repayment periods. All of these aids were extended by us in a sense of fair play and always with the object of paring down the over-all amount due the United States.

The passage of the Johnson Act by Congress in 1934 put the United States on record that no more American private capital would be available to the governments of defaulting nations.

The repeal of the Johnson Act by this Congress would be tantamount to official recognition of the impossibility of collecting debts incurred by foreign governments as a result of World War I.

If Congress implies now that the recovery of this money is deemed impossible, what will be the effect on foreign borrowers and what will be their attitude when repayment of projected loans is due? I am disturbed by the possibility that any loans made for postwar restoration or rehabilitation to our allies of this war would also be considered as an integral part of over-all war costs, to which we are obligated to contribute. However, the catch in the present proposal to repeal the Johnson Act is that these foreign loans will be financed by individual American citizens—not the Treasury—and the individual will again be left holding the bag.

Why are not these proposed loans commitments of the United States Government? Why should Congress, on its own volition, now remove the protective cloak of security from American citizens, when it had previously felt it to be necessary to legislate safeguards against international bankers and defaulting foreign governments? It is proposed, without shame or sham, that this portion of foreign financing be done with the savings of the people who are now protected by the Johnson Act. There is nothing under the existing Johnson Act to prevent the United States Government from making direct loans to foreign nations; but to do this Congress and the administration would have to assume the responsibility and the financial and political risks involved.

To repeal the Johnson Act and permit citizens to loan to foreign governments in default would constitute a fraud on the unsuspecting public by implying that Congress therewith vouched for the solvency of these foreign nations. If Congress chooses to assume this implied responsibility, then financing of foreign nations should be direct, with United States Government funds.

What is to be the total cost of restoring and rehabilitating Europe

after this war? The total cost is so huge that neither the United States Government nor any of the foreign governments will attempt to estimate the amount of money involved in Europe's reconstruction. Therefore, present safeguards must be maintained, the United States Congress must not in a spirit of altruism indiscriminately arrive at loose conclusions and repeal legislation enacted for protection of its citizens who are ignorant in the ways of international finance and politics.

At present, under pending legislation, about \$6,000,000,000 will be available for lending purposes under the Bretton Woods proposals; another one and one-half billion will be available in the proposed increase on the capital of the Export-Import Bank. There is no estimate of what lend-lease will run in postwar years. This proposed program of lending in the next 4 years will be at a rate of four or five billion dollars per year. The question that enters my mind, and certainly yours, is whether foreign countries will be able to maintain their financial stability under this heavy debt burden. I doubt it very much. We are again reenacting the events following the last war, when we loaned huge sums of Government and private money to foreign countries. At the risk of being prophetic, I am certain we will hear again the cries of "Uncle Shylock" spring from the lips of foreign governments and experience the same manipulations in international finance if the Johnson Act is repealed.

The theory has been advanced by the State Department that the proposed private loan program to defaulted nations will give employment and keep our overexpanded productive capacity functioning. The theory of buying our own surpluses with our own money and giving it to a foreign nation on credit is basically unsound.

The late President had a few thoughts about lending money to foreign nations when he was first a candidate. Speaking at Columbus, Ohio, on March 20, 1932, he made a very violent and amusing attack upon the Republican administration for loaning money, or rather, encouraging people to invest in foreign securities in order to promote trade. Although we had not actually loaned the money, the American people had bought bonds, some of which were repudiated later on. President Roosevelt used Alice in Wonderland as a basis of attack upon the Republican administration. He said—Alice is talking—"What if we produce a surplus?" "Oh, we can sell it to foreign consumers." "How can foreign consumers buy it?" "Why, we can lend them the money." "Oh, I see," said Alice. "They will buy our surplus with our money."

These are the words of the late President when he was a candidate for office. The Republican administration never loaned any money to any foreign nation. But that is exactly what the Democratic administration proposes to do in Bretton Woods set-up, the Export-Import Bank and in the repeal of the Johnson Act.

The late President said in another speech prior to election, at Baltimore on October 25, 1932, in regard to the foreign bonds that had been purchased by many Americans, "The administration (meaning the Republican administration) encourages the policy and sought to open markets in foreign lands through the lending of American money to those countries. It was utterly and entirely unsound and it brought

a terrible retribution." Those are the words of the late President. Under this Democratic administration it is now proposed to loan more money to foreign nations in order to sell our goods. I believe Congress is opposed to any such disastrous policy. I am opposed to taking one dollar out of the pocket of an American citizen for the purchase of foreign securities. Above all, we should keep our money in the United States for the benefit of those who will be unemployed and bankrupt in the reconversion period lying before us, instead of legally permitting our honest workmen to be mulcted by international manipulators in securities of risky foreign governments.

I mentioned briefly that repeal of the Johnson Act will be an acknowledgement on the part of the United States Congress that the debts owed to us by European nations are to all practical purposes canceled. So long as this act remains effective, we maintain a bargaining position with European debtors, which will be surrendered immediately upon its repeal. Whether it is the intent of Congress to cancel our present bargaining position and reestablish a new one with defaulted debts of the future, will be determined by the Congress in its ultimate action on this law. It is beyond my power of imagination, and belief, that the financial position of defaulted governments is sufficiently sound for Congress to even consider repeal of the safeguards provided for our people a scant 11 years ago.

Perhaps our present attitude is the result of a new political philosophy, which the Executive department is so fond of sponsoring, generally at the expense of the American citizens. It is required of Congress—particularly the Senate—and the people to whom I am responsible, to think American for the protection of Americans, and not necessarily as an internationalist, at the cost of Americans.

It is also my understanding that bonds to be issued for the restoration of destroyed cities would not necessarily be individual bond issues based on the value of municipal properties. I understand that such bond issues from any number of war-wrecked cities, towns, and villages will be grouped into over-all loans and floated by the central government of each foreign nation.

It is unnecessary for me to recall to you gentlemen our experiences in attempting to negotiate settlement, so far as payment of money was concerned, with any of the European countries now in default. Predicating the future on our experiences in the past, I do not require a crystal ball to view the contempt which will be heaped upon us when individual American citizens seek to recover their honest money loaned in good faith. If this law is repealed, undoubtedly much private money will be loaned for the restoration and rehabilitation in Europe. But that will only be the beginning of continuing loans which will revive the very same unethical conditions which existed before the passage of the Johnson Act when private loans were managed for foreign countries by international bankers.

The Securities Act of 1933 does not give the Securities and Exchange Commission the right to pass upon the long-range merits of a foreign government loan or investment; it only imposes the duty to make sure that the investor will have certain information on important items of government finance.

Information required in schedule B of the Securities Act of 1933 sets forth the information required of foreign governments or their subdivisions in registering an issue of securities for sale to our public. This information in schedule B is less extensive than that required in schedule A which must be filed by a foreign or domestic corporate enterprise when borrowing from the American public.

Due to the status of foreign governments, the Securities and Exchange Commission readily admits that it is not feasible to require the same type of information from a foreign government or political subdivision thereof. Whether or not the Securities and Exchange Commission can provide sufficient information to enlighten the United States purchaser of foreign securities is problematical, in view of international courtesies which would inhibit the United States or any of its governmental departments from declaring any foreign government a bad risk.

The political consequences resulting from international diplomacy are of such magnitude and implication that the Government of the United States cannot with any degree of certainty assure the investor in securities of foreign governments that his loan is sound and will be repaid. However, this Congress will undertake to imply such a guaranty if the Johnson Act is repealed. This is a grave step for any legislative body, representing the people in government, to take.

The repeal of the Johnson Act would most assuredly put the savings of the United States investor in the same class as defaulted World War I loans, were the foreign government to announce naively, "I won't pay. I can't pay. I am broke." There is no law by which our private investors may collect from foreign government debtors.

To date, the Securities and Exchange Commission has never issued a stop-order hearing with respect to any foreign government issue and during its whole existence has handled only six cases involving foreign government securities. This raises considerable doubt in my mind as to the value of the protection offered by the Securities and Exchange Commission to investors in foreign securities. The Securities and Exchange Commission is bound by law to recognize treaties, agreements, and conventions entered into with a foreign nation by our Government. Because of the limited authority exercised by the Securities and Exchange Commission in evaluating the financial stability of a foreign government, international bankers will again have free rein in the underwriting and floatation of foreign securities if the Johnson Act is repealed.

A provision in the law creating the Export-Import Bank of Washington prohibits the bank from making loans to any government in default of obligations to the United States Government as of April 13, 1934. A bill is before the Senate Banking and Currency Committee for amendment which would repeal this provision. Repeal of this provision and an increase in the capitalization of the Export-Import Bank would permit the United States Government to directly make any and all necessary loans to foreign governments for the restoration of international trade. This would remove any danger of American citizens losing their savings by investing in risky foreign securities.

It is my sole purpose to impress upon this Congress the dangers involved in repealing the so-called Johnson Act. If you repeal it you

are implying by your action to the people of the United States that any European security purchased by them as an investment is sound and secure. You are, to all intents and purposes, acknowledging that the defaulted obligations of foreign countries are null and void and that the United States has no further intention of pressing its claims to recover. You are shifting the political and economic responsibility of these loans from the United States Government to the individual American citizen, who can least afford financial distress when default of payments come again.

That concludes my statement.

Now, if I may, I would like to insert in the record a statement showing how the colossal defaults of government and private debtors brought about a collapse of the creditor position of the United States from \$19,000,000,000 in 1929 to one-half a billion dollars in 1940.

The CHAIRMAN. That is a list of the loans?

Senator JOHNSON of California. No; it is not a list of the loans; it is merely a statement showing what I indicated.

The CHAIRMAN. Yes; that may be inserted in the record at this point. (The document referred to is as follows:)

THE DERACLE OF AMERICAN FOREIGN CREDITS AND TRADE¹ (AS OF 1941)

The sad figures listed below show how colossal defaults of Government and private debtors brought about a collapse of the creditor position of the United States from nineteen billions in 1929 to one-half a billion in 1940:

1. War deb'ts, principal due to the United States Government, <i>Amounts in default</i> funded (as of July 1, 1941)-----	\$11, 231, 000, 000
(At the time the funding agreements were signed the principal of these debts amounted to \$11,557,000,000, a figure which included \$9,862,000,000 principal of the original advances and \$1,715,000,000 of unpaid interest.)	
Outstanding unfunded war debts, principal-----	205, 000, 000
Funded occupation costs, U. S. Army in Germany (converted at 0.4033) (as of July 1, 1941)-----	402, 000, 000
Funded mixed claims due from Germany (as of July 1, 1941)-----	823, 000, 000
2. Estimated total of foreign dollar bonds owned by American residents, on which interest was in default in whole or in part on Dec. 31, 1940-----	983, 000, 000
Grand total in default-----	13, 644, 000, 000

II. Estimated balances of total United States foreign debits or credits (Government and private) (in millions of dollars, reckoned to the nearest million):

	<i>Debit</i>	<i>Credit</i>
1914 (July 1)-----	3, 000	
1922 (Dec. 31)-----		16, 305
1929 (Dec. 31)-----		18, 877
1934 (Dec. 31)-----		20, 567
1940 (Dec. 31)-----		14, 147

III. Estimated total principal of American foreign credits balanced against defaults (Government and private):

Total credits Dec. 31, 1940-----	14, 147
Grand total default-----	13, 644
Undefaulted credit remaining, principal-----	503

¹ A Diplomatic History of the United States, by Samuel Flagg Bemis, Revised Edition, 1942, p. 752.

IV. Interest accrued and unpaid:

	<i>Debit</i>	<i>Credit</i>
War debts:		
Funded (July 1, 1941) -----		1,876
Unfunded (July 1, 1941) -----		230
Interest on arrears of German indebtedness for United States Army occupation costs (July 1, 1941) -----		13
Funded mixed claims due from Germany (July 1, 1940) -----		550
Foreign dollar bonds (end of 1940) (no accurate computations available but estimated approxi- mately \$550,000,000) -----		37
		<hr/>
Total interest in default -----		2,706

Senator JOHNSON of California. I would also like to insert in the record a supplemental memorandum which I have prepared, entitled "Retain the Johnson Act."

The CHAIRMAN. That may be inserted in the record.
(The document referred to is as follows:)

RETAIN THE JOHNSON ACT

The purpose of the bill under consideration, S. 636, is to repeal the act of April 13, 1934, familiarly known as the Johnson Act. There is no doubt as to the intent of the bill, and there are no qualifications to the terms of repeal. An act which has been an important part of the basic statutory law of the United States of America for more than 11 years is to be completely repealed and eliminated as a part of the law of the land.

We are told that the Johnson Act must go. We are told that the act constitutes an effective barrier to the recovery of the world from the devastation of a terrible war. It is stated the nations of Europe and other areas must have American loans in order to restore their economies and that the Johnson Act stand in the way of providing American dollars and resources for world recovery. The revival of foreign trade is even said to hinge upon the repeal of the Johnson Act. The administration presses for repeal through its many spokesmen and is strongly supported by banking and investment interests and the metropolitan press. They would have us believe that repeal of the Johnson Act is a crucial step which must be taken so that the United States can play a dominant role in the postwar world.

To this proposition I cannot and will not subscribe. I care not what course others may take, but I will oppose repeal of the Johnson Act to the utmost of my strength and ability. I believe that repeal of the Johnson Act at this time is not only unwise and unnecessary but also dangerous to the welfare of the American people who must bear the terrific cost of our war effort. Those who would repeal the act disregard or pass lightly over the fact that its main purpose is to protect the American people from exploitation. The act provides the people a measure of protection, little as it may be, against the unmatched profligacy of an administration committed to apparently unlimited spending and distribution of our wealth and resources abroad and against the greedy exploitation of international bankers and invest houses. With much of the world bankrupt, or on the verge of bankruptcy, this is not the time to let down such few bars as we have to protect the American people. If the principle of the Johnson Act was valid in 1934—the Nation was practically unanimous in support of it—then its retention is imperative today.

THE LEGISLATIVE HISTORY OF THE JOHNSON ACT

In order to clarify the issue and elucidate my position further, I wish first briefly to review the legislative history of the Johnson Act. Only through a clear understanding of the origins of the act and the conditions which gave rise to it can we properly evaluate its purposes and value.

In 1930, I became greatly concerned about the consequences of the foreign loan activities of this Nation in the 1920's. On December 10, 1930, I introduced a

resolution calling for an investigation by this committee (the Senate Committee on Finance) of the sale, flotation, and allocation by banks, banking institutions, corporations, or individuals of foreign bonds or securities in the United States. That resolution was adopted by the Senate, and this committee conducted an investigation, with public hearings, in 1931 and 1932. The findings of such investigation I summarized on the floor of the Senate on March 15, 1932. The investigation developed the story of our foreign loans as a sordid tale, at once grotesque and tragic. It showed how the American people had been duped and exploited by the international bankers with the approval, express or tacit, of the State Department. It was brought out that from 1914 to 1930 nearly \$7,000,000,000 of European securities, governmental and corporate, were offered in the United States. About 2½ billion dollars were outstanding, and upon them there was a depreciation of nearly \$800,000,000. The American public had invested \$1,684,437,000 in cash in the securities of 16 European countries; such securities had depreciated \$742,003,000, or 43 percent. For Latin America the picture was worse. The American investment of about \$1,600,000,000 in the securities of Latin-American governments had depreciated \$1,175,538,032, or 73 percent! (See speech of Senator Johnson in Senate, March 15, 1932.)

It may be of interest to you that in his Presidential campaign of 1932 the late President Roosevelt spoke out boldly in criticism of an administration which fostered such loans. At Columbus, Ohio, on August 20, 1932, he said:

"It was already obvious even to the administration that the forced production of our industry was far too great for our domestic markets. The President had to meet this fact and he did meet it by an audacious and fateful suggestion. We were to sell what he called the constantly increasing surplus. We were to sell it abroad.

"But how could this be done in the collapsed state of world finance? He answered, 'It is an essential part of the further expansion of our foreign trade that we should interest ourselves in the development of backward or crippled countries by means of loans.'

"Obedient to this suggestion, the United States, which had already loaned 14 billions abroad, was lending overseas at a rate of 2 billion dollars per year. Thus was produced, my friends, the crop of foreign bonds which American investors know to their cost today. The old economics had gone out of business. To the suggestion that mass and machine production ultimately destroys employment, the President simply observed, and again I quote his words, 'This is the reecho of a century ago.'" (The Public Papers and Addresses of Franklin D. Roosevelt, vol. I, p. 672.)

Again, at St. Louis, Mo., on October 21, 1932, he said:

"The next group of obligations comprises what are known as foreign bonds. This is an unsavory chapter in American finance. These bonds in large part are directly the fruits of a disastrous policy pursued by the present administration in Washington—none, other, if you please, than the policy of lending to backward and crippled nations.

"Flagrant instances of the abuse of American investors occurring under this system are well known. When, after my address at Columbus last August, the Secretary of State chose to come to the defense of the administration, his apology was smothered by irrefutable and devastating statements of fact by Senator Glass, Senator Barkley, and many others. The administration has not since attempted to defend the indefensible fallacy of the Department of State with regard to these investments. If we were depending upon these bonds as an integral part of American finance we should be fearful indeed. But fortunately, or unfortunately, as you choose to look at it, the returns on the foreign-bond list have already come in. Many are in default. Others have lost the major part of their original face value. The best that can be said is that that danger is in great part behind us, and not ahead of us.

"I have already announced the policy of my own administration in this regard. My job will be to prevent a recurrence of this incident, to prevent the hard-earned dollars of American investors from being frittered away in foreign fields, with the encouragement of the Federal Government of the United States, and with profit only for certain international financiers whose greed exceeds their patriotism" (The Public Papers and Addresses of Franklin D. Roosevelt, vol. I, p. 826).

With the convening of the Seventy-third Congress, I introduced, on March 22, 1933, a bill to prohibit within the United States the loan to, or the purchase or sale of bonds of, any foreign government, including any political subdivision thereof which such government or political subdivision was in default in the

payment of its obligations to the Government and/or the people of the United States. In the meantime the European governments had largely not resumed payments on their war debts to the United States after the moratorium inaugurated in 1931 by President Hoover. The Senate Committee on the Judiciary reported out my bill favorably on April 6, 1933. Just let me read you what the Judiciary Committee has to say in its report:

"The bill thus reported favorably has been pending before the Senate Committee on the Judiciary for more than a year. It was introduced in the Senate during the last session by Hon. Hiram W. Johnson, of California, immediately after the investigation held by the Senate Committee on Finance respecting foreign securities. That investigation was so recent, and its results so astonishing, that apparently nothing more need be done in demonstrating the necessity for legislation upon the subject than merely to remind the Senate of the disclosures. It is sufficient to say that billions of dollars of securities of certain foreign countries were offered for sale to the American people, with little thought of final payment, and in some instances, with sufficient knowledge on the part of the American intermediary, and the borrower also, that it would be well-nigh impossible for these securities ultimately to be paid. Sums of money to the amount of billions of dollars are now due to the American people upon the bonds and obligations of foreign governments, including political subdivisions thereof and municipalities which have defaulted not only in interest payments but which hold meager hope of payment of any considerable part of the principal.

"These foreign bonds and obligations, of course, in some instances were issued and were sold in good faith, while in some instances the testimony has demonstrated that they were issued by the borrower merely to obtain money, with little expectation of redemption, and were sold by the American financiers to make outrageously high profits, and both had reasonable cause to believe that the American public purchasing such bonds or other obligations would be the ultimate sufferer. The bill was introduced, after the revelations concerning the sale of bonds and other obligations of foreign governments by American financiers and bankers, to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people. The bill seeks, therefore, to make it unlawful to loan money to, or to purchase or sell the bonds or other obligations of, any foreign government, including any political subdivision thereof, while such foreign government, or political subdivision thereof, is in default in the payment of its obligations to our people or to our Government. It is a brief penal statute, protective in character. The investigation above referred to, regarding foreign securities, not only justifies the enactment of this bill, but demands it in behalf of the American public. Moreover, much that has occurred since that investigation, and subsequently to the introduction originally of the bill, in the matter of the obligations due to the United States Government from certain foreign governments, emphasizes not only the justice of the measure, but its necessity. It would be unjust to permit the further sale of securities of a defaulting government, the sale of whose securities heretofore in this country have brought distressing loss upon our people, or the further offering for sale of the bonds and obligations of a foreign country able indeed to pay its obligations to our own Government but repudiating its solemn agreements. Thus, because of the facts demonstrated by the investigation above-referred to, and because of what has occurred since respecting the nonpayment of foreign debts due to the United States, the bill is appropriate. To curb the capacity of those engaged in the sale of foreign obligations, as an admonition to governments well able to pay but which nevertheless repudiate their written engagements, is its laudable purpose, and it is as well a measure of simple justice for the protection of the American investor and the American people generally" (S. Rept. No. 20, 73d Cong., 1st sess.).

The Johnson Act passed through Congress early in 1934 and was approved by the President on April 13, 1934. It passed the Senate on January 11 but was reconsidered and passed over. At the insistence of President Roosevelt it was amended to drop out the provision about default to the American public so as to apply only to those governments in default to the United States Government, and furthermore Government corporations were exempted from its operation. In the amended form it passed the Senate on February 2, 1934, and the House, under suspension of the rules, on April 4, 1934.

The support of the Johnson Act was overwhelming. There was not even a roll-call vote in either House of Congress. Every step was taken with the knowledge and approval of President Roosevelt. The country was united in barring the American investors market to those foreign governments who would not

meet their just obligations to the United States Government. Furthermore, the Neutrality Act, beginning with the resolution of February 29, 1936, forbade the making of loans to a belligerent or the purchase of a belligerent's bonds.

Various proposals to amend or repeal the Johnson Act have been made before. In 1940 and 1941, in particular after the war broke out in Europe, the suggestion was made, but no serious effort was exerted, very likely because it was all too evident that the American people would not tolerate repeal. Lend-lease, Export-Import Bank, and RFC lending programs have not changed the restrictions of the Johnson Act although the spirit behind the act was breached.

WHAT THE JOHNSON ACT IS AND IS NOT

There is so much popular misunderstanding about what the Johnson Act is and does that I think it would be well to point out, even to committee members, what the true facts are.

First, let me emphasize that the Johnson Act prohibits private loans to foreign governments and subdivisions who are in default on their obligations to the United States Government only. That means the nearly 20 foreign governments (Armenia, Belgium, Czechoslovakia, Estonia, France, Germany, Great Britain, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Rumania, Russia, and Yugoslavia) who are in default to the amount of about 11¼ billion dollars in their payments to the United States.

Second, the strict terms of the act do not prevent the Government or governmental corporations from loaning money to foreign governments in default on their payments to the United States.

Third, the act places no limitation or restriction on the lending by private bankers, etc., to private persons, corporations, etc., in a country in default on payments due the United States.

THE CASE FOR REPEAL ANALYZED AND ANSWERED

Let us always remember that the basic purpose of the Johnson Act is to protect the American people and their savings from exploitation. For all too long we have been played for suckers by foreign governments and international bankers with the approval, express and tacit, of our Government. Foreign nations have taken advantage of our generosity and our credulity. During World War I and in the decade or so following we poured our money and resources into Europe and other parts of the world. Then came default and repudiation. In 1934 we erected a barrier to protect the American people from further exploitation by denying the American investing market to those nations who would not honor their legal obligations to the United States Government. For 11 years that has been our policy and law in both peace and war.

Now, we are told that conditions have changed and that we must again loan American money and resources to the "crippled nations" of the world and that private capital and savings are necessary in addition to the billions of lend-lease and other forms of Government aid. The recovery of the world, it is said, depends upon American money and goods and the Johnson Act stands in the way of achieving that recovery. The logic is persuasive and the movement for repeal has strong support although I have not discovered any ground swell from the "grass roots" demanding repeal.

What are the conditions that are so different today as to cause us to turn our backs and minds upon the experience of the last generation and repeat—in my opinion—the costly mistakes of the past? Nearly everywhere throughout the world we find chaotic economic and financial conditions. It is scarcely an exaggeration to say that much of Europe is bankrupt or on the verge thereof. Assistant Secretary of State Clayton testified before the House Committee on Ways and Means, on April 18, 1945, on the Reciprocal Trade Act extension that for several years after the war most of the other countries will not even have the ability to pay us for anything we send, or have sent them, because they will not have their productive facilities reconstructed so as to produce any surplus goods beyond their own needs. Therefore, he says we must extend them credit so that they can "buy" our goods which they want (hearings on 1945 Extension of Reciprocal Trade Agreements Act, pt. 1 (unrevised), p. 22).

Where do we stand in all this? Need I remind you that we have already spent \$270,000,000,000 on war activities since July 1, 1940, and that the Congress has already appropriated \$362,000,000,000 for war with the \$400,000,000,000 mark soon to be passed? The members of this committee should be

fully aware that the national debt has now amounted to \$238,000,000,000 in sight. We may also note that our lend-lease aid to other nations now totals \$39,000,000,000 with reverse lend-lease only \$4,656,315,000. And I noted in the press a few days back that American casualties in World War II had passed the 1,000,000 mark with 227,097 killed.

In my opinion all of this adds up to the sober conviction that this is the time for caution and restraint rather than plunging ahead with more spending and lending of American money abroad. I do not deny that it is desirable to continue lend-lease aid to England and China for the war against Japan—and to Russia if she will join the war. It may also be necessary for our Government to provide some aid for relief and rehabilitation to certain countries for awhile in the peace period. But let us face the fact that such aid will be gifts. We cannot expect that there will be much in the way of repayment and we shall be only fooling ourselves if we treat such "loans" or credits as investments in the normal sense of the word. The decision of whether our Government should provide such aid or in what form and in what amounts can be made by Congress in the full light of publicity. But if we repeal the Johnson Act there will be no adequate protection to the American public. The bulk of the foreign securities offered in this country to private investors will in my opinion be of highly questionable value and default and repudiation will follow. History will repeat itself and the American people will be losers. With the enormous debt which we now have neither the Government nor the American people can afford the outright loss of billions of dollars of our resources.

I am aware that it is contended that the Securities and Exchange Commission provides protection to the American investor. But it is clear to me that such protection is inadequate to say the least for actually the SEC provides no guaranty of the worth or risk of a foreign loan and it is inconceivable that the SEC will provide much of a restraining influence when the administration is pushing foreign loans with vigor as a part of its postwar program.

It is becoming increasingly evident that the administration's postwar program counts heavily on a large volume of exports to be financed by loans for some years to come. We have the Bretton Woods proposals before us; we have been informed of a \$2,000,000,000 long-term loan to France growing out of lend-lease; and we hear rumors of a proposed \$6,000,000,000 loan to Soviet Russia, and a huge loan to China for industrialization and river development modeled on the TVA. The fact is that the administration has no answer to the problem of jobs except spending and making loans abroad. Is this not leading directly to a false prosperity similar to that of 20 years ago which burst and left us holding the bag? The world is worse off than a generation ago and grief and loss are inevitable unless we profit from past mistakes and come to our senses. What has happened to the policy announced by the late President Roosevelt in 1932 "to prevent the hard-earned dollars of American investors from being frittered away in foreign fields, with the encouragement of the Federal Government of the United States, and with profit only for certain international financiers whose greed exceeds their patriotism?" Did he not effectively point out the folly of trying to expand our foreign trade and solve our surplus problem by loans to "backward or crippled countries?"

It has been pointed out that the Bretton Woods program provides for the protanto repeal of the Johnson Act for the nations joining as members of the International Bank for Reconstruction and Development. To my way of thinking that fact is an argument against the bank rather than for outright repeal of the Johnson Act. No wonder so many countries are anxious to join the bank, have their sins of default and repudiation absolved, and have access to American private capital. We say to the other nations regardless of the reasons why you default your debts, your credit is now good; come to the United States, persuade Americans to cash in their Government bonds, and invest in anything and everything abroad.

As to a \$6,000,000,000 loan to Soviet Russia I do not hesitate to speak my mind. Have you forgotten that the Soviet Government refused to recognize the debts of its predecessors including a debt owed the United States Government? When our Government recognized the Soviet Government in 1933 it was agreed that existing claims between the two countries would be adjusted by negotiation. No "adjustment" on the debt situation has ever been made. On November 15, 1944, the total indebtedness of Russia to the United States Government alone—principal and interest—was \$443,142,417. For myself I want no part in an American loan program to Soviet Russia to rebuild and expand a Communist

nation which now dominates and controls a very large share of Europe and Asia. And I believe that the American people should be protected against such a program. The Johnson Act provides some measure of protection.

CONCLUSION

My position on the question of repeal of the Johnson Act is clear and unequivocal. I am absolutely and unqualifiedly opposed to repeal. I am thinking of the interest and welfare of the American people. The Johnson Act provides a measure of protection to them and their savings. This Nation has apparently gone mad in its policy of distributing American money, goods, and resources throughout the world. The Johnson Act stands out almost alone as a protection to the American people from the give-away complex. Let us keep it there as at least one measure devoted to preserving our American birthright for the American people. If the time comes when the other nations of the world will recognize and acknowledge their just obligations to us, and make sincere attempts to repay them, then we should consider repealing the Johnson Act. But the conditions of uncertainty, disorder, distrust, and near bankruptcy prevailing today make retention imperative.

Senator JOHNSON of California. That is all that I have at this time.

The CHAIRMAN. Senator Tydings is to address the Senate at 12 o'clock for about an hour and I think we probably should recess at this time.

Senator Fulbright, did you wish to be heard now, or at a later time, on this measure?

Senator FULBRIGHT. Senator, I don't presume to be able to tell this committee anything they don't know about the background of this act. You have heard the requests from various departments of the Government. I would be glad to discuss it but I don't feel I could add very much to the factual background.

The CHAIRMAN. Well, if it is agreeable I think the committee will take a recess at this time. Tomorrow morning we will meet in executive session—I hope with all members present—to consider the Trade Agreements Act.

If you desire to be heard at a later date on this matter, Senator Fulbright, just advise the committee and we will be glad to hear you.

Senator FULBRIGHT. Thank you.

The CHAIRMAN. The committee will now stand in recess until tomorrow morning at 10 o'clock, when we will meet in executive session, on another matter.

(Whereupon, at 12 o'clock noon, the committee recessed).

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