

# REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS

## HEARING

BEFORE THE

## COMMITTEE ON FINANCE UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS  
FOURTH SESSION

ON

## H. R. 14254

A BILL TO AMEND THE ACT ENTITLED "AN ACT TO CREATE A COM-  
MISSION AUTHORIZED UNDER CERTAIN CONDITIONS TO REFUND  
OR CONVERT OBLIGATIONS OF FOREIGN GOVERNMENTS HELD  
BY THE UNITED STATES OF AMERICA, AND FOR OTHER  
PURPOSES," APPROVED FEBRUARY 9, 1922

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FEBRUARY 10, 1923

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# REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

SATURDAY, FEBRUARY 10, 1923.

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

The committee met, pursuant to call of the chairman, at 10 o'clock a. m., in room 312, Senate Office Building, Hon. Porter J. McCumber presiding.

Present: Senators McCumber (chairman), Smoot, La Follette, Dillingham, Curtis, Watson, Calder, Sutherland, Williams, Jones, Gerry, and Walsh.

The CHAIRMAN. The committee meets this morning to consider H. R. 14254, a bill to amend the act entitled "An act to create a commission authorized under certain conditions to refund or convert obligations of foreign governments held by the United States of America, and for other purposes," approved February 9, 1922; and also to hear the statement of Senator Smoot, as a member of the commission appointed under this law.

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

[H. R. 14254, Sixty-seventh Congress, fourth session.]

A BILL To amend the act entitled "An act to create a commission authorized under certain conditions to refund or convert obligations of foreign governments held by the United States of America, and for other purposes," approved February 9, 1922.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the first proviso of section 2 of the act entitled "An act to create a commission authorized under certain conditions to refund or convert obligations of foreign governments held by the United States of America, and for other purposes," approved February 9, 1922, is amended to read as follows:

"Provided, That the settlement of indebtedness of the United Kingdom of Great Britain and Ireland to the United States, recommended by the commission and approved by the President, as set forth by him in a message presented to Congress on February 7, 1923, as contained in House Document Numbered 554, Sixty-seventh Congress, fourth session, as follows:

Principal of notes to be refunded . . . . .	\$4, 074, 818, 358. 44
Interest accrued and unpaid up to December 15, 1922, at the rate of 4½ per cent. . . . .	629, 836, 106. 99
	4, 704, 654, 465. 43
Deduct payments made October 16, 1922, and November 15, 1922, with interest at 4½ per cent thereon to December 15, 1922. . . . .	100, 526, 379. 69
	4, 604, 128, 085. 74
To be paid in cash. . . . .	4, 128, 085. 74
	4, 600, 000, 000. 00

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

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

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

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

“Any payment of interest or of principal may be made in any United States Government bonds issued since April 6, 1917, such bonds to be taken at par and accrued interest—is hereby approved and authorized, and settlements, similar, but not more favorable in terms, with other governments indebted to the United States, as set forth in this section, are hereby authorized to be made, subject to the approval of the President.”

The CHAIRMAN. I first call attention to the proviso in the act of February 9, 1922, in section 2, which reads as follows:

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

The report of the commission, as well as the bill which is before us, modifies this law of 1922; and the committee would be pleased to hear from Senator Smoot the reasons or necessity for such modifications.

### **STATEMENT OF HON. REED SMOOT, MEMBER OF WORLD WAR FOREIGN DEBT COMMISSION AND SENATOR FROM THE STATE OF UTAH.**

Senator LA FOLLETTE. Mr. Chairman, I would like to ask Senator Smoot if this commission had a stenographer present during the negotiations.

Senator SMOOT. It did not.

Senator LA FOLLETTE. Did it have a secretary, or was any memorandum made of what transpired, or any record made of the proceedings?

Senator SMOOT. Mr. Wadsworth, the Assistant Secretary of the Treasury, acted as secretary of the commission.

Senator LA FOLLETTE. And he took notes on the conversations that you had, I suppose?

Senator SMOOT. Yes; he kept a record, though not in stenographic notes, of all of the sessions.

Senator LA FOLLETTE. But he acted as secretary of your commission?

Senator SMOOT. He acted as secretary of the commission.

Senator LA FOLLETTE. And he made a memorandum showing the course of the proceedings?

Senator SMOOT. Of all of the meetings that the commission had from the first to the last.

Senator LA FOLLETTE. And he doubtless entered all motions made and all propositions in the order in which submitted and made?

Senator SMOOT. I rather think he did.

Senator LA FOLLETTE. I think, Mr. Chairman, that Mr. Wadsworth ought to be called before this committee, and that we should be advised exactly how the proceedings were conducted by the Debt Commission.

The CHAIRMAN. I think we should first ascertain what Senator Smoot has to say, and then we can decide that question.

Senator LA FOLLETTE. I will ask Senator Smoot a further question or two: How were the proceedings opened, Senator Smoot, when your commission met; what was the first thing that was said by either side?

Senator SMOOT. Do you mean the negotiations with all of the countries, or with England?

Senator LA FOLLETTE. With Great Britain.

Senator SMOOT. I think the first meeting of the commission decided that they would extend invitations to all of the countries—

Senator LA FOLLETTE. I beg your pardon. I am not asking right now what the commission did. I am just inquiring what was the first thing that was said in the way of submitting propositions.

Senator SMOOT. The first real statement was made by Mr. Baldwin, the Chancellor of the Exchequer, in behalf of the British delegation, which was published in the press, a copy of which I have here, and perhaps it would be just as well to put that speech in the record at this time.

Senator LA FOLLETTE. That opened the negotiations?

Senator SMOOT. Yes; and if there is no objection, Mr. Chairman, I will ask that that address be inserted in the record.

The CHAIRMAN. If there is no objection, it will be received and printed at this point.

(The address referred to and submitted by Senator Smoot is here printed in full, as follows:)

SPEECH DELIVERED BY THE RIGHT HONORABLE THE CHANCELLOR OF THE EXCHEQUER AT THE OPENING MEETING OF THE ANGLO-AMERICAN DEBT COMMISSION ON MONDAY JANUARY 8, 1923.

On behalf of the British delegation, I take this opportunity of expressing to the American Government and people our heartfelt appreciation of the warmth and courtesy of our reception—a reception so characteristic of the generous hospitality of this great Nation.

We have come with the express intention of repaying our debt, and it is owing to the practical difficulties of making international payments that we are about to consult with you in order to accomplish the end which we both have in view.

We meet to-day under extraordinary circumstances. We meet to settle the largest single financial transaction, I believe, between two friendly nations, in the history of the world. We are here to arrange the terms of the payment of the British debt to the United States. That debt was contracted in a common cause. It was the first contribution made by the United States to save civilization from being engulfed and free peoples being brought under the destructive rule of a military autocracy; it was followed by the contribution of the man power of the United States, whose soldiers fought so gallantly with ours and those of our Allies for the same purpose.

Then we were enlisted in a common cause; we still have common economic interests. The payment of our debt to you involves much more than the transfer of huge sums from London to Washington. It must affect the future well-being of both countries and on their prosperity depends to a large extent that of the entire world. The settlement we make here will determine the condition and material welfare of the great mass of wage earners in Great Britain and the United States, their wives and children. I do not, I believe, exaggerate. I state this as my deliberate opinion after having given the subject matured consideration.

The payment of our debt to you will impose upon us the necessity of levying heavy taxes to meet those payments. From the beginning of the war we were the heaviest-taxed nation in the world. We financed our military operations to a greater degree than any other nation by making the present generation pay. It is our way to pay as we go so far as we can. From that fixed principle we have no intention now to depart. The total annual per capita taxation in Great Britain is to-day still greater

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than that of any other people. It amounts to more than \$100 per head of the population.

I invite you to consider my views as to what this means and how I fear it will affect your own wage earners no less than ours. Further taxation would decrease the purchasing power of the British workingman and reduce our consumption of American products. There would be a diminished export demand for American cereals, cotton, meats, and other products of the soil, the mine, and the factory. Desirous as we are to maintain the social scale of our own worker, the effect of additional taxation would be inevitably to depress it. From the consequences of that I do not see how America can escape. The social condition of the American workingman, raised to its present level in some measure as a result of the war, is now the highest in the world, but if we are unable to purchase from you, if we are forced by stern necessity to economize still further, to buy from you only those things we must have, but even these in greatly reduced quantities, the American farmer, as well as the American workingman, will feel the pinch. He likewise will be compelled to economize; he will have to do with less; he will be brought down to a lower standard of living. Our modern civilization does not permit of economic isolation. Economic relations are too closely interwoven for one nation to be prosperous when other nations are suffering. Speaking broadly, if I may use the phrase, "spotted prosperity" is impossible. If on the economic map of the world there is a spot of prosperity surrounded by distress, that spot will not spread to bring health but it will be wiped out by the poverty and misery that surround it.

In this spirit I address myself to the task before us. I shall now consider the subject more in detail.

Had it been possible to find in the world a nugget of gold worth \$4,000,000,000, we would have spared no sacrifice to secure it and we would have brought it with us, but unfortunately the limitations of nature put such a simple method of payment out of the question and we have to explore other means.

Let us examine how the debt came into being and see if that will help us to a solution.

This debt is not a debt for dollars sent to Europe; the money was all expended here, most of it for cotton, wheat, food products, and munitions of war. Every cent used for the purchase of these goods was spent in America; American labor received the wages, American capitalists the profits, the United States Treasury the taxation imposed on those profits.

At the time these goods were bought we were associates in a great war. Out of \$7,000,000,000 worth of goods bought after the United States came into the war, we paid for \$3,000,000,000 worth, leaving \$4,000,000,000, which were supplied on credit. Now, seeing that the debt is a debt for goods supplied, it would be natural to ask, "Why not repay with goods?"

A moment's consideration is sufficient to answer that question.

These goods were supplied in war time at war prices. Prices have fallen so far that thus to repay \$4,000,000,000, Great Britain would have to send to America a far greater bulk of goods than she originally purchased with the money loaned, and laying aside all consideration of the tariff barrier, would it be possible for America to accept repayment in coal, iron, steel, manufactured cotton goods, etc., a method of repayment which would affect the employment of her people for years to come?

We have now seen that immediate repayment by gold is impossible, and that an equivalent transaction in direct repayment by goods is full of difficulties, so we shall have to explore what remaining methods of international payment are presented by the markets of the world.

Here attention will have to be paid to several considerations.

We lent large sums to and established large credits for our European allies, so that while we are dealing with our liabilities we find a large proportion of our assets temporarily frozen.

To balance our annual accounts in times of unexampled difficulty, we have made great sacrifices. We are affected by the terrible economic situation in Europe and are passing through the worst period of unemployment in our history. I have already referred to the weight of our taxation which with the prolonged unemployment is already bearing cruelly on our women and children.

So far from the war having left us richer by the acquisition of new territory, the acceptance of mandates in some of the most disturbed parts of the world has involved us in vast unproductive expenditure in policing and patrolling territories in which we have no economic rights which are not open equally to other nations.

Having regard to all these circumstances, the British Government has to consider very carefully the terms of the liquidation of the debt, lest an annual obli-

tion be assumed which it might be impossible to meet in years of bad trade and falling revenue.

In common with the rest of the world, we have watched with admiration the open-handed charity of America to the stricken countries of Europe, to the peoples of Belgium, of France, of Russia. The generosity of America is proverbial, but we are not here to ask for favors or to impose on generosity.

We want, on such terms as will produce the least possible disturbance in the trade relations of the two countries, a fair business settlement, a square deal, a settlement that will secure for America the repayment to the last cent of those credits which the United States Government established in America for us, their associates in the war.

Our wish is to approach the discussion as business men seeking a business solution of what is fundamentally a business problem.

May I put it in this way: We intend to pay, but how best can international credits be made liquid when the creditor nation is unwilling to permit liquidation through the direct delivery of goods and is also unwilling to see the current sale of her products to the debtor nation interrupted, and when the debtor nation is unwilling to be put in the position of being unable to buy the products of the creditor nation?

The cordial and prompt agreement of the two greatest democracies of the world on a question of this intricacy and magnitude will be an example to the nations and a long step forward in effecting a solution of the economic troubles of Europe. Let us never forget that, until these troubles are solved, there can be no general revival of international trade.

For myself I look forward to the meetings of the commission with hope and confidence. I believe that I shall not be disappointed.

Senator LA FOLLETTE. Who replied to that statement by Mr. Baldwin, if the reply was made by anybody?

Senator SMOOT. No reply at length was made.

Senator LA FOLLETTE. Something was said after that?

Senator SMOOT. After that statement was made by the Chancellor of the Exchequer, Mr. Baldwin, the chairman of the commission, the Secretary of the Treasury, Mr. Mellon, simply stated that the commission thanked him for making the statement and that the commission would take it into consideration. It was a very short meeting at that time.

After the British commission had retired, following the delivery of Mr. Baldwin's statement, there was some discussion as to what plan the commission would follow for future conferences with the British representatives.

The CHAIRMAN. That discussion was simply of the American commissioners?

Senator SMOOT. Simply the American commission; and I think the following day a meeting was called for.

Senator LA FOLLETTE. A joint meeting of both commissions?

Senator SMOOT. A joint meeting; and then the question as to terms was discussed or began to be discussed.

Senator LA FOLLETTE. That is, some reply was made by somebody in a formal sort of way, am I to understand, to the proposition submitted by Mr. Baldwin the day before?

Senator SMOOT. There was no lengthy statement made. We wanted to get down to the proposition.

Senator LA FOLLETTE. But there was a statement made on behalf of the American commission?

Senator SMOOT. I do not think so, Senator. The statement of Mr. Baldwin spoke for itself, and there was not any special proposition in that statement as to what England wanted. It was a very manly statement made by the chancellor, in which he stated that the commission was here and took great pleasure in notifying the Ameri-

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can commission that England desired to make a settlement and desired that her obligations be paid to the United States Government.

Senator LA FOLLETTE. Then he did not in that address in which you have handed to the reporter submit a proposition that Great Britain had to make?

Senator SMOOT. No.

Senator LA FOLLETTE. When did he first submit that proposition?

Senator SMOOT. There were a good many meetings held; and I might add that the first proposition that the British commission made was a proposition of an annuity plan. Of course, that was immediately turned down by the commission with little discussion.

The next proposition that he made was that perhaps it could be arranged on a rate of interest in connection with the annuity plan that would net a rate of interest of about 2 per cent, and based that upon the amount that they thought they could cut their budget and that England could meet, and expressed the opinion that it would be a hardship if it was any higher rate of interest than that.

The final proposition that they did make, after discussing the ability of England to pay under the conditions existing in the world to-day, was that they thought that they could pay a rate of interest of 3 per cent, but impressed upon our commission that there ought to be, even with the 3 per cent rate of interest for the first 10 years, some modification in payments of the amount of interest that should be paid. I do not think it would be proper for me at this time to discuss the reasons why, because it was based upon conditions existing that might affect the financial ability of England to meet the terms.

Senator LA FOLLETTE. Well, if those——

Senator SMOOT. I do not want to go any further than that at this time.

Senator LA FOLLETTE. If those were reasons which influenced our commission, I think they ought to be stated, Mr. Chairman.

Senator SMOOT. Of course, I think it would be very unwise to do so at this time, and I do not want to do it.

Senator LA FOLLETTE. I will ask Senator Smoot what statement was made by the representative who spoke for the British commission.

Senator SMOOT. Mr. Chairman, I do not care to answer that question.

The CHAIRMAN. You can answer such parts of that as you think proper.

Senator SMOOT. I think every member of the committee understands that there are conditions existing that should be taken into consideration.

Senator LA FOLLETTE. Do you not think this committee ought to know just what influenced the commission's mind?

Senator SMOOT. I do not know as that has very much to do with the final decision of the commission. I think that the rates contained in the settlement are the best rates that could possibly be secured.

Senator LA FOLLETTE. That is your judgment about it. Now, I would like to know what persuaded you to think so, and I think I have a right to know.

Senator SMOOT. I think the rate of 3½ per cent for 52 years, for bonds running 62 years, is rather burdensome upon England, taking

all of the past history of her loans and rates of interest and obligations into consideration. I myself made a calculation of the rate of interest paid by the British Government on her obligations for 50 years before the war, and the average rate of interest for that period was 2.95 per cent. We are asking her to pay for 52 years  $3\frac{1}{2}$  per cent. It is true that the first 10 years the rate of 3 per cent is granted. That is because of the fact that if she needs any assistance whatever during the period of reconstruction of her industries and assistance in the bringing about of an economic stability in the world it will be for the first 10 years. Therefore, the commission did agree to a rate of 3 per cent for 10 years and  $3\frac{1}{2}$  per cent thereafter.

Senator LA FOLLETTE. Was that the first proposition submitted by the British commission or the second?

Senator SMOOT. This one was not submitted by the British commission; the British Government finally agreed to these rates.

Senator LA FOLLETTE. It was a proposal by our commission?

Senator SMOOT. This was the final proposition, and this was made by the American commission.

Senator LA FOLLETTE. This proposition?

Senator SMOOT. This proposition was made by our commission to England, with the exception of the deferred payment of one-half of the interest for the first five years.

Senator LA FOLLETTE. Was it the first proposition that the American commission submitted to the British commission?

Senator SMOOT. No; the first proposition by the American commission to the British commission was  $3\frac{1}{2}$  per cent rate of interest.

Senator LA FOLLETTE. Straight through?

Senator SMOOT. Straight through, with the privilege of paying one-half of the interest for the first three years—that was the proposition that we first made to Mr. Baldwin, and after discussion of it he cabled the terms to his Government.

Senator LA FOLLETTE. May I inquire if that included the extension of payment to 62 years?

Senator SMOOT. Yes; it did; and also it included the payments of so much on the principal within the 62 years as would eliminate the principal at the end of that period.

Senator WALSH. Did Great Britain promptly accept the proposition made?

Senator SMOOT. Oh, Great Britain declined it.

Senator WALSH. That was finally accepted for 52 years at  $3\frac{1}{2}$  per cent?

Senator SMOOT. Yes; for 52 years; but at the beginning it was straight  $3\frac{1}{2}$  per cent clear through. The Chancellor cabled to England and he received an answer from his Government that it was impossible for them to accept those terms. After further conferences the American commission made the final proposition.

Senator LA FOLLETTE. This was the second proposition which the American commission submitted?

Senator SMOOT. Yes; that for the first 10 years the rate of interest would be 3 per cent, and for the 52 years thereafter the rate of interest would be  $3\frac{1}{2}$  per cent per annum, payable semiannually. That was a flat proposition, with no other provision. And that proposition was carried to England by the English commission. It was presented to

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the English Premier and council. They accepted that in principle, as the cable stated.

Senator LA FOLLETTE. Was that while the British commission were still here, or had they returned?

Senator SMOOT. No; they were in England; and the Ambassador of England appeared before the American commission and submitted the statement that was cabled him from his Government as to the acceptance of the terms proposed. In that cable there were certain requests made. The principal one, in fact, the only important one, was that for the first five years one-half of the interest payable could be deferred by issuing similar bonds to the original bonds, drawing the same rate of interest, and, of course, working itself out in the end with the payment of 3 per cent interest up until 1932, and 3½ per cent thereafter, the same rate as the original bonds carried. That was agreed to by the American commission, and that was put in our letter to the President and approved by the President as now in the bill.

Senator GERRY. Mr. Chairman, I would like to ask Senator Smoot a few questions. How was the item of \$629,000,000 arrived at. compound interest or just straight interest?

Senator SMOOT. Straight 4½ per cent interest, and, in that connection, I want to say to the Senator that England paid on October 15, 1922, \$50,000,000, and on November 15, 1922, she paid another \$50,000,000 on the interest, and we allowed her upon that interest at the rate of 4½ per cent up to the date of settlement, December 15, just the same as we charged her.

Senator GERRY. In the statement that was made by the President before the Congress it was said that the first year's installment will be \$23,000,000.

Senator SMOOT. That is, the interest?

Senator GERRY. That is the interest; and then he goes on to say that the amount of the last installment will be \$175,000,000. What are the amounts each year; have you a table on that?

Senator SMOOT. Yes; and I will put that table in the record. I will say, however, Senator, that the \$23,000,000 spoken of by the President is the interest on the \$4,600,000,000 at 3 per cent; and the \$175,000,000 spoken of by the President would be the payment upon the principal for the year 1985, the last payment.

Senator GERRY. And you have a table that you will put in the record?

Senator SMOOT. I will put it in right now.

Senator GERRY. Showing the amount of interest and the amount paid upon the principal?

Senator SMOOT. Yes.

(The table referred to and submitted by Senator Smoot is here printed in full, as follows:)

# REFUNDING OBLIGATIONS OF FOREIGN GOVERNMENTS. 9

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

Year.	Principal.	Schedule of annual interest installments to be paid by British Government on refunding bonds at rate of 3 per cent for first 10 years, 3 1/2 per cent until final payment.	Schedule of annual principal installments to be paid on account of principal.	Total annual payments.
1.....	\$4,600,000,000	\$138,000,000	\$23,000,000	\$161,000,000
2.....	4,577,000,000	137,310,000	23,000,000	160,310,000
3.....	4,551,000,000	136,620,000	23,000,000	160,620,000
4.....	4,530,000,000	135,900,000	23,000,000	160,900,000
5.....	4,505,000,000	135,150,000	23,000,000	160,150,000
6.....	4,480,000,000	134,400,000	27,000,000	161,400,000
7.....	4,453,000,000	133,590,000	27,000,000	160,590,000
8.....	4,426,000,000	132,780,000	28,000,000	160,780,000
9.....	4,398,000,000	131,940,000	28,000,000	159,940,000
10.....	4,370,000,000	131,100,000	30,000,000	161,100,000
11.....	4,340,000,000	151,900,000	32,000,000	183,900,000
12.....	4,308,000,000	159,780,000	32,000,000	191,780,000
13.....	4,276,000,000	149,660,000	32,000,000	181,660,000
14.....	4,244,000,000	148,540,000	32,000,000	180,540,000
15.....	4,212,000,000	147,420,000	37,000,000	184,420,000
16.....	4,175,000,000	146,125,000	37,000,000	183,125,000
17.....	4,138,000,000	144,830,000	37,000,000	181,830,000
18.....	4,101,000,000	143,535,000	42,000,000	185,535,000
19.....	4,059,000,000	142,065,000	42,000,000	184,065,000
20.....	4,017,000,000	140,595,000	42,000,000	182,595,000
21.....	3,975,000,000	139,125,000	42,000,000	181,125,000
22.....	3,933,000,000	137,655,000	46,000,000	183,655,000
23.....	3,887,000,000	136,045,000	46,000,000	182,045,000
24.....	3,841,000,000	134,435,000	46,000,000	180,435,000
25.....	3,795,000,000	132,825,000	51,000,000	183,825,000
26.....	3,744,000,000	131,040,000	51,000,000	182,040,000
27.....	3,693,000,000	129,255,000	51,000,000	180,255,000
28.....	3,642,000,000	127,470,000	53,000,000	180,470,000
29.....	3,589,000,000	125,615,000	55,000,000	180,615,000
30.....	3,534,000,000	123,690,000	57,000,000	180,690,000
31.....	3,477,000,000	121,695,000	60,000,000	181,695,000
32.....	3,417,000,000	119,595,000	64,000,000	183,595,000
33.....	3,353,000,000	117,355,000	64,000,000	181,355,000
34.....	3,289,000,000	115,115,000	64,000,000	179,115,000
35.....	3,225,000,000	112,875,000	67,000,000	179,875,000
36.....	3,158,000,000	110,530,000	70,000,000	180,530,000
37.....	3,088,000,000	108,080,000	72,000,000	180,080,000
38.....	3,016,000,000	105,500,000	74,000,000	179,500,000
39.....	2,942,000,000	102,970,000	78,000,000	180,970,000
40.....	2,861,000,000	100,240,000	78,000,000	178,240,000
41.....	2,786,000,000	97,510,000	83,000,000	180,510,000
42.....	2,709,000,000	94,605,000	85,000,000	179,605,000
43.....	2,618,000,000	91,630,000	89,000,000	180,630,000
44.....	2,529,000,000	88,515,000	94,000,000	182,515,000
45.....	2,435,000,000	85,225,000	96,000,000	181,225,000
46.....	2,339,000,000	81,865,000	100,000,000	181,865,000
47.....	2,239,000,000	78,365,000	105,000,000	183,365,000
48.....	2,134,000,000	74,690,000	110,000,000	184,690,000
49.....	2,024,000,000	70,840,000	114,000,000	184,840,000
50.....	1,910,000,000	66,850,000	119,000,000	185,850,000
51.....	1,791,000,000	62,685,000	123,000,000	185,685,000
52.....	1,668,000,000	58,380,000	127,000,000	185,380,000
53.....	1,541,000,000	53,935,000	132,000,000	185,935,000
54.....	1,409,000,000	49,315,000	136,000,000	185,315,000
55.....	1,273,000,000	44,555,000	141,000,000	185,555,000
56.....	1,132,000,000	39,620,000	146,000,000	185,620,000
57.....	986,000,000	34,510,000	151,000,000	185,510,000
58.....	835,000,000	29,225,000	156,000,000	185,225,000
59.....	679,000,000	23,765,000	162,000,000	185,765,000
60.....	517,000,000	18,095,000	167,000,000	185,095,000
61.....	350,000,000	12,250,000	175,000,000	187,250,000
62.....	175,000,000	6,125,000	175,000,000	181,125,000
<b>Total</b> .....		<b>6,505,905,000</b>	<b>4,600,000,000</b>	<b>11,105,905,000</b>

## 10 REFUNDING OBLIGATIONS OF FOREIGN GOVERNMENTS.

Senator GERRY. In regard to the interest for the first five years, there is a proviso there that one-half of it need not be paid in cash but can be paid by bonds?

Senator SMOOT. Yes.

Senator GERRY. In that case——

Senator SUTHERLAND (interposing). Liberty bonds?

Senator GERRY. No; not as I understand it.

Senator SMOOT. No; any bonds issued after April 6, 1917.

Senator GERRY. What I am driving at is this: Would not that increase the total debt? More bonds would be issued, and then the rate of payments prescribed by the agreement would not refund the entire amount at the end of the 62 years, because your original debt having been increased you would have to pay interest on that increase and it would change the whole refunding scheme. That is what I want explained.

Senator SMOOT. These bonds are similar to the bonds to be issued. The bonds payable for one-half of the interest will be in the same form as the original bonds for the obligation and totally independent of it, and it will be paid in the same way, and the end of the payment will be the same year, because if they take, for instance, we will say, half of the first three years only they will issue the bonds for one-half of that interest for the first three years. Then in seven years those bonds will draw a rate of interest of  $3\frac{1}{2}$  per cent, but only 3 per cent during the seven years that the issued bonds run after the original bonds are issued. So that the due date upon any bonds that may be issued for the one-half interest and the final payments will be exactly the same.

Senator GERRY. Then in that case the British Government will have to pay more interest if it defers the payment in these first five years?

Senator SMOOT. Yes; or, in other words, Senator, if they defer the payment of one-half of the interest in the first five years, their payment in the sixty-second year of interest and principal will be more than \$181,125,000.

Senator GERRY. Exactly.

Senator SMOOT. Just whatever the rate of interest and the principal upon the bonds at one-half interest amounts to.

Senator GERRY. But that was not covered in the statement the President made before the Congress, and I am glad to have the explanation of it now.

Senator SMOOT. There is no question about it, because it says bonds of a similar character.

Senator GERRY. Then at the end of this 62-year period they will make the final payment of everything; that is, the final date; as a matter of fact, it will come between 61 and 62 years, if I understand it correctly?

Senator SMOOT. It will be in the sixty-second year.

Senator GERRY. And the sixty-second year is the final year, although it is not so stated in the statement given out.

Senator SMOOT. I will say to the Senator that a copy of payments as I have submitted has been given to the British Government. They know just exactly what the payments are and just what they are to be; and when the bonds are drawn this will all be specified in the bonds.

Senator GERRY. That the principal and interest——

Senator SMOOT (interposing). Yes.

Senator GERRY. The whole program will be finished at the end of the sixty-second year?

Senator SMOOT. Absolutely.

Senator WILLIAMS. Senator Smoot, if I understand, part of what you are going to collect will be compound interest, will it not; that is, interest on interest?

Senator SMOOT. Oh, certainly. In other words, Senator, the amount that England will pay will be \$11,105,965,000.

Senator GERRY. Senator, is it not true that in taking at compound interest the difference between the terms of this agreement and the terms of the present Liberty bonds, that at the end of the sixty-second year period the amount that the United States would lose in the transaction would amount to more than the present debt?

Senator SMOOT. Providing we kept the money and did not use it in redeeming our obligations, which, of course, is out of the question, it may be true.

The CHAIRMAN. And, assuming our obligations would run 62 years, which they do not.

Senator SMOOT. This bond is an entirely different term and character than our bonds. I have a complete list of all of the bonded indebtedness of every name and nature of our Government, the dates at which they are to be paid, the length of time of the bond, the rate of interest, and the total amount of interest paid annually under those bonds, and the total amount of the obligations of the Government.

Senator WALSH. Including the Liberty bonds?

Senator SMOOT. Beginning with the 2 per cent consols up to the last short-time certificate that was issued. And in this statement I also have here the amount of the debts on which the interest has ceased. That amounts to \$111,558,115.04—the interest is upon that amount of money, and yet the holders have not called for the payment of the bonds.

Senator CALDER. No interest is being paid?

Senator SMOOT. No interest being paid—they have not cashed in their bonds.

Senator WALSH. What conclusion do you draw from that?

Senator SMOOT. The result of that is this: The total gross bonded indebtedness of the United States, short-time certificates and every interest-bearing obligation, is \$22,731,162,374.66; that is, on the first of this year.

Now, we will take our consols, 1925 bonds, Panama bonds, and conversion bonds—by “conversion bonds” I mean those in 1915 and 1917—amounts to \$883,670,230. The rate of interest paid upon those bonds each year is \$20,889,488.60; the average rate of those bonds is 2.36 per cent.

Then we came to our Liberty bonds—the first Liberty loan, the second Liberty loan, and the third Liberty loan—and they amount now unpaid to \$14,990,027,100. The amount of interest paid by our Government upon all of those Liberty bonds per annum is \$626,347,858.36; the average rate of interest upon those bonds is 4.17 per cent. Of course, many of those are due in 1927; the longest one runs to 1947; the bulk of them fall due between 1927 and 1942.

## 12 REFUNDING OBLIGATIONS OF FOREIGN GOVERNMENTS.

The CHAIRMAN. Those finally due in 1947 are redeemable by the Government prior to that time?

Senator SMOOT. The Government has the privilege of redeeming them in 1927.

The CHAIRMAN. I mean those that run as far as 1947; has not the Government a right to redeem them before 1927?

Senator SMOOT. The Government has the right to redeem them in in 1927—all of the second Liberty bonds.

The CHAIRMAN. I mean some of the others. The second Liberty bonds come due before 1947.

Senator SMOOT. The third Liberty bonds are all due in 1928; and the fourth are all due in 1933 or 1935, at the option of the Government of the United States.

Senator CALDER. I understand you to say that the average rate is 4.17?

Senator SMOOT. Yes.

Senator WALSH. What is the average rate of interest on all indebtedness during the war period?

Senator SMOOT. Let me put it this way: The average rate of interest on the total interest-bearing debt is 4½, or, to be exact, 4.209; and then the average interest rate on interest-bearing debts, inclusive of the pre-war loans, is 4.28.

Senator GERRY. Senator, I would like to ask you a question in regard to those bonds that were issued previous to the war, and which, I believe, come due in 1930, and I think some of them in 1925. They have the circulation privilege?

Senator SMOOT. The 2 per cents have the circulation privilege.

Senator GERRY. Which is worth 1 or 2 per cent, and while on their face they appear like 2 per cent bonds, as a matter of fact, they are really 4 per cent?

Senator SMOOT. No, Senator; nobody claims 2 per cent difference for circulating privilege. So far as the Government is concerned, in paying the interest upon them, it is only 2 per cent.

Senator CALDER. What was the rate of interest on the first Liberty bonds?

Senator SMOOT. It was 3½ per cent.

Senator CALDER. And those 3½ bonds were tax exempt, were they not?

Senator SMOOT. All tax exempt.

Senator CALDER. They probably could issue the whole loan at 3½ per cent, tax exempt?

Senator SMOOT. If conditions were anywhere near normal, 3 per cent tax-exempt bonds would bring par or more. For instance, I have here a table——

The CHAIRMAN. Before you come to the table: In other words, in your opinion, the Government, as soon as any of these Liberty bonds become due, can we replace them with bonds of the Government at 3 per cent?

Senator SMOOT. I think they can, if tax exempt. But I hope they do not issue any more tax-exempt bonds in the United States. They will, however. But I think it is one of the very worst things for the Government to do. It is drying up the source of income for the Government.

REFUNDING OBLIGATIONS OF FOREIGN GOVERNMENTS. 13

The CHAIRMAN. Will you have that table put into the record?  
 Senator SMOOT. I will.

(The table referred to and submitted by Senator Smoot is here printed in full, as follows:)

*Itemized statement of the public debt as of January 31, 1923, showing (1) date of issue; (2) rate per cent per annum; (3) principal amount outstanding; (4) the interest for one year on the outstanding principal at the interest rate for each issue; and (5) the average rate of interest per annum.*

(On the basis of daily Treasury statements.)

	Date of issue.	Rate per annum.	Principal amount outstanding.	Interest for one year on principal outstanding Jan. 31, 1923 (partly estimated).	Average rate of interest.
<b>Bonds:</b>		<i>Per cent.</i>			<i>Per cent.</i>
Consols of 1930.....	Apr. 1, 1900.....	2	\$599,724,050.00	\$11,994,481.00	.....
Loan of 1925.....	Feb. 1, 1895.....	4	118,489,900.00	4,739,596.69	.....
Panamas of 1916-1936.....	Aug. 1, 1936.....	2	48,954,180.00	979,083.60	.....
Panamas of 1918-1938.....	Nov. 1, 1908.....	2	25,947,400.00	518,948.00	.....
Panamas of 1961.....	June 1, 1911.....	3	49,800,000.00	1,494,000.00	.....
Conversion bonds.....	Jan. 1, 1916-17.....	3	28,894,500.00	866,835.00	.....
Postal savings bonds.....	Jan. 1, July 1, 1911-1922.....	2½	11,860,200.00	296,505.00	.....
<b>Total.....</b>			<b>883,670,230.00</b>	<b>20,889,448.60</b>	<b>2.364</b>
<b>First Liberty loan of 1932-1947--</b>					
3½ per cent bonds of 1932-1947.....	June 15, 1917.....	3½	1,410,001,050.00	49,350,036.75	.....
Converted 4 per cent bonds of 1932-1947.....	Nov. 15, 1917.....	4	11,542,450.00	461,698.00	.....
Converted 4½ per cent bonds of 1932-1947.....	May 9, 1918.....	4½	526,705,400.00	22,387,529.50	.....
Second converted 4½ per cent bonds of 1932-1947.....	Oct. 24, 1918.....	4½	3,492,150.00	148,416.37	.....
			<b>1,951,801,050.00</b>	<b>72,347,080.62</b>	.....
<b>Second Liberty loan of 1927-1942--</b>					
4 per cent bonds of 1927-1942.....	Nov. 15, 1917.....	4	40,771,750.00	1,990,870.00	.....
Converted 4½ per cent bonds of 1927-1942.....	May 9, 1918.....	4½	3,218,038,700.00	130,792,994.75	.....
			<b>3,268,430,450.00</b>	<b>138,783,864.75</b>	.....
<b>Third Liberty loan of 1928.</b>	May 9, 1918.....	4½	3,439,837,750.00	146,193,104.37	.....
<b>Fourth Liberty loan of 1933-1938.</b>	Oct. 24, 1918.....	4½	6,329,937,850.00	269,023,208.62	.....
			<b>14,990,027,100.00</b>	<b>626,347,458.36</b>	<b>4.178</b>
<b>Treasury bonds of 1947-1952</b>	Oct. 16, 1922.....	4½	763,915,800.00	32,460,121.50	<b>4.25</b>
<b>Notes:</b>					
<b>Victory Liberty loan 4½ per cent, maturing May 20, 1923.</b>	May 20, 1919.....	4½	843,634,500.00	40,072,038.75	<b>4.75</b>
<b>Treasury notes--</b>					
Series A-1924.....	June 15, 1921.....	5½	311,191,000.00	17,893,517.00	.....
Series B-1924.....	Sept. 15, 1921.....	5½	390,706,100.00	21,488,835.50	.....
Series A-1925.....	Feb. 1, 1922.....	4½	598,384,200.00	28,423,249.50	.....
Series B-1925.....	June 15, 1922.....	4½	330,334,800.00	14,452,147.50	.....
Series C-1925.....	Dec. 15, 1922.....	4½	448,901,150.00	20,200,551.75	.....
Series A-1926.....	Mar. 15, 1922.....	4½	618,769,700.00	29,296,560.75	.....
Series B-1926.....	Aug. 1, 1922.....	4½	459,039,900.00	19,509,195.75	.....
Series A-1927.....	Jan. 15, 1923.....	4½	366,741,435.00	16,503,304.57	.....
			<b>3,522,068,885.00</b>	<b>167,767,422.32</b>	<b>4.703</b>

# 14 REFUNDING OBLIGATIONS OF FOREIGN GOVERNMENTS.

Itemized statement of the public debt as of January 31, 1923, showing (1) date of issue; (2) rate per cent per annum; (3) principal amount outstanding; (4) the interest for one year on the outstanding principal at the interest rate for each issue; and (5) the average rate of interest per annum—Continued.

	Date of issue.	Rate per annum.	Principal amount outstanding.	Interest for one year on principal outstanding Jan. 31, 1923 (partly estimated).	Average rate of interest.
		Per cent.			Per cent.
<b>Ohio:</b>					
Treasury certificates—					
Series TM-1923.....	Mar. 15, 1922.....	4½	\$265,170,000.00	\$11,269,725.00	.....
Series TM2-1923.....	Dec. 15, 1922.....	3½	111,994,500.00	3,919,807.50	.....
Series TJ-1923.....	June 15, 1922.....	3½	264,000,000.00	9,900,000.00	.....
Series TS-1923.....	Sept. 15, 1922.....	3½	227,000,000.00	8,512,500.00	.....
Series TD-1923.....	Dec. 15, 1922.....	4	197,230,100.00	7,889,204.00	.....
			1,065,394,600.00	41,491,236.50	3.894
War savings securities, series of 1919, 1920, and 1921 (not cash receipts).	Jan. 2, 1919, 1920, Jan. 3, 1921.	4	95,990,473.97	3,839,618.061	
Treasury savings securities (redemption value of certificates outstanding).	Various dates from Dec. 15, 1921.	{4½ 4}	189,358,114.58	8,047,719.87	4.25
Total interest-bearing debt.....			22,354,050,703.55	940,922,304.86	
Average interest rate on total interest-bearing debt.....					4.209
Average interest rate on interest-bearing debt, exclusive of pre-war loans.....					4.285
Debt on which interest has ceased.....			118,758,115.01		
Noninterest-bearing debt.....			258,544,556.07		
Total gross debt.....			22,731,162,374.66		

Senator GERRY. I would like to ask the Senator one more question, if I may, and then I am through.

Senator SMOOT. Yes.

Senator GERRY. Figuring the difference between the proposed agreement with the British Government and the amount that the United States Government is now paying on the Liberty bonds, is it not true that the loss at the end of the sixty-second period, without compounding interest, would amount to over a billion dollars?

Senator SMOOT. I have not figured it that way on that basis, because I am sure it will be perfectly useless. England will not be paying this amount of interest during the sixty-second year period, if civilization exists and the economic stability of that country is restored—there is no more doubt about it than that we live.

Senator GERRY. Many experts do not agree with the Senator.

Senator SMOOT. I can take the history of the past and prove it, not only in respect of this country but of England itself. I have the equivalent rates of interest paid by England on her obligations, beginning with the year 1697 down to the present time—let us begin here at 1739, if you want to.

Senator WALSH. What are you reading from?

Senator SMOOT. I am reading from Quotations of Interest Upon English Obligations. I can go back to 1749, when there was 3.3 per cent.

Senator WALSH. Interest under war and pre-war conditions?

Senator SMOOT. I am calling your attention to the fact that it shows that for the 50 years before the war the average rate of interest paid by England was less than 3 per cent.

Senator GERRY. Then the Senator's contention is that they will be able to borrow money during the latter part of the period for less than 3½ per cent, and that is what I meant when I said that a great many experts do not agree with the Senator.

Senator SMOOT. I am quite sure of it; and, not only that, if there is not an upheaval in the world and the world gets back to a normal condition and economics become sound again in all of the countries of the world, England will pay this debt off before the end of the sixty-second year; she will be borrowing money at a lower rate than 3½ per cent and she will pay her 3½ per cent obligations to the Government of the United States whenever she can secure money at a less rate than 3½ per cent. ✓

Senator WILLIAMS. In addition to that, is it not true that the Senator's question is based upon the supposition that our Liberty bonds will run for 62 years, and that we will continue to pay the present rate of interest all the time?

Senator SMOOT. Yes.

Senator WALSH. England has the privilege to pay off the debt during the term of the bond?

Senator SMOOT. She has that privilege, and we want her to have that privilege; and England will never pay us 3½ per cent on our bonds if she can borrow the money at a less rate; and if conditions in the world are comparable with the conditions 50 years before the war, or 150 years before the war, then, of course, she is going to pay them off. Her rate of interest in 1897, as shown here, was only 2.4 per cent, and it runs 2.9, beginning with 1891: 2.8, 2.7, 2.5, 2.4, 2.5, 2.6, 2.7, 2.9, 2.9, 2.7, and 2.8.

Senator DILLINGHAM. Between what years?

Senator SMOOT. That is from 1885 down to and including 1910. And let me call your attention to one fact.

Senator WALSH. What was it in 1910?

Senator SMOOT. In 1910 it was 3 per cent.

Senator WALSH. And then from that time on, during the war period, what was it?

Senator SMOOT. During the war period the average was 4.5 per cent, in 1919. The average was 3.9 in 1914, when the war first began. Then it jumped to 4.1.

Senator WALSH. What was the highest rate?

Senator SMOOT. The highest rate was 4.5, in 1919.

Senator WALSH. Does that include pre-war?

Senator SMOOT. All.

Senator WALSH. What was the average rate of interest paid on strictly war indebtedness?

Senator SMOOT. The war indebtedness, I think, taking all of her 5 per cents that were issued, but for shorter periods of time.

Senator WALSH. And including our own?

Senator SMOOT. I think it would be about 4½ per cent. I have not figured it definitely, but I think more than likely it would be 4½.

## 16 REFUNDING OBLIGATIONS OF FOREIGN GOVERNMENTS.

Senator WALSH. Did not the British commission furnish you that; did you not find out the average interest rate on war indebtedness?

Senator SMOOT. We knew what the rates were. We have all of the loans, and I can figure it out in a very little while, Senator.

I want to call attention to the fact that the six-year period of the war cost the British Government more than the whole 226 years' period preceding it—the expenses of the British Government during that six years was more than the total expenses of the British Government for the 226 years preceding the war.

If there is any other question you would like to ask, I would like to have you do it now.

There is a matter here I want to bring up about an amendment that was offered to this bill in the House.

The CHAIRMAN. Do you wish to say anything about the present economic conditions of Great Britain that would justify any leniency at the present time?

Senator SMOOT. Great Britain is owing \$38,000,000,000; that is her total indebtedness. Great Britain advanced to the very Governments that we made advances to over \$8,000,000,000. At this point I will insert, if there is no objection, a statement showing obligations of foreign governments held by the United States.

(The statement referred to and submitted by Senator Smoot is here printed in full, as follows:)

*Statement showing obligations of foreign Governments held by the United States (including those held by United States Grain Corporation), interest accrued and unpaid thereon up to and including the last interest period, and interest heretofore paid.*

Country.	Principal amount of obligations.	Interest accrued and unpaid up to and including the last interest period.	Total indebtedness.	Interest heretofore paid.
Armenia.....	\$11,959,917.49	\$1,677,256.88	\$13,637,174.37	.....
Austria.....	24,055,708.92	2,165,013.81	26,220,722.73	.....
Belgium.....	377,123,745.94	51,391,987.94	428,515,733.88	\$14,609,062.01
Cuba.....	7,740,500.00	.....	7,740,500.00	1,859,733.14
Czechoslovakia.....	91,887,668.65	12,797,876.74	104,685,545.39	304,178.09
Estonia.....	13,999,145.60	2,089,625.66	16,088,771.26	.....
Finland.....	8,281,928.17	1,012,436.10	9,294,364.27	.....
France.....	3,340,857,593.20	430,019,062.65	3,770,806,655.85	170,304,490.63
Great Britain.....	4,135,818,358.44	611,014,201.85	4,746,832,560.29	250,132,185.50
Greece.....	15,000,000.00	375,000.00	15,375,000.00	1,159,153.34
Hungary.....	1,685,835.61	202,300.28	1,888,135.89	.....
Italy.....	1,648,031,050.90	243,480,593.37	1,891,514,634.27	57,598,832.62
Latvia.....	5,132,267.14	643,576.87	5,775,844.01	126,236.19
Liberia.....	26,000.00	2,868.85	28,868.85	561.10
Lithuania.....	4,981,628.35	747,244.20	5,728,872.55	.....
Nicaragua.....	170,685.35	.....	170,685.35	.....
Poland.....	135,662,867.80	17,380,785.13	153,043,652.93	1,290,620.73
Rumania.....	36,128,494.94	5,283,958.85	41,412,453.79	263,313.74
Russia.....	192,601,297.37	35,019,427.03	227,620,724.40	7,717,333.43
Serbia.....	51,101,595.58	7,336,455.81	58,441,051.39	636,059.14
Total.....	10,102,252,207.13	1,422,699,662.02	11,524,951,869.15	500,002,109.71

<sup>1</sup> Includes \$61,000,000 of British obligations which were given for Pittman silver advances and for which an agreement for payment has been made.

Cuba pays interest as it becomes due.

No interest due on Nicaraguan notes until maturity, as is also the case with certain Belgian obligations aggregating \$2,234,151.40.

Senator SMOOT. I want to call attention to an amendment made to the bill in the House.

Senator WALSH. Have we any bonds in our country comparable to this proposed bond?

Senator SMOOT. We have no comparable bonds in our country running the length of time agreed upon, and I think as a mere question of business the rates of interest secured in this settlement are all that they ought to be.

The CHAIRMAN. Are economic conditions in Great Britain such as to affect her ability to make any immediate payment?

Senator SMOOT. Senator, it will be impossible for her to pay any part of the debt now.

The question arose the other day as to why we used the term "Kingdom of Great Britain and Ireland," in view of the fact that Ireland at the present time is an Irish Free State. I have a copy here of paragraph 5 of the article of agreement of treaty between Great Britain and Ireland, dated December 6, 1921, and that paragraph reads as follows [reading]:

The Irish Free State shall assume liability for the service of the public debt of the United Kingdom existing at the date hereof, and toward payment of war pensions as existing at that date, in such proportion as may be fair and equitable, having regard to any such claims on the part of Ireland by way of set-off or counterclaim; the amount of such sums to be determined, in default of agreement, by the arbitration of one or more independent persons, being citizens of the British Empire.

The British Embassy in reply to an inquiry says that the amount of the liability of the Irish Free State has not been settled and will be the subject of long negotiations. I secured this information yesterday, because of the fact that the question arose here at the meeting.

Senator WALSH. You consider the matter favorable for the Irish people?

Senator SMOOT. Yes; and, not only that, the name of the Kingdom of Great Britain and Ireland has not been changed by act of Parliament in any way; it still exists.

Senator WALSH. Who originally made the suggestion to refund this debt—this country or Great Britain?

Senator SMOOT. Why, this country.

Senator WALSH. Great Britain took no steps to refund the debt, at the outset?

Senator SMOOT. No.

Senator WALSH. And previous to the present administration coming into power, there had been some negotiations back and forth by the former Secretary of the Treasury and the former President?

Senator SMOOT. That was as to the payment of interest.

Senator WALSH. And as soon as this administration came in it took up the question of refunding the debt. So all steps toward refunding of the debt were initiated by our country?

Senator SMOOT. By our country.

Senator WALSH. Was any proposal made by either this Government or the British Government to postpone all questions of interest on the debt until a later period, until we had passed the present crisis in world conditions and affairs?

Senator SMOOT. No such proposition was made by the British representatives or by this country.

Senator WALSH. This country has rather pressed the question of getting some terms fixed and determined so as to have the terms of this debt determined and known?

Senator SMOOT. Yes; they have.

## 18 REFUNDING OBLIGATIONS OF FOREIGN GOVERNMENTS.

Senator WALSH. Was any proposition made, or talk in the commission, or any consideration given by the commission to the suggestion of Senator Reed about taking the West Indies in part payment?

Senator SMOOT. It was never mentioned.

Senator WALSH. You spoke about the British Government presenting a list of its liabilities. That was furnished you by the British Government?

Senator SMOOT. They are published to the world, sir.

Senator WALSH. That was given consideration?

Senator SMOOT. Yes; we have all that information in the Treasury Department.

Senator WALSH. What, if any, statement of assets was submitted by the British Government?

Senator SMOOT. None whatever. We know about what the estimated amount of the assets of England are—I mean the published statements.

Senator WALSH. Did the commission consider that although Great Britain might be enabled by reason of its ability to raise large amounts of cash to pay this interest, yet, by reason of the fact that it had property rights and possessions of great value that some of those might be conceded instead of cash payments?

Senator SMOOT. No, it was not considered; and I do not think Congress would be in favor of it either.

Senator WALSH. Do you not think the board of directors of a bank who had a debt to liquidate should inform a debtor, who was hard up and who had large obligations and could not pay much cash, but it appeared that they had valuable property rights, that consideration ought to be given to whether some of those property rights should be taken in payment?

Senator SMOOT. Not in this case, because, I think, that England is a solvent country, and if England ever goes bankrupt I have little hopes for the balance of the world.

Senator WALSH. The only reason for lessening the rate of interest is that because Great Britain is now hard pressed; that is the real reason, is it not?

Senator SMOOT. No, Senator; I would not say that. I think the real reason is, first, for the economic stability of the world, the possible advantages to this country in exchange values; we also took into consideration the length of the loan and what would be the normal rate to be paid during the life of the loan.

Senator WALSH. If you took into consideration the stability of the world, why did you not make the rate less?

Senator SMOOT. Because I think this was a fair and just rate to both countries under to-day's conditions.

Senator WALSH. In other words, you think this rate will permit the stability of the world?

Senator SMOOT. I think it will have a tendency to do so.

Senator WALSH. More than a lesser or more than a higher rate?

Senator SMOOT. I think so. I think, Senator, that when this thing is finally settled it will be a notice to the world that the two great English-speaking countries will have settled their obligations upon a fair and just basis.

Senator WALSH. And you say that the board of directors of a financial institution, the trustees for the moneys and other people, would liquidate a debt without taking into consideration the effects of a debtor?

Senator SMOOT. I did not say that at all. If you want to know my opinion, if I was on a board of directors of our Government, I would not take any outside territory in payment; I do not want any such payment, particularly from a debtor whom we know can pay the money, and I prefer the money to any kind of transfer of peoples and lands to this country.

Senator WALSH. You said you did not consider that?

Senator SMOOT. I know we did not.

The CHAIRMAN. Do you know of any of the British dominions or possessions that want to be transferred to the United States?

Senator SMOOT. Oh, no; none whatever; and, not only that, England would not do it, if they did.

In the House yesterday, the bill was amended, as you will see, if you have the bill there, on page 3, lines 8 to 10: Strike out all of lines 8, 9, and 10, after the word "year" and the colon following, and insert in lieu thereof the following:

At the rate of 3 per cent per annum, payable semiannually from December 15, 1922, to December 15, 1932; and thereafter, at the rate of 3½ per cent per annum payable semiannually until final payment.

On account of this amendment, we will have to offer an amendment or two which the House did not do.

On page 2, after the word "session," line 8, insert "which, together with the amendment adopted by the House of Representatives to clarify the provisions as to the rates of interest, read as follows."

Then, on page 3, line 17, after the word "authorized," insert "and so amended."

Senator WALSH. Can they take any bonds issued in the next two years and apply them on the public debt?

Senator SMOOT. There is a doubt about it in my mind.

Senator WALSH. Then why not say so?

Senator SMOOT. This is an agreement that we make on this day, and bonds issued before that time—

Senator WALSH (interposing). I think it means clearly that any issue—and I am not criticizing—it means clearly any bonds issued in the next 62 years can be purchased and applied to this debt.

Senator SMOOT. So far as I am concerned, I would like to have it "any obligations of the Government issued any time after April 6, 1917."

Senator WALSH. Your commission that drafted it did not have any doubt about it?

Senator SMOOT. I have not any doubt.

The CHAIRMAN. You think if it was "any payment of interest or principal may be made in any United States Government bonds issued or which may be issued since April 6"—that is the construction you place on it?

Senator SMOOT. The idea was they were to take bonds issued after April 6 and not before April 6. So far as I am concerned, I would be perfectly willing to make it any obligations of the Government issued after April 6, 1917.

Senator WALSH. Mr. Calder, Mr. Gerry, and myself do not think it means any issue—and you do not think it does?

Senator SMOOT. It means if they are issued 50 years from now?

Senator WALSH. Yes.

Senator SMOOT. I do not think it does, and even if it did I would not object to it. I do say that this settlement is made as of December 5, 1922; that is the date of the settlement, and it says here "Any payment of interest or principal may be made in any United States Government bonds issued since April 6, 1917"—up to the date of settlement.

Senator WALSH. What do you think about it, Senator Jones?

Senator JONES. I think Senator Smoot is right about it, because they are issued bonds.

Senator SMOOT. And not being issued?

Senator JONES. Not to be issued; and they are issued since April 6.

Senator SMOOT. They are issued; they are not to be issued.

The CHAIRMAN. For instance, 50 years from now.

Senator SMOOT. They were not issued when this agreement was made.

The CHAIRMAN. I think it is not as clear as it ought to be, but I do not know as it would make any difference. The only point was if we should issue 2 per cent bonds they might be bought up to take care of 3 per cent bonds.

Senator CALDER. The insertion of the word "after" would make it clear. It is a little doubtful, and I am inclined to think that Great Britain will argue along Senator Walsh's line of reasoning.

Senator SMOOT. I do not know why you say that, when it says, "issued April 6." This bargain is made as of December 15, 1922, and we agreed to take the bonds issued since April 6.

The CHAIRMAN. What objection is there to saying "Government bonds issued since April 6, 1917, and prior to December 5, 1922"? That is the meaning, what the commission intended, and I can see no objections as long as you are making amendments, anyway.

The committee will now stand adjourned to meet in the room in the Capitol at 2 o'clock this afternoon.

(Thereupon, at 11.35 o'clock a. m., the committee took a recess until 2 o'clock this afternoon.)

#### AFTER RECESS.

The committee met, pursuant to recess, in the Finance Committee room in the Capitol, at 2 o'clock p. m.

The CHAIRMAN. Senator Smoot, will you proceed?

Senator SMOOT. Since our adjournment, I have called to the attention of the Treasury Department the wording of the bill found in lines 14 and 15, on page 3, reading as follows:

Any payment of interest or of principal may be made in any United States Government bonds since April 6, 1917, such bonds to be taken at par and accrued interest—and asked what construction the department would put upon those words, and if there was any understanding with the British representatives as to whether that included any bonds that may hereafter be issued; that is, after April 6, 1917, and I am informed that the

construction would be that if any bonds were issued after April 6, 1917, the British Government would have the right to pay those bonds at par and accrued interest upon the obligations.

Senator WALSH. In other words, any bonds issued by our Government in the next 62 years may be used by the British Government to pay either principal or interest?

Senator SMOOT. Yes; providing the bonds run the full 62 years.

Senator LA FOLLETTE. It was not your understanding of the meaning?

Senator WALSH. That does not necessarily follow.

Senator CURTIS. Providing our bonds are not paid off in full by the British Government?

Senator SMOOT. Oh, yes. My construction of the language, Senator, was this—and I think it is susceptible of that construction—that it would mean the bonds that were issued between April 6, 1917, and December 15, 1922.

Senator LA FOLLETTE. And that was the understanding of your associates on the commission?

Senator SMOOT. No; their understanding was any issue after April 6, 1917.

Senator LA FOLLETTE. With whom did you talk in the Treasury Department?

Senator SMOOT. I talked with the Secretary of the Treasury.

The CHAIRMAN. The Secretary of the Treasury has given it the legal construction.

Senator SMOOT. I suppose it could be considered that way, Senator, and that would be the way it would be treated.

Senator WALSH. Do you think the language is sufficiently clear to put that construction upon it?

Senator SMOOT. Yes; I think so.

The CHAIRMAN. Are there any further questions to be asked Senator Smoot?

Senator WALSH. It means, in other words, the bonds issued at 2½ or 3 per cent and selling at 95 or 98.

Senator SMOOT. Of course, we will not issue any bonds unless we get par for them, Senator.

Senator WALSH. I know, but if they can be bought on the market, such as Liberty bonds may now, it is possible?

Senator SMOOT. I think it could be possible, but not very probable.

The CHAIRMAN. Then, I move to amend the bill—we have not the House bill before us, and there might be some change—by striking out all after the words "United States," on line 5, page 2, down to and including the last word in line 8; in other words, striking out the words "recommended by the commission and approved by the President, as set forth by him in a message presented to Congress on February 7, 1923, as contained in House Document Numbered 554, Sixty-seventh Congress, fourth session," so that the proviso would read:

*Provided, That the settlement of indebtedness of the United Kingdom of Great Britain and Ireland to the United States, as follows.*

Then it sets out what the indebtedness is and how it is to be paid. Those in favor of that amendment will signify the same by raising their hands.

(The motion prevailed.)

Senator WALSH. I suppose the committee wants to report this bill to-day. I submit a request made to me by Senator Reed's secretary, who just called me from the Chamber, and said he had a telegram from Senator Reed saying that he was leaving Missouri to-night and would be here Monday noon, and requested that action by the committee be deferred until his return.

The CHAIRMAN. I doubt that it will be taken up before Tuesday.

Senator SMOOT. Not to report it out by the committee?

Senator WALSH. Yes. I thought I ought to convey the request. I move that further consideration of the bill by the committee be postponed until Senator Reed returns Tuesday morning at 10 o'clock.

(The motion was lost.)

Senator WALSH. I would like to have the record contain the minutes of the secretary of the commission.

Senator SMOOT. I have no power to furnish them.

Senator WALSH. I would like to have the minutes of the secretary of the American commission included in the record.

The CHAIRMAN. I do not know about that, because I do not know what they are, and I do not know whether they are something that ought to be published at this time or not.

Senator LA FOLLETTE. I move that the secretary of the commission be called before the committee this afternoon, if the bill is to be reported, and take his testimony, with the opportunity to question him.

The CHAIRMAN. We have had the testimony of Senator Smoot, which has been very full; we have had the testimony given in the House hearings, the statements made by Mr. Burton and others in the House, and it seems to me we have covered the subject pretty thoroughly. Besides, we have had some years of discussion of the subject on the floor.

Senator WATSON. What is in this secretary's report?

Senator LA FOLLETTE. I suppose the report would contain the motions and each step leading up to this final agreement.

Senator SMOOT. Senator, I think that I told you the steps that were taken.

The CHAIRMAN. I do not know what notes have been kept; I do not know but that it might be that many things relating to the debts of other nations which have yet to be settled were referred to, and it seems to me very doubtful whether we should just simply blindly ask for all notations made by a commission which was not sitting in public at all, but which was discussing debts due to the United States and between the several countries that were owing us, and whether it might not be detrimental to our interests and in the interest of the commission, enlarged as I hope it will be, in the settlement of other indebtedness due this country, I hope this will not be insisted on.

(Senator Walsh's motion was put and lost.)

Senator LA FOLLETTE. I made the motion that Mr. Wadsworth, the Assistant Secretary of the Treasury, who was present throughout these negotiations and acted as secretary of the American commission, be called before the committee, in order that the committee might ask him questions pertinent to this bill which is before the committee.

Senator WALSH. And examine his records.

Senator LA FOLLETTE. And examine his records; and, I would say in reply to what the chairman said when I submitted that motion, that it would be entirely within the authority of the committee to reject any portion of the minutes or to question him with regard to his minutes only as they pertain to this British debt; and I am very strongly of the opinion that this committee and the public is entitled to know the contents of those minutes of the meetings of the two sessions as they bear upon this particular bill.

Senator WALSH. I want to state that I am very strongly of the opinion that the public interest in this matter is such that they are entitled to access to all records leading up to the agreement that was finally reached.

The CHAIRMAN. While I shall not be in favor of the motion at the time it is voted on, if we send the bill in I will make inquiry as to those, and I know of no particular reason other than I have mentioned why they should not be obtained; and if it is proper and the department thinks it is proper—and I think they will—I have no doubt but what they would be willing to give us a copy, and I will ask that they send it up, if they have no state objections.

Senator LA FOLLETTE. It is my contention, Mr. Chairman, that this committee not only has the right to see the minutes of the secretary and know what they contain, but that it is their duty to know before they report this bill out.

The CHAIRMAN. I think we have everything before us, Senator.

Senator LA FOLLETTE. That is your opinion.

The CHAIRMAN. I know it is merely an opinion, and all I vote is my opinion. Those in favor of the motion will signify the same by raising their hands.

(The motion did not prevail.)

Senator LA FOLLETTE. I would like a roll call on that, Mr. Chairman.

(The roll was called, with the result—3 ayes, 8 noes.)

Senator SMOOT. I move, Mr. Chairman, that the bill, with the amendment, be reported to the Senate favorably.

Senator LA FOLLETTE. I ask for a roll call on that.

(The roll was called, with the following result: 3 noes, 8 ayes.)

The CHAIRMAN. The motion is carried, and the report will be made.

Senator LA FOLLETTE. I ask that the minutes taken by the stenographer be printed for use by Monday.

The CHAIRMAN. They will be printed.

(Thereupon, at 2.34 o'clock p. m., the committee adjourned.)