

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 2135

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

—
FRIDAY, JULY 15, 1921
—

PART 3

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REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

FRIDAY, JULY 15, 1921.

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

The committee met, pursuant to adjournment, at 10.30 o'clock a. m., in room 312, Senate Office Building, Senator Boies Penrose presiding.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Dillingham, Watson, Sutherland, Simmons, Reed, and Williams.

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

The CHAIRMAN. The committee will come to order, the hour of 10.30 having arrived. The Secretary of the Treasury is present and also the Assistant Secretary, at the special request of Senator La Follette, to respond to certain inquiries which are to be submitted to them.

Mr. Secretary, pending the arrival of Senator La Follette; have you anything particular to add to your statement of yesterday?

Secretary MELLON. I do not know of anything. Were there any other requests that Senator La Follette left?

Mr. WADSWORTH. He did not read his request.

Secretary MELLON. Was there any further information that he wanted?

Mr. WADSWORTH. There was an inquiry on the reported loan by England to the Argentine. He had not reached that matter yesterday.

Secretary MELLON. I believe Senator Reed asked about that at the last session.

Mr. WADSWORTH. Senator La Follette wrote a letter in which he said that he was going to ask questions about that.

The CHAIRMAN. The committee is informed that this being Cabinet day the Secretary can not remain here any great length of time. Senator Simmons, did you have any further inquiries you desired to submit to the Secretary of the Treasury concerning this proposed bill?

Senator SIMMONS. Mr. Secretary, I just wanted to ask you if there has been any suggestion made on the part of our foreign debtors that they be allowed to discharge their indebtedness by turning over

to us the bonds of Germany that may be taken for reparation purposes?

Secretary MELLON. No; there have been no such requests by any country.

Senator SIMMONS. Has there been, within your knowledge, any discussion of that subject between officials of this Government and officials of the foreign Governments?

Secretary MELLON. No; not so far as I know.

The CHAIRMAN. That is, during your term of office?

Secretary MELLON. During my term of office.

The CHAIRMAN. You can not answer as to what occurred prior to that?

Secretary MELLON. No; certainly not.

Senator SIMMONS. I was only asking with reference to his term of office.

Senator LA FOLLETTE. If the information is in the files and he has seen it, he can answer the question.

The CHAIRMAN. We have all heard of well-defined rumors of such action being contemplated years ago.

Senator SIMMONS. No; we have not heard of such action being contemplated. We have heard that some suggestions were made by foreign Governments. There is absolutely nothing, Mr. Chairman, in any of the correspondence that has been read or any of the evidence that I have heard that this Government at any time through any administration had contemplated any such arrangement.

Secretary MELLON. No; there has been no such suggestion, and there has been nothing contemplated in that direction.

Senator SMOOT. Mr. Secretary, a statement was made on the floor of the Senate yesterday that some of the foreign Governments were ready and have offered to pay their interest, but the Treasury of the United States would not take it. Do you know of any such Government?

Secretary MELLON. No.

Senator SMOOT. You would be perfectly willing to take anything that they were willing to pay?

Secretary MELLON. Yes.

Senator SIMMONS. Mr. Secretary, I want to ask you one or two other questions and then I shall not trouble you any further. There has been, as Senator Smoot has just suggested, a good deal of discussion with reference to the interest upon our foreign debt—that is, in the first place, whether it was proposed to defer payment of interest already accrued; and, in the second place, if it is contemplated in any arrangement for extension that there shall be also an extension of current interest. In other words, a distinction has been made in the discussion with reference to accrued interest and current interest, or interest accruing after the adjustment is made. I wish you would explain whether in your thought with reference to this matter there is any purpose to extend time for payment of an interest that may accrue after this adjustment is made.

Secretary MELLON. The accrued interest, as stated by the former Secretary of the Treasury, had been considered in the negotiations, and there was an understanding with these foreign Governments that that interest would be deferred. That is fully set forth in Mr. Houston's report. For current interest, or interest arising since

then, there has been no request, nor any consideration given to any question of further deferring the payment of these debts. But it is likely that with some of these Governments there will be a necessity to defer interest payments. There will be cases where it will be utterly impossible for the particular Government to meet the current rates, and in those cases it will be necessary to work out the best arrangement for the future payment of interest that can be made under these circumstances.

Senator SIMMONS. Then, you think there might be some case in which it would be necessary to defer the payment of future interest?

Secretary MELLON. I believe so.

Senator SIMMONS. There was a communication from London—I do not now recall just how that communication was received—

Senator SMOOT. It was a newspaper report.

Senator SIMMONS. Yes; a newspaper report, indicating that there was a rumor afloat in that city that negotiations were going on looking to the postponement of interest for 15 years.

Secretary MELLON. That is not official in any way.

Senator SIMMONS. Has it come otherwise?

Secretary MELLON. No; I have no knowledge of it.

Senator SIMMONS. Have you in mind deferring the payment of current interest on the indebtedness of Great Britain and France? Do you think there would be any necessity of deferring that interest, and are you considering that in connection with any refunding scheme?

Secretary MELLON. It has not been given consideration, because the question has not come up at all.

Senator SIMMONS. But, Mr. Secretary, you are asking us to give you very broad powers, and there are some Senators who feel that they should know, to some extent, what is in your mind with reference to fundamental questions of that character.

Secretary MELLON. It is pretty hard to answer without knowing the conditions or the reasons that might be presented. There might be some substantial reason why certain interest should be further deferred. I do not know.

Senator SIMMONS. Yes; you said a little while ago that might be with reference to some of these Governments, but I am asking now with reference to Great Britain. I named that country first, and, then, after you have answered that, I intended to ask you with reference to France.

Secretary MELLON. Of course, the rate of exchange has a great deal to do with that question, and the problem changes with the dollar at a very high premium. There might be a reason why consideration should be given to further extension of that interest, and it might be that the interest of this Government, as well as to the country, would require a further extension.

Senator SIMMONS. So you think it is probable at least that it would be wise from the standpoint of public policy?

Secretary MELLON. I would not say probable. You asked me whether the situation might arise where there should be consideration given to a request to further defer interest. If the rate of exchange should be at an extreme point where it would be a penalty to that Government to make immediate payment, it would be against the interest of this Government to insist on it, because if the pay-

ment should be enforced it would still aggravate the exchange situation, and the exchange situation, where the dollar is at a high premium or where the pound sterling, say, of Great Britain, is depreciated, makes it that much more difficult for trade with this country. In other words, it is that much of an embargo against the exporting of commodities from this country. So it might be to the interest of this Government to defer the payment of interest in order not to aggravate that situation.

Senator SIMMONS. Then, Mr. Secretary, you are, in connection with this refunding proposition, considering the question of whether we should not defer the payment of future interests?

Secretary MELLON. Well, there has not been anything as yet to consider. The question has not arisen and it may not arise. It depends on the conditions. These settlements will take a little time and the rate of exchange is fluctuating. I understood some little time ago—I have heard nothing since on the situation—that the British Government was preparing to pay their interest. I have heard nothing to the contrary and there has been no request or intimation that any request would come, and there may not be any. I only spoke of that situation as something that might arise.

Senator SIMMONS. Taking the conditions that exist now, if you were making the settlement to-day would you think it wise to defer the interest upon the obligations due us by the British Government?

Secretary MELLON. I do not think it would be wise to defer the interest if they were in a position to make the payment.

Senator SIMMONS. If they were to ask for a deferment, would you, under the present conditions and in your present frame of mind feel like granting it?

Secretary MELLON. It is difficult to answer that question. I doubt whether there would be occasion at the present rate of exchange with Great Britain, under the present situation, to defer the interest.

Senator SIMMONS. I did not catch your answer.

Secretary MELLON. I say I do not think there would be occasion in the present situation to defer that interest.

Senator SIMMONS. Mr. Secretary, suppose Great Britain came and urged upon you the postponement of this payment of interest, under the present conditions would you grant it?

Secretary MELLON. It would depend on the reasons and the exigency that occasioned the request.

Senator SMOOT. You are speaking now of accrued interest?

Secretary MELLON. No; current interest.

Senator SIMMONS. Suppose you had this power now, that we were to give it to you to-day, and to-morrow you were sitting down with the officials of Great Britain making this refunding contract and Great Britain should ask and insist upon deferring the current interest hereafter to accrue. Would you grant that request?

Secretary MELLON. I doubt whether it would be granted, but I could not say that there might not be substantial reasons given, some exigency existing, or some reason that should be considered. It is difficult to answer.

Senator SIMMONS. Taking the reasons that you know might be urged, and probably would be urged, what would be your feeling about it?

Secretary MELLON. They have not asked; I do not believe they are going to ask; and I do not believe that the question is going to arise, but there always is a possibility of the question arising, and it is difficult to decide questions in advance without knowing the circumstances.

Senator WATSON. But from anything you now know there is no reason why the payment should be deferred, is there, Mr. Secretary?

Secretary MELLON. None.

Senator SMOOT. Let me read a dispatch from London that was put into the record yesterday, and then ask you a question or two about it. The dispatch from London is as follows:

There was a further improvement yesterday in the currencies of the principal allied countries. The American rate for the pound sterling rose 1½ cents. Although there was an absence of German buying of dollars, on account of reparation yesterday, the improvement in sterling was not due to it; it was attributed, in part, to the announcement cabled from New York that an agreement had been reached for postponing for 15 years payment of interest on the allied debts to the United States Government.

Secretary MELLON. That is totally unfounded, so far as any knowledge of the Treasury Department or myself is concerned.

Senator SMOOT. Could you imagine a case where you would promise England that you would defer payment for 15 years?

Secretary MELLON. No.

The CHAIRMAN. Is the matter worthy of attention on a hot day like this?

Senator SMOOT. Yes.

The CHAIRMAN. It does not appear so to me.

Senator SMOOT. You will hear about it on the floor of the Senate and you will find out whether it is worthy of attention or not.

Senator SIMMONS. There is a very decided feeling in the Senate, Mr. Chairman, and I have heard it expressed.

Senator SMOOT. Senator Borah says it will have to be explained before he will allow the bill to pass on the floor of the Senate.

Secretary MELLON. We can not be responsible for unfounded statements:

Senator WILLIAMS. Who was the author of that information?

Senator SMOOT. This is a cable, as it says here, from London.

Senator WILLIAMS. It does not say to whom or from whom; just a cable?

Senator SMOOT. I think Senator Borah said it was an Associated Press dispatch. I think he said that when he first called attention to it.

Senator WATSON. I think that the Secretary ought to categorically answer the questions now.

Senator SMOOT. Now, let us get at this thing, because it was said yesterday that no Secretary would ever promise or agree to any such proposition.

Secretary MELLON. There is no question about that. I mean that you are right in that statement.

Senator SMOOT. It is totally unfounded, so far as anything from the Treasury Department is concerned?

Secretary MELLON. Absolutely so.

Senator SMOOT. Could you conceive of any condition where, if England came here and asked in the refunding debt, that the in-

terest be extended for 15 years, that any Secretary would think favorably of such a thing?

Secretary MELLON. I think it is not conceivable.

Senator SIMMONS. Mr. Secretary, I had been asking you, when I was interrupted, only about the British obligations, and you have answered as to them. Now, will you tell me your feeling about the French and the Italian obligations?

Secretary MELLON. In what way?

Senator SIMMONS. I desired to present the same questions to you with reference to those that I did with reference to the obligations of Great Britain. If they should come and ask you, in this settlement, to allow a postponement of current interest for some time in the future; knowing what you do about their situation, would you grant such a request if you were called upon to act?

Secretary MELLON. It would have to have some substantial reason that I do not know of now. The same answer would apply to those countries that I gave for Great Britain.

Senator SIMMONS. But if in the case of either of those countries, Great Britain, France, or Italy, they were to present to you reasons that appealed to you why the current interest should be postponed, you would give that serious consideration? That is what you mean to say?

Secretary MELLON. Any favorable consideration that would be given would be wholly based on the best interests of our own Government.

Senator SIMMONS. Oh, I understand that; but the question I wanted to ask is: Do you think you could and would give serious favorable consideration to that suggestion from either France, Italy, or Great Britain?

Secretary MELLON. I do not think so from all that I know now.

Senator SMOOT. Mr. Secretary, do you have any idea from what source that information came that the London Times published?

Secretary MELLON. I have not the remotest idea.

Senator SMOOT. Has there been any publication in the United States to the same effect?

Secretary MELLON. I have not seen any.

Mr. WADSWORTH. May I say, Mr. Chairman, that such a statement did appear in the Journal of Commerce of New York on the front page, that an agreement to postpone interest for 15 years had been arrived at and that the papers were on their way to England to be considered there.

The CHAIRMAN. What was the date of that issue?

Mr. WADSWORTH. I have not the exact date. I have the clipping in my office.

The CHAIRMAN. Will you kindly send it to the committee?

Mr. WADSWORTH. I shall do so.

Senator LA FOLLETTE. Do you remember whether the statement said that the agreement had been reached with the Treasury officials?

Mr. WADSWORTH. Yes; it stated that a tentative agreement with the Treasury officials had been reached.

Senator LA FOLLETTE. Or was it a tentative inquiry and a passing of messages between the Morgan interests and Great Britain to ascertain whether or not such an arrangement would be acceptable?

Mr. WADSWORTH. It was a very definite statement that there had been a tentative agreement reached here with the officials.

Senator SMOOT. What have you done about it, Mr. Wadsworth?

Mr. WADSWORTH. I telegraphed at once to the paper, asking by what authority they had published it. They telegraphed to their representative here, whose name I have forgotten, and he telegraphed back to them that he had gotten his information from Congressman Tinkham as the result of a conversation with me.

Senator LA FOLLETTE. A conversation that Congressman Tinkham had had with you?

Mr. WADSWORTH. Yes; about six weeks before. They sent the man to see me and that was all that he could say, that he had picced two and three together and made five, and that Congressman Tinkham had told him that the interest was to be deferred for 15 years and so he had printed that article.

Senator WATSON. Of course, you never had any conversation with Congressman Tinkham of that kind?

Mr. WADSWORTH. I had a discussion with Congressman Tinkham about this whole situation, but there was nothing said in our discussion about an extension of 15 years.

Senator SMOOT. Have you denied the article to the Journal of Commerce?

Mr. WADSWORTH. No. So many articles were coming out at that time with respect to all kinds of plans for exchange in bonds, etc., that we adopted the policy of saying constantly that the Treasury has no plan at the present time. We could not go on denying every scheme that was suggested.

Senator SMOOT. But there was nothing in your mind and there was no word spoken by you that would lead anyone to believe that that was the program on the part of the Treasury Department?

Mr. WADSWORTH. Not the slightest.

Senator WATSON. Mr. Secretary, you stated, a while ago, that, so far as you knew, there was no proposition at this time to defer interest.

Secretary MELLON. None whatever.

Senator WATSON. Do you know of any proposition coming to any department of the Government or made by any department of the Government to anybody representing in an official capacity any of these foreign Governments?

Secretary MELLON. None whatever, and this conversation with the Congressman is all news to me now. I did not know of it.

Senator SIMMONS. Mr. Secretary, I want to ask you another question.

The CHAIRMAN. The Chair is informed that Senator La Follette wants to make a brief statement to the committee before leaving.

Senator LA FOLLETTE. I simply desire to be on the floor at 11 o'clock this morning. As the Senate is now in session, I shall have to withdraw. If the committee is going to proceed, I would like to know what time the committee will meet again to take up this subject?

The CHAIRMAN. Would you desire to have the Secretary of the Treasury present again, Senator La Follette, or would his assistants do?

Senator LA FOLLETTE. If I can get the information I desire from the assistants, I would like to save the Secretary the trouble of coming here.

Secretary MELLON. It is perfectly agreeable to me to come again.

The CHAIRMAN. It is not a question of trouble; but he is a very busy man.

Senator LA FOLLETTE. We might have a session at which the assistants could be present and see what the developments are, and if it is necessary to call the Secretary, we could do that.

Secretary MELLON. May I say this: This is important, and I am ready to come at any time.

The CHAIRMAN. If the knowledge is in the particular jurisdiction of your assistants, Mr. Secretary, there would be no need of your being here until the assistants are exhausted.

Senator LA FOLLETTE. Yes; that occurred to me.

Senator SIMMONS. I think the Secretary had better come back another day.

Senator WATSON. Why could not he come on Monday?

The CHAIRMAN. He is entirely willing to do so.

Senator SMOOT. Why not have him come to-morrow and spend the entire day in cleaning this thing up?

Secretary MELLON. I had made an engagement away from Washington for to-morrow.

The CHAIRMAN. Will you be here Monday?

Secretary MELLON. It will be perfectly satisfactory for me to be here Monday.

The CHAIRMAN. Then, when we adjourn we will take an adjournment to meet at 10.30 on Monday for the purpose of having the Secretary before us.

Senator DILLINGHAM. Mr. Chairman, the Secretary was in the midst of a statement called out by the remark of the Assistant Secretary when he was interrupted. I hope he will be able to complete it.

Secretary MELLON. No. I said that this matter of the conversation between the Congressman and the Assistant Secretary was something that I had just now learned of.

Mr. WADSWORTH. I did not trouble you about it, Mr. Secretary, because there were so many newspaper articles and newspaper interviews, etc.; I just straightened it out as we went along.

Senator WATSON. Mr. Secretary, if this power asked for in this bill is granted to you, you expect at once to proceed, as far as possible, without international complications, to collect the interest accrued and accruing and to refund the debts and see that our money is paid?

Secretary MELLON. That is my understanding of my duty in the matter.

Senator SIMMONS. Mr. Secretary, I want to ask you one more question. I think it is perfectly natural that we should all want to know, as far as we can, what will likely result in the matter of these settlements in case you are given this authority; and, therefore, it is important for us to know, I think, not only what is in your mind, but what is in the minds of other great interests in this country that are naturally interested in this settlement. I want to ask you, not with any view of prying into things that I ought not to know or from curiosity, but with a view to ascertaining what are the influences that may likely be expected to be exerted for the purpose of

securing a postponement, not only of a payment of the principal, but of the current interest. Is there any movement, so far as has been brought to your official or personal knowledge, among the leading financiers or bankers of the country to exert an influence, so far as they can, to secure an arrangement by which this interest payment will be postponed?

Secretary MELLON. I know of no such movement, and there has been no intimation to me from any financial interest in that regard. No one has suggested it to me, and there has been no suggestion or intimation or thought about it in the administration. It is known that these debts are owing and they will be ready to meet their interest; or if they are not ready to meet their interest, they will have to give substantial argument for any postponement. There has been no intimation that any of these governments have an intention of requesting further deferment of the interest. We know that there are a number of the smaller governments that are not going to be in a position to meet their interest. We know that from our knowledge of their financial condition.

Senator SIMMONS. Then, as I understand you, upon that question you have an open mind? That is, you would prefer to get the interest if you can, but if conditions develop, or are brought to your attention, that in your judgment make it wise, from the standpoint of the interest of this country as well as our allies, to postpone, you might be moved to consent to that?

Secretary MELLON. There is that possibility.

Senator WATSON. Take, for instance, the obligations held by the United States Grain Corporation. Those obligations are to be collected, if at all, through the Treasury, are they not?

Secretary MELLON. Yes. Some portion has been paid.

Senator WATSON. For instance, Armenia owes \$8,931,000 which was due on the 30th day of June.

Secretary MELLON. Yes.

Senator WATSON. There is no way you can collect that now, is there?

Secretary MELLON. I do not know of any way.

Senator WATSON. That is to say, you are bound to deal with it as the circumstances compel you to deal with it?

Secretary MELLON. Yes.

Mr. WADSWORTH. I think there is no government of Armenia at the present time with a mail address.

Senator WATSON. Precisely; but the question is under discussion as to whether or not we shall collect the interest.

The CHAIRMAN. When was this money advanced to Armenia?

Secretary MELLON. That was the food relief proposition.

The CHAIRMAN. But what was the date of it? Was it a year ago?

Senator SMOOT. It was in 1918, I think.

Senator REED. Have we something purporting to be an obligation from the Armenian Government for \$8,000,000?

Mr. WADSWORTH. Yes; we have.

Senator REED. Was there some kind of a government then in existence in Armenia to make that obligation?

Mr. WADSWORTH. I think so.

Senator REED. What has become of that Government? You say there is none now having a mail address.

Mr. WADSWORTH. There is a good deal of unsettlement in Asia Minor at the present time and the bolsheviks and the Turkish nationalists and other are fighting over that area. It is very difficult to communicate with them.

Senator REED. Are Russia and Turkey fighting in Armenia now? You say "bolsheviks." I suppose you mean Russia?

Mr. WADSWORTH. Yes.

The CHAIRMAN. Ought we not to have the Secretary of State present before the committee to illuminate some of these subjects?

Senator WATSON. Here is Poland, Mr. Secretary. Poland incurred obligations to us through the United States Grain Corporation, beginning December 1, 1919, running up until July 13, 1920, of some \$24,000,000, carrying 5 per cent interest. That was due on the 30th of June, 1921?

Secretary MELLON. Yes.

Senator WATSON. Has any kind of a proposition been advanced for the collection of that money?

Secretary MELLON. None.

Senator SMOOT. Well, they could not pay it?

Secretary MELLON. No. I believe, Mr. Wadsworth, that those United States Grain Corporation claims are being looked after now by the Department of Commerce.

Mr. WADSWORTH. No; they are still held by the Grain Corporation.

Senator REED. I would like to inquire, Mr. Chairman, if we are going on? The second bell has already rung.

The CHAIRMAN. That is for the pleasure of the committee. If we are going to make quorums in the Senate we will never get through with the consideration of these overwhelmingly important measures.

Senator SIMMONS. As the Secretary is coming back Monday, and we are going to vote at 3 o'clock on the question before the Senate, I think most of us would like to be over there.

The CHAIRMAN. Of course, we have the Sweet bill yet before us for consideration.

Senator SMOOT. I want to-morrow morning, then, on the Sweet bill.

Senator WATSON. I move that the committee adjourn until to-morrow morning at 10.30.

The CHAIRMAN. It is entirely for the committee to determine.

Senator SMOOT. I move that the committee adjourn until to-morrow at 10.30.

The CHAIRMAN. The motion is carried.

(Thereupon, at 11.30 o'clock a. m., the committee adjourned to meet at 10.30 o'clock a. m., Saturday, July 16, 1921.)