
AUSTRIA'S DEBT TO THE UNITED STATES

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

COPY OF A REPORT OF THE SECRETARY OF THE TREASURY REGARDING THE ACTION PROPOSED TO BE TAKEN BY THE UNITED STATES IN RESPECT OF THE DEBT OF AUSTRIA TO THIS GOVERNMENT AND RECOMMENDING LEGISLATION NECESSARY TO ENABLE THE UNITED STATES TO JOIN WITH OTHER RELIEF CREDITORS IN PERMITTING AUSTRIA TO OBTAIN THE ADDITIONAL CAPITAL FOR CONTINUING ITS ECONOMIC RECONSTRUCTION

MARCH 20, 1928.—Read; referred to the Committee on Finance, and ordered to be printed.

To the Congress of the United States:

I am submitting herewith for your consideration a copy of a report of the Secretary of the Treasury regarding the action proposed to be taken by the Government of the United States in respect of the debt of Austria to this Government.

The action proposed by the Secretary of the Treasury has my approval. I recommend that the Congress enact the legislation necessary to enable the United States to join with the other relief creditors in permitting Austria to obtain the additional capital urgently needed for continuing its economic reconstruction, and to authorize the Secretary of the Treasury to conclude an agreement for the settlement of Austria's debt to the United States.

CALVIN COOLIDGE.

THE WHITE HOUSE, *March 20, 1928.*

TREASURY DEPARTMENT,
Washington, March 19, 1928.

MY DEAR MR. PRESIDENT: I have the honor to submit the following report in respect of the debt of Austria to the United States Government, with particular reference to the request submitted by the Austrian Government for the subordination of the lien enjoyed by the Government of the United States under the terms of the relief bond of the Austrian Government held by the Treasury Department to a new loan to be issued for reconstruction purposes and other questions related thereto.

It will be recalled that during 1919 and 1920 conditions in Austria were so serious that the United States and a number of European governments found it necessary to furnish foodstuffs and other relief supplies on credit. The act of Congress approved March 30, 1920, authorized the United States Grain Corporation, with the approval of the Secretary of the Treasury, to furnish flour on credit "to relieve populations in the countries of Europe or countries contiguous thereto suffering for the want of food." Pursuant to that legislation, flour was sold to Austria, and the Government of the United States now holds an Austrian bond in the principal sum of \$24,055,708.92 given in payment therefor. Certain other governments, namely, Denmark, France, Great Britain, Italy, the Netherlands, Norway, Sweden, and Switzerland, hold relief bonds of similar character in the sum of about \$95,000,000. The relief bonds of 1920 enjoy "a first charge upon all the assets and revenues of Austria." They rank ahead of Austria's reparation obligations.

The bond held by the United States is dated September 4, 1920, and by its terms matured January 1, 1925. In 1922 conditions in Austria were such as to necessitate financial assistance from abroad in order to permit the stabilization of the currency, the balancing of the budget, and the resumption of the economic life of the country. The credit of Austria was at a low ebb. No exterior loan could be floated as long as relief loans and reparations constituted prior charges on Austria's assets and revenues. Accordingly, the relief creditors, including the United States, and the Reparation Commission, agreed to subordinate their liens to permit the flotation of a reconstruction loan. Under the terms of the so-called Lodge resolution of April 6, 1922, the Secretary of the Treasury extended the maturity date of the relief bond held by the United States Government until June 1, 1943, and at the same time agreed to subordinate the lien enjoyed by the United States for the purpose of permitting the reconstruction loan of 1923. The Lodge resolution, which set forth the urgent need for relieving Austria from the immediate burden of the lien, reads as follows:

Whereas the economic structure of Austria is approaching collapse and great numbers of the people of Austria are, in consequence, in imminent danger of starvation and threatened by diseases growing out of extreme privation and starvation; and

Whereas this Government wishes to cooperate in relieving Austria from the immediate burden created by her outstanding debts: Therefore be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is hereby authorized to extend, for a period not to exceed twenty-five years, the time of payment of the principal and interest of the debt incurred by Austria for the purchase of flour from the United States Grain Corporation, and to release Austrian assets pledged for the payment of such loan, in whole or in part, as may in the

judgment of the Secretary of the Treasury be necessary for the accomplishment of the purposes of this resolution: *Provided, however,* That substantially all the other creditor nations, to wit, Czechoslovakia, Denmark, France, Great Britain, Greece, Holland, Italy, Norway, Rumania, Sweden, Switzerland, and Yugoslavia, shall take action with regard to their respective claims against Austria similar to that herein set forth. The Secretary of the Treasury shall be authorized to decide when this proviso has been substantially complied with.

The action of the Secretary of the Treasury under the authority of the resolution was taken on June 9, 1923.

In 1923 a reconstruction loan amounting to about \$125,000,000 was floated by Austria in the United States and European countries. This loan was guaranteed by several of the European governments. It saved Austria from economic and social disintegration and collapse. The program of reconstruction led to the stabilization of Austrian currency during 1923 and the balancing of the Austrian budget by 1924. It has been balanced ever since.

Austria's economic reconstruction, however, has not been completed, and the capital resources of the country are not adequate to the task. The Austrian Government now desires to float a new loan in the net amount of 725,000,000 Austrian schillings, or about \$100,000,000, for the continuation of the program of reconstruction. The proceeds would be applied to capital expenditures; that is, to the repair, improvement, and reequipping of the Austrian railway, telegraph, and telephone systems. The lien enjoyed by the relief bonds makes it difficult, if not impossible, for Austria to obtain the necessary funds for these purposes. Accordingly, the Austrian Government has requested the governments holding Austrian relief bonds and the Reparation Commission to subordinate their liens in favor of the new loan for a period not exceeding 30 years.

The Treasury Department is advised by the Department of State that all of the foreign governments concerned have already informed the Austrian Government to the effect that they are willing to subordinate their liens, providing all of the governments in a similar position, and the Reparation Commission, do likewise. It is further understood that the Reparation Commission has agreed to subordinate the reparation lien on Austria's assets and revenues in favor of the new loan. The Austrian Government has requested the Government of the United States to take similar action. Since unanimous consent is required, failure of the United States to join the other governments concerned in granting Austria's request would constitute a barrier to the floating of the new reconstruction loan.

Since the proposed loan would be for a term of 30 years, and the relief bonds mature in 1943, the mere subordination of the lien may not be sufficient to permit the flotation of the new loan. The Austrian Government is at present negotiating with the Government of the United States and the other relief creditor governments terms of payment of the relief bonds so as to provide for the liquidation of the indebtedness over a period of years. All of the relief bonds are of similar tenor and contain the following clause:

The Government of Austria agrees that no payment will be made upon or in respect of any of the obligations of said series issued by the Government of Austria before, at, or after maturity, whether for principal or for interest, unless a similar payment shall simultaneously be made upon all obligations of the said series issued by the Government of Austria in proportion to the respective obligations of said series.

The Austrian Government has assured the Government of the United States that it intends to make a settlement of the relief debt at the earliest practicable date, and that it is prepared to make with the United States a settlement on a basis no less favorable to the United States than that made with the other relief creditor governments, or any of them.

In view of the terms of the bond, as set forth above, Austria can not make a definitive settlement of the relief obligations without the agreement of all nine of the creditor governments. Such a settlement obviously may take some time, and it might well be impossible to submit the terms of settlement to the Congress at this session. This in turn might mean the indefinite postponement of the flotation of the new loan, which is urgently needed. Under these circumstances it is extremely desirable that the executive branch of the Government should have the authority to clean up the whole matter, with the limitation that our debt should be settled on terms no less favorable than those granted the other governments and on the understanding that the security now enjoyed be not released except in so far as necessary to permit the flotation of the contemplated reconstruction loan.

I am strongly of the opinion that the United States should not take a position that would obstruct any proper and well-considered measures for furthering Austria's reconstruction, particularly since such measures will tend to promote our commercial intercourse with Austria and should increase Austria's capacity to repay its indebtedness to the United States.

The matter has been given careful consideration by the Secretary of State and myself, and I suggest that, if you approve, legislation be sought from Congress authorizing the Secretary of the Treasury, in his discretion, to subordinate, for a period not exceeding 30 years from January 1, 1929, the lien of the United States on Austria's assets and revenues to the extent necessary to permit the flotation of the loan now proposed, subject, of course, to satisfactory notification that the other governments and the Reparation Commission agree to take similar action; and authorizing the Secretary of the Treasury, with the approval of the President, to conclude an agreement for the settlement of the indebtedness of Austria to the United States upon terms and conditions no less favorable than the terms and conditions granted by Austria to any of the other relief creditor governments.

Faithfully yours,

A. W. MELLON,
Secretary of the Treasury.

The PRESIDENT,
The White House.

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