Postponement of Intergovernmental Debts

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

FIRST SESSION

ON

H. J. Res. 147

A JOINT RESOLUTION TO AUTHORIZE THE POSTPONEMENT OF AMOUNTS PAYABLE TO THE UNITED STATES FROM FOREIGN GOVERNMENTS DURING THE FISCAL YEAR 1932, AND THEIR REPAYMENT OVER A TEN-YEAR PERIOD BEGINNING JULY 1, 1933

DECEMBER 16, 1931

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POSTPONEMENT OF INTERGOVERNMENTAL DEBTS

WEDNESDAY, DECEMBER 16, 1931

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

The committee met at 10.30 o'clock a. m., pursuant to call of the chairman, in the committee room, Capitol, Senator Reed Smoot (chairman) presiding.

Present: Senators Smoot, Watson, Reed, Shortridge, Couzens, Keyes, Bingham, La Follette, Thomas of Idaho, Jones, Metcalf, Harrison, King, George, Walsh of Massachusetts, Barkley, Connally, Gore, Costigan, and Hull.

The CHAIRMAN. The committee will be in order. We will hear Under Secretary Mills. As I stated, each Senator will find a copy of the joint resolution on his desk. (House Joint Resolution No. 147 is here printed in full, as follows:)

[House Joint Resolution 147, Seventy-second Congress, first session]

JOINT RESOLUTION To authorize the postponement of amounts payable to the United States from foreign governments during the fiscal year 1932, and their repayment over a 10-year period beginning July 1, 1933

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That in the case of each of the following countries: Austria, Belgium, Czechoslovakia, Estonia, Finalnd, France, Germany, Great Britain, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Rumania, and Yugoslavia, the Secretary of the Treasury, with the approval of the President, is authorized to make, on behalf of the United States, an agreement with the government of such country to postpone the payment of any amount payable during the fiscal year beginning July 1, 1931, by such country to the United States in respect of its bonded indebtedness to the United States, except that in the case of Germany the agreement shall relate only to amounts payable by Germany to the United States during such fiscal year in respect of the costs of the Army of Occupation.

SEC. 2. Each such agreement on behalf of the United States shall provide for the payment of the postponed amounts, with interest at the rate of 4 per centum per annum beginning July 1, 1933, in ten equal annuities, the first to be paid during the fiscal year beginning July 1, 1933, and one during each of the nine fiscal years following, each annuity to be payable in one or more installments.

SEC 3. No such agreement shall be made with the government of any country unless it appears to the satisfaction of the President that such government has made, or has given satisfactory assurances of willingness and readiness to make, with the government of each of the other countries indebted to such country in respect of war, relief, or reparation debts, an agreement in respect of such debt substantially similar to the agreement authorised by this joint resolution to be made with the government of such creditor country on behalf of the United States.

SEC. 4. Each agreement authorized by this joint resolution shall be made so that payments of annuities under such agreement shall, unless otherwise provided in the agreement (1) be in accordaned with the provisions contained in the agreement made with the government of such country under which the payment to be postponed is payable, and (2) be subject to the same terms and conditions as payments under such original agreement.

SEC. 5. It is hereby expressly declared to be against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner canceled or reduced; and nothing in this joint resolution shall be construed as indicating a contrary policy, or as implying that favorable consideration will be given at any time to a change in the policy hereby declared.

Mr. Mills, you may proceed.

STATEMENT OF HON. OGDEN L. MILLS, THE UNDER SECRETARY OF THE TREASURY

Under Secretary MILLS. Mr. Chairman and gentlemen of the committee. I want to begin by offering for the record a statement made by the President of the United States on June 20, 1931. Of course, all of you gentlemen have read the statement. I think it may be desirable to refresh your recollection by reading it. I am omitting the names of those Senators and Representatives who at that time had already signified their approval of the proposal. [Reading.]

The American Government proposes the postponement during one year of all payments on intergovernmental debts, reparations, and relief debts, both principal and interest, of course, not including obligations of governments held by private parties. Subject to confirmation by Congress, the American Government will postpone all payments upon the debts of foreign governments to the American Government payable during the fiscal year beginning July 1 next, conditional on a like postponement for one year of all payments on intergovernmental debts owing the important creditor powers.

The purpose of this action is to give the forthcoming year to the economic recovery of the world and to help free the recuperative forces already in motion in the United States from retarding influences from abroad.

The world-wide depression has affected the countries of Europe more severely than our own. Some of these countries are feeling to a certain extent the drain of this depression on national economy. The fabric of intergovernmental debts, supportable in normal times, weighs heavily in the midst of this depression.

From a variety of causes arising out of the depression such as the fall in the price of foreign commodities and the lack of confidence in economic and political stability abroad there is an abnormal movement of gold into the United States which is lowering the credit stability of many foreign countries. These and the other difficulties abroad diminish buying power for our exports and in a measure are the cause of our continued unemployment and continued lower prices to our farmers.

Wise and timely action should contribute to relieve the pressure of these adverse forces in foreign countries and should assist in the reestablishment of confidence, thus forwarding political peace and economic stability in the world.

Authority of the President to deal with this problem is limited, as this action must be supported by the Congress. It has been assured the cordial support of leading members of both parties in the Senate and the House. The essence of this proposition is to give time to permit debtor governments to recover their national prosperity. I am suggesting to the American people that they be wise creditors in their own interest and be good neighbors.

I wish to take this occasion also to frankly state my views upon our relations to German reparations and the debts owed to us by the allied governments of Europe. Our Government has not been a party to, or exerted any voice in, determination of reparation obligations. We purposely did not participate in either general reparations or the division of colonies or property. The repayment of debts due to us from the Allies for the advances for war and reconstruction were settled upon a basis not contingent upon German reparations or related thereto. Therefore, reparations is necessarily wholly a European problem with which we have no relation.

I do not approve in any remote sense of the cancellation of the debts to us. World confidence would not be enhanced by such action. None of our debtor nations has ever suggested it. But as the basis of the settlement of these debts was the capacity under normal conditions of the debtor to pay, we should be consistent with our own policies and principles if we take into account the abnormal situation now existing in the world. I am sure the American people have no desire to attempt to extract any sum beyond the capacity of any debtor to pay and it is our view that broad vision requires that our Government should recognize the situation as it exists.

This course of action is entirely consistent with the policy which we have hitherto pursued. We are not involved in the discussion of strictly European problems, of which the payment of German reparations is one. It represents our willingness to make a contribution to the early restoration of world prosperity in which our own people have so deep an interest.

I wish further to add that while this action has no bearing on the conference for limitation of land armaments to be held next February, inasmuch as the burden of competitive armaments has contributed to bring about this depression, we trust that by this evidence of our desire to assist we shall have contributed to the good will which is so necessary in the solution of this major question.

I now offer, Mr. Chairman, a list of the countries involved, so far as we are concerned, in the suspension of payments, and the amounts due to the United States Government from those countries during the fiscal year 1932, ending June 30, 1932.

The CHAIRMAN. It may be placed in the record.

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

Amounts payable during the fiscal year 1932 by foreign governments on account of their indebtedness

Country	Principal	Interest	Total
Austria	$287,556		$287,556
Belgium	4,200,000	$3,750,000	7,950,000
Czechoslovakia	3,000,000		3,000,000
Estonia	108,012	492,360	600,372
Finland	55,000	257,295	312,295
France	11,363,500	38,636,500	50,000,000
Great Britain	28,000,000	131,520,000	159,520,000
Greece	660,000	449,080	1,109,080
Hungary	12,270	57,072	69,342
Italy	12,200,000	2,506,125	14,706,125
Latvia	44,664	205,989	250,653
Lithuania	38,615	185,930	224,545
Poland	1,325,000	6,161,835	7,486,835
Rumania	800,000		800,000
Yugoslavia	250,000		250,000
Total	62,344,617	184,222,186	246,566,803
Germany, Army costs	6,000,000		6,000,000
Total	68,344,617	184,222,186	252,566,803

Dec. 15, 1931.

Senator HARRISON. What is the aggregate amount, Mr. Secretary?

Under Secretary MILLS. The aggregate amount is $252,000,000 and some odd thousands of dollars.

Senator GORE. I want to ask Mr. Mills if he will insert into the record at this point the joint statement signed by the President and Premier Laval.

Under Secretary MILLS. I will be very glad to do that.

The CHAIRMAN. Do you want it read, Senator?

Senator GORE. No; just insert it.

The CHAIRMAN. I suppose all of us have read it.

Senator HARRISON. Yes; but I think it is clearer than the President's statement.

Under Secretary MILLS. I think the President's statement is very clear, Senator. And that is one thing I want to emphasize.

Senator GORE. In view of the conflict between the statement just read and that statement, I would like to have it in the record at this point to compare it.

Senator BINGHAM. May I ask the Senator from Oklahoma what the point is? Just what is the point at issue there?

Senator GORE. The joint statement issued by President Hoover and Premier Laval.

Senator BINGHAM. Yes; I understand that, but what is the point?

Senator GORE. There was an inference that there was a joint agreement on the reparations and the international debt; that they constitute a departure from our policy; and I think it should be stated at this place so that the people may compare them.

The CHAIRMAN. It may be inserted in the record. (The joint statement referred to is here printed in full, as follows:)

OCTOBER 25, 1931.

A JOINT STATEMENT BY THE PRESIDENT OF THE UNITED STATES AND THE PRESIDENT OF THE COUNCIL OF MINISTERS OF FRANCE

The traditional friendship between the United States and France, the absence of all controversy between our two Governments, a record of many events in collaboration toward peace of the world, embracing among its recent phases the adoption of the Kellogg-Briand pact, render it possible and opportune for the representatives of our Governments to explore every aspect of the many problems in which we are mutually interested.

Indeed the duty of statesmen is not to overlook any means of practical cooperation for the common good. This is particularly true at a time when the world looks for leadership in relief from a depression which reaches into countless homes in every land. Relations of mutual confidence between governments have the most important bearing upon seeding the recovery which we seek. We have engaged upon that mission with entire frankness. We have made real progress.

We canvassed the economic situation in the world, the trends in international relations bearing upon it; the problems of the forthcoming conference for limitation and reduction of armaments; the effect of the depression on payments under intergovernmental debts; the stabilization of international exchanges and other financial and economic subjects.

An informal and cordial discussion has served to outline with greater precision the nature of the problems. It has not been the purpose of either of us to engage in commitments binding our Governments, but rather, through development of fact, to enable each country to act more effectively in its own field.

It is our joint purpose that the conference for limitation of armaments will not fail to take advantage of the great opportunity which presents itself, and that it will be capable of meeting what is in reality its true mission; that is, the organization on a firm foundation of permanent peace. In so far as intergovernmental obligations are concerned, we recognize that prior to the expiration of the Hoover year of postponement some agreement regarding them may be necessary covering the period of business depression as to the terms and conditions of which the two Governments make all reservations. The initiative in this matter should be taken at an early date by the European powers principally concerned within the framework of the agreements existing prior to July 1, 1931.

Our especial emphasis has been upon the more-important means through which the efforts of our Governments could be exerted toward restoration of economic stability and confidence. Particularly we are convinced of the importance of monetary stability as an essential factor in the restoration of normal economic life in the world, in which the maintenance of the gold standard in France and the United States will serve as a major influence.

It is our intent to continue to study methods for the maintenance of stability in international exchanges.

While in the short time at our disposal it has not been possible to formulate definite programs, we find that we view the nature of these financial and economic problems in the same light and that this understanding on our part should serve to pave the way for helpful action by our respective governments.

Senator REED. Mr. Chairman, would it not be better to let the Under Secretary proceed with his statement without interruption, and then afterwards propound any questions?

The CHAIRMAN. Yes.

Senator COUZENS. I want to ask this question: If there was any representation to the matter of 10 payments, instead of a year's moratorium?

Under Secretary MILLS. No, Senator Couzens; the original proposition was to postpone the 1932 payments to 1933. And if you visualize these payments as a ladder, what we proposed to do was to lift the ladder up so that 1932 would fall in 1933.

Now, the French objected very strenuously to that procedure, and after long negotiations it was agreed that the earlier proposition should not be used but that the postponed payments should be paid over a 10-year period, rather than in 1933.

Senator REED. In other words, we get our money sooner as it now stands than under the President's original proposition?

Under Secretary MILLS. Absolutely so.

Senator COUZENS. Then I insist that the President's moratorium statement does not apply to the 10-year period. My understanding is that the moratorium payments, if there is an extension of payments, will be made in the following year. That is the general understanding, I understood, of those who agreed with the President at the time of the statement.

Under Secretary MILLS. Well, it is always dangerous to rely on your memory, but I think in all of the conversations which I had with Members of the Senate and of the House, I explained very clearly the thing we had in mind, and I used the ladder illustration at that time.

Senator COUZENS. It is not in the President's statement.

Under Secretary MILLS. No; it is not. But the bill now before you provides that the payments shall be made in 10 years, with 4 per cent.

Senator LA FOLLETTE. Mr. Mills, may I ask you if you have a copy of the telegram which was sent to the Members of Congress who were not in Washington at that time?

Under Secretary MILLS. No: I have not, Senator.

Senator LA FOLLETTE. Could you get a copy of that and put it in?

Senator COUZENS. I would like to ask Mr. Mills what is his idea of the moratorium?

Under Secretary MILLS. As it stands now?

Senator COUZENS. Assuming that the controversy with France had not arisen, what would be the Secretary's idea about the 1-year moratorium?

Under Secretary MILLS. If we had not had an understanding with France?

Senator COUZENS. Supposing there was no agreement with France, what would be the Secretary's idea of the 1-year moratorium?

Under Secretary MILLS. Well, of course, when you say payments shall not be made now, the question at once arises, when shall they be paid? That is, I suggest, a matter of understanding with our debtors. As I said, the idea was that the international government payments should be pushed forward one year; that is, 1932 should be pushed forward to 1933; 1933 should be pushed forward to 1934, and so on. Now, France, one of our debtor nations, disagreed with that and insisted that all payments should be repaid over a 10-year period. And that is the proposition which was accepted by all creditor governments who signed the London protocol, and that is the understanding now before the Congress of the United States.

Senator KING. Mr. Mills, if I owed a private individual an obligation which matured on the 1st of January of this coming year and I asked for a moratorium for one year, would not the general impression be that I would pay the debt then and not try to extend it out over a 10-year period?

Under Secretary MILLS. Well, I think you have got to apply the rule of reason. If the world as a whole could not meet these obligations in the year 1932, it is very obvious that you are giving them no relief by doubling them in 1933. In other words, suspend the payment in 1932 to the extent of $252,000,000, and then ask them to pay $500,000,000 in 1933 would be no relief at all. That would be a preposterous situation.

Senator SHORTRIDGE. Mr. Chairman, I suggest, with due respect to the members, that Mr. Mills be permitted to proceed, rather than to engage in a cross fire of questions.

Senator HARRISON. This is one of the most interesting propositions to settle.

Senator COUZENS. I think this is one of the important matters to settle, and I think it should be discussed as we go along, because, as I understand, it was the understanding of the Members of Congress that this payment should be suspended for one year; and I submit there is nothing in the President's statement which gives any other implication.

Under Secretary MILLS. I just want to say on that, and I can say with absolute certainty, Senator Couzens, with due respect, I participated in many of the interviews which the President had with many of the Members of both Houses who were in Washington; and I telephoned personally to many Members of the House, and I believe to some of the Members of the Senate, and at no time was it remotely suggested that the payments due in 1932 should be paid in 1933. I never entertained such a notion, and no one suggested such a notion, and I say it would have been a preposterous notion.

Senator COUZENS. Mr. Secretary, if it was a preposterous situation, would it not be time enough to take it up when the time arrives? In other words, I do not want to go into a personal conversation I had with the President, but I want to say that at no time was any suggestion ever made to me that this 1932 payment, or the payment for that period, should be extended beyond a year.

Under Secretary MILLS. Well, as a matter of fact, I think that the matter was pretty well left open, Senator, and the only suggestion that I ever heard made was that everything should be pushed forward one year, until after the negotiations with the French, and the 10-year proposal was agreed upon.

Senator CONNALLY. I do not want to interrupt the Secretary, but may I ask a question?

Under Secretary MILLS. Certainly, Senator.

Senator CONNALLY. And your idea is that the whole payments should be pushed forward one year?

Under Secretary MILLS. That is my idea.

Senator CONNALLY. And the 10 installment payments was proposed by the French, and the reason was that France did not want to jeopardize her reparations payments from Germany?

Under Secretary MILLS. Exactly. France wanted to maintain the legal status of her annuities which she gets. She would not enter into the negotiations unless that was assured. She was absolutely determined that the legal status of her annuities should be maintained, and they devised a method by which the legal status could be maintained by having the German Government pay the annuity to the Bank for International Settlements, and that would be at once reloaned to the German railroads. So that this year the annuity payments are being actually made, and they are being at once returned to Germany. So it is a wash transaction, and no drain on Germany.

Senator CONNALLY. In that connection, while the President says the reparations are none of our concern, do we not become involved in those discussions between Germany and France?

Under Secretary MILLS. I do not think we do.

Senator CONNALLY. And have we not made our withholding demand for payment conditional on France granting leeway to Germany in the reparations?

Under Secretary MILLS. Senator, that is one of the phases I wanted to develop in discussing this whole proposition.

Senator CONNALLY. I beg your pardon.

Under Secretary MILLS. I think we, in order to understand the position in which this whole proposition has brought us, we must not attack it solely from the standpoint of an uncollected bill, or deal with it merely from the technical and legal standpoint of intergovernmental problems, whether they be reparations, or intergovernmental debts. If our conception of the matter was correct—and before I get through I want to give you the situation in which we were placed—in order to save what we thought was a world catastrophe, it became necessary to relieve all debtors from international debts during that period, and for that reason it became immaterial whether it was war debts, or relief debts, or relief loans, which the British were treating as a debt, and which generally bear 5 per cent interest, and which are being paid 100 cents on the dollar. We merged our relief debts with our war debts. The British did not. It was found that it was immaterial as to how those debts arose; and they arose in all manner of ways. For instance, the Bulgarian obligations with Greece arose from the transfer of populations long after the war.

If the oppression of the debts was to be lifted from the backs of those nations, then we had to find some comprehensive plan which would include them all. And if the United States was the only nation which was in a position to make the proposal, if we were to take the initiative at the time, and I think we were, then the United States, in order to propose such a formula, had to include itself and say:

> We are willing, as a contribution to saving the world credit, and saving the world from economic disaster, we are willing to forego for the time being the obligations that we might collect from foreign Governments during this period.

Now, gentlemen, the course of events which started, I think we can say with reasonable definiteness, at the end of May, though, of course, their antecedents run away back to the World War, represent a continuous series which culminated last Sunday when Japan went off the gold basis. And that series is still flowing onward, and the termination of it is not in sight; but right in the center of the picture were the German people. They were the principal factors in this situation. A nation of 60,000,000 people situated in the heart of Europe, stripped of their economic wealth by the war, totally devoid, by reason of the war and the invasion which followed, of all working capital; no fat whatsoever to live off of; suffering, as was the rest of the world, from this profound depression, but with nothing to fall back on. They are the people whose condition we must study if we want to understand this picture.

Now German economy, after the adoption of the Dawes plan, came back with reasonable rapidity. They are a hard-working, industrious, and intelligent people. They were lacking, of course, entirely in capital. Any funds obtained from abroad are in short-term loans and long-time credits. These short-term credits could be turned over as they fell due, and the German people believed they could use them, not only to finance export trade, but to finance their industry at home. But with some 10,000,000,000 marks of short-term loans, Germany was particularly vulnerable to his kind of depression, and particularly vulnerable once fear crept into men's minds.

Now, in May last, the Credit-Anstalt, the principal banking institution in Austria, which controlled or owned a considerable percentage of the Austrian industries, got into such financial difficulties that the Austrian Government had to replace its credit and agree to replenish its capital. The Credit-Anstalt Bank was obliged to turn to other centers in Europe and borrow $14,000,000. Suspicion and fear, because it has been looked upon as one of the strongest banks in southern Europe, crept into the people. And that mistrust and fear crept into Germany.

Now, all during the winter of 1931 German economy had been deteriorating—slowly, but still deteriorating.

Senator WATSON. The winter of 1930.

Under Secretary MILLS. No; of 1931.

Senator WATSON. That is, now.

Under Secretary MILLS. In fact, nearly all of Germany's foreign creditors were beginning to lose faith in Germany. It had not reached the panic stage, but withdrawals were beginning and kept on all during the winter. In fact, Germany lost, from January 1 to July 31, no less than $850,000,000 short-term funds, which represented the capital on which German industries were being operated.

Now, then, as early as June 1 it was clearly evident, from the reports which were received from abroad, that a run had begun on Germany. It was a slow run, but it was unmistakably a run.

On June 6, by decree, the President of the German Republic imposed new and very severe taxes. In order to bolster up German courage and fortitude to bear these additional burdens, and certainly for home consumption, a statement was issued at that time that Germany had to have relief from reparations, and that the capacity of the German people to bear further burdens had definitely reached a limit. Whatever effect that had at home in Germany, the effect on Germany's foreign creditors was immediate. What had been a slow run prior to June 6 developed into a very rapid run, indeed, from June 6 on. The withdrawal of foreign funds from June 1 to June 20 resulted in a reduction of the gold and foreign exchange held by the Reichsbank, which formed its basic reserve, of over 1,000,000,000 reichsmarks, or approximately $250,000,000. This represented approximately two-fifths of the bank's total reserve in gold and foreign exchange. On Friday, June 19, and Saturday, June 20, the withdrawals were so heavy that the reserves of the Reichsbank reached its legal minimum, and it was perfectly obvious that unless these withdrawals should be arrested that either the legal limit would have to be set aside on Monday morning, which would have given only temporary relief, or else Germany would have to go off the gold standard on Monday morning, which, as I shall later describe, would have resulted in having literally engulfed Germany in very serious social and economic consequences.

Now, mind you, we sat here from June 6 to the evening of Friday, June 19, watching this run on this great Nation, which was comparable to a run on a great bank, with the reserves gradually being depleted, until it was perfectly obvious by Friday and Saturday that the end was at hand. And it was clear, after the President began, on Friday morning, to lay this situation before the Members of both Houses who could be reached—it was clear that each and every man before whom these facts were laid had said unqualifiedly, "There is only one thing for you to do, Mr. President"—and by noon on Saturday he definitely decided to issue that statement. You may remember that he had been west three days and it was impossible to lay the desperate character of this situation before him until he returned late Thursday, and he began seeing Members of Congress by 9 o'clock on Friday morning.

Now, I may say that probably as early as the 12th or 13th, men like Mr. Owen Young, Mr. Parker Gilbert, who had spent four years in Germany and was thoroughly familiar with German economy, Governor Harrison of the Federal Reserve Bank of New York, who has an intimate knowledge, of course, of situations of this kind, had all reached the conclusion that something had to be done. But the President himself did not definitely reach a conclusion until Saturday, June 20.

Now, then; was that action justifiable? I am perfectly confident that no other action could have been taken on June 20, and I am equally satisfied that every event that has followed has simply confirmed and demonstrated the wisdom and judgment used on that occasion. For while all of the high purposes which were entertained that Saturday afternoon have not been realized, owing to a delay, or extensions, or some other reason not necessary to speculate upon, at least we did avert a major catastrophe. When the markets closed on Saturday, June 20, Germany was on the verge of collapse. When the markets opened on Monday, June 22, the run on Germany had ceased. How important that was to the world was at once evident by the fact that security and commodity prices the world over raised to such an extent that if we had only been able to hold that gain, why, this little temporary loss of $252,000,000 would have sunk into insignificance, so far as the American people were concerned. But there was a long delay. The final proposition was not accepted until July 6, and, pending that delay, this run which had been arrested on Germany, was resumed.

Already, three days before June 20, the Bank of England, acting on its own initiative, because help apparently could not come from elsewhere had advanced $21,000,000 to Austria to as Governor Norman put it, save the ship from sinking.

Now, then, will you bear with me while I very briefly develop the events subsequent to the President's proposal? On July 12, the German Cabinet, after an almost continuous all-night session, issued a communique, that since there was no definite prospect of foreign credit, the Government would guarantee the liabilities of the two leading banks.

On July 13 the Darmstadter und National Bank closed its doors. The German Government guaranteed its deposits. Those deposits and liabilities were stated to be 1,500,000,000 reichsmarks, of which 450,000,000 reichsmarks were foreign obligations. Other German banks limited withdrawals to 20 per cent of deposits. The government closed the Berlin exchanges.

On July 14 all banks, including savings banks, were closed in Germany by government decree. The Budapest bourse was closed. A 3-day's bank holiday was declared in Hungary. The Mercer Bank of Vienna, the Banca Dacia, of Jassy, Rumania, and two Latvian banks had failed. Banks in Danzig limited withdrawals to a maximum of 10 per cent of deposits.

On July 15 the Reichsbank raised its rate from 7 per cent to 10 per cent, and the "Lombard" rate from 8 per cent to 12 per cent, and all foreign exchange transactions were brought under the control of the Reichsbank. All Danzig banks were closed until July 17. That same day the British Government invited the principal creditor governments of the European powers to attend a conference in London on July 20. From July 20 to July 23 that conference met in London, and they recommended that the Central Bank credit of $100,000,000 recently granted to the Reichsbank under the auspices of the Bank for International Settlements be renewed at maturity for a period of three months; that concerted measures should be taken by the financial institutions in the different countries with a view to maintaining the volume of credits they had already extended to Germany; and, third, that the Bank for International Settlements should be invited to set up without delay a committee of representatives nominated by the governors of the Central Banks interested to inquire into the immediate future credit needs of Germany, and to study the possibilities of converting a portion of the short-term credits into long-term credits.

On August 18 the committee which had beeen appointed by the Bank for International Settlements, known as the Wiggin committee made its report, stating definitely its conclusions and stated that it was necessary:

(1) That the existing volume of Germany's foreign credits should be maintained; and

(2) That part, at all events, of the capital which had been withdrawn should be replaced from foreign sources. The committee also urged that all the governments concerned "lose no time in taking the necessary measures for bringing about such conditions as will allow financial operations to bring to Germany—and thereby to the world—sorely needed assistance."

Now what I want to point out to you is that when prime ministers, foreign secretaries, and secretaries of the treasury met in London, presumably with their experts, they reached the conclusion that it was absolutely essential, if Germany was to live, that her short-term credit position should be maintained; and that when the Wiggin committee experts met, a few weeks later, they said not only must Germany have every bit of the short-term foreign credit available, but a part at least of the long-term credit must be returned to Germany if she is to live. And it is as a result of the recommendations of the London conference, of the Wiggin committee, of all the bankers—the great commercial bankers of this country, of London, of Amsterdam, and France, agreed that these short-term credits would be maintained for a period of at least six months, and they would then meet and reconsider the situation. Read the Wiggin report. I think it is unnecessary, Mr. Chairman, to insert in the hearings. It is some 12 pages long. It is printed as an appendix to the hearings held by the House Ways and Means Committee, and is available there.

The CHAIRMAN. It will not take much space, and I would suggest that it be printed in these hearings. It is printed there as an appendix?

Under Secretary MILLS. It is, Mr. Chairman. It is long enough to interrupt the continuity of this statement.

The CHAIRMAN. It may be printed as an appendix, at the end of the Under Secretary's statement.

(The so-called Wiggin report appears at the end of to-day's proceedings.)

Senator WALSH. That six months' period expires in January?

Under Secretary MILLS. In February.

Now I emphasize this fact—and we have got to accept this fact and this responsibility as creditors: If to live Germany had to retain about 12,000,000,000 reichmarks of credits outstanding; if they could not be withdrawn from Germany without producing a collapse—and you can not reach any other conclusion after reading the Wiggin report—how in the name of common sense could that nation find $400,000,000 to be paid during this fiscal year?

Senator COUZENS. Do you mind an interruption there?

Under Secretary MILLS. No, sir.

Senator COUZENS. I would ask you what would be your opinion if Germany had gone off the gold standard, the same as England did?

Under Secretary MILLS. I am coming to that in a minute.

Now, I think it is unnecessary to review the weeks succeeding August 18, weeks in which hope and fear alternated. But the trend was still unfavorable. Pressures increased. Fear prevailed, and on September 21, with a shock to world credit such as this generation has never seen, Great Britain was forced off the gold standard. Since that date, Mr. Chairman, no less than 19 nations have been forced to abandon or restrict gold payments, and the world to-day is obliged to transact business with all the handicaps incident to widely fluctuating and uncertain media of exchange. So that, as I said a few moments ago, you can begin with the difficulties of the Credit-Anstalt, and you can carry the story right up to last Sunday, and if you set it out in the form of a daily diary, you will have a connected series of events, a continuous story starting in little

Austria in May and ending in far-off Japan on the 13th of December. Could there be clearer or more conclusive evidence of the unity of the world, and particularly the economic world? Could there be clearer evidence that a catastrophe to one nation must necessarily fall, in varying degrees, on other nations of the earth? Could there be a more complete answer to the fallacy which still prevails in this country that somehow we can rise superior to the misfortunes which fall on others, and that by complete isolation we can escape the misfortunes which fall on those who have not the economic resources which we have?

Why, Mr. Chairman, we did not escape. No sooner had England gone off the gold standard; no sooner had the inevitable happened; no sooner had those countries which were operating on the gold-exchange standard—which means you do not carry the actual metal as reserve, but you can carry the exchange of a country which is on a gold basis—no sooner had they realized that the foreign exchange might depreciate overnight because these countries went off the gold standard, that the central banks that had carried their balances in London, which, up to the night of September 20 were payable in gold, woke up on September 21 to find that their basic reserves had depreciated 15 per cent, a reduction which soon was increased to 25 per cent. They began to have doubts of the stability of the credits, and they began to revert to the carrying of gold in their vaults. And as they were carrying large reserves in New York for the purpose of putting those reserves to work and earning something, rather than carrying idle gold in the vaults, the central banks began to call for payment in dollars of gold.

At the same time depositors throughout the world who had seen their sterling balances reduced by 25 per cent almost overnight by a run on London, who had seen Germany brought to the very edge of the abyss by a run on Berlin, began to say, as the gold started out from New York, "History is going to repeat itself. Let us protect ourselves by withdrawing our dollar balances." It is wholly unnecessary to indulge, as some gentlemen have, in the idea that there was a conspiracy against us. It is sheer nonsense. There was no conspiracy.

Senator Reed. Lord Rothemers did not exactly help us, did he?

Under Secretary Mills. No. I make due allowance for the campaigns carried on in the foreign press against the dollar. I will make allowance for that, but I do not think it was the controlling factor, Senator Reed. I think it was fear on the part of people carrying deposits in a foreign country. After their experience in Berlin and London, how can we blame the foreigner for withdrawing his balances when during that same period our own people were suffering from a lack of confidence and were withdrawing deposits from their own institutions in order to hoard currency, so that the hoarded currency in this country reached a figure of over one billion.

No, no, gentlemen. You can not start such a train of events anywhere in the world and hope to stand aside and let it brush by your doorstep without affecting you. That is why the action of the President on June 20 was not only essential to the welfare of the world, but it was absolutely essential to the welfare of the people of this country.

Now, Senator Couzens asks a very pertinent question. He said: "Supposing Germany did go off the gold standard, what of it? We have seen England go off the gold standard. We have seen Japan go off the gold standard." We have seen, as you say, 19 countries go off the gold standard, and the world is still here. It is not a particularly properous world, not a particularly happy world, but it is still here, still doing business, though on a very much reduced scale.

Senator, Germany was in a very particular and exceptional position. As I have already pointed out, neither her industries nor her foreign commerce was financed through her own capital. She was dependent, to keep her industrial mechanism functioning, on foreign credits of a short-term character. The day the Reichsbank said it would no longer pay gold on foreign exchange all the German banks and every German commercial house that had obligations payable either in dollars, sterling, or some other currency, would find it almost impossible to meet those obligations, because foreign exchange would no longer be obtainable in adequate volume.

So that, leaving aside the inevitable run which would have been begun by German depositors themselves on their own banks, and which did actually result in the closing of one of the largest banks, and the closing of all the others by decree—leaving that out of consideration, the inability of German banks and the German business houses to meet their foreign obligations would have compelled a general moratorium almost at once.

Senator COUZENS. Why did not that occur when Great Britain went off the gold standard?

Under Secretary MILLS. If you will bear with me, I am going to differentiate the two cases. I recognize that it is a perfectly fair question. With a general moratorium declared——

Senator COUZENS. But you have gotten ahead of your story. There has been no general moratorium declared.

Under Secretary MILLS. I am saying what would have happened if they had gone off the gold standard.

Senator COUZENS. Is not that an assumption? I do not think you are quite justified in making that assumption.

Under Secretary MILLS. I think I am justified in making that assumption, on the basis that, by Saturday, they were below their legal limit. I am justified in that assumption, because we were informed by one of the most competent bankers in Europe on Monday morning that if the President had not made his statement on Sunday the Reichsbank would have closed business on Monday; and that was confirmed by a conversation which I had with one of the most competent bankers in France, and certainly, when I talked to him, and we were still arguing with the French, he was not particularly interested in making out a case for the President's proposal.

The Reichsbank had reached its legal limit. Its reserves were melting away at the rate of millions of dollars a day. They would have entirely disappeared in the course of another week.

Senator COUZENS. But would they have done so if they had gone off the gold standard?

Under Secretary MILLS. No. What would have happened had the Reichsbank gone off the gold standard, is that foreign exchange still held, and the gold still held by the Reichsbank would have been in its vaults, but it would have been unobtainable. If you, a German bank, carrying a deposit of an American institution of $10,000,000, payable in dollars, were called upon the next day to pay that $10,000,000, you could not have obtained the dollars.

Senator COUZENS. Certainly. That is true.

Under Secretary MILLS. Therefore the German institution, unable to meet its foreign obligations—that applied to all German institutions, all German commercial houses. If, at the same time, they should have been subjected to a run by their own depositors, they could not have met their obligations, either domestic or foreign, and the general moratorium must have followed.

Now, then, with a general moratorium, what happens? Every self-liquidating credit is allowed to run off. Let us consider Germany's foreign trade. How did she finance a very large foreign trade for the last 8 or 9 months? She has extended more liberal credit terms than anyone else. It has not just been a question of price. It has not just been a question of low cost because they have depreciated their standard of living as low as it is humanly possible to do so. It has been because they have given credit. How have they been enabled to give credit? Because they, in turn, were obtaining short-term foreign credit from abroad. Shut off that foreign credit and Germany would have been unable to finance her export trade. How do you think she would have purchased her raw material—yes, the food she needs to support her population? With a general moratorium would anyone have sold food or raw materials to Germany on credit? They would not. They would have demanded cash. That meant foreign exchange, which would have been unobtainable in adequate volume. Germany's foreign trade, export and import, would have paralyzed almost overnight.

What of their home trade? We have already seen that their industries were dependent, for working capital, on foreign credit. With those foreign credits gone, with their export trade gone, how would those industries have prospered or kept going, even at a minimum rate? They had three and a half million men unemployed at the time. Cut off their export trade, and reduce their domestic business owing to the lack of working capital, and instead of some 4,000,000 unemployed, they would have had many millions more.

Can you conceive of a nation of 60,000,000 people, hard working, industrious, cut off from commercial intercourse overnight because credit, the life blood of commercial intercourse, has been taken away from them? Can you visualize them in a period of world depression, with their own industries reduced to a point of stagnation? My imagination, Senator, can not visualize such an event, but I can see how such an economic disaster must necessarily be followed by the most serious of social consequences. I can see how such an economic disaster must necessarily spread to all the surrounding countries, until the very civilization of the Old World is threatened.

In any event, I know of no man, advised by the men on whose advice he has to rely—presumably competent to appraise these economic factors—who, being told that that kind of a disaster was staring him in the face, would accept the responsibility for the consequences by failing to take the comparatively simple action that could reasonably be expected to avert it.

Now, you have asked me: What is the difference between Germany and England going off of the gold standard? I apologize to the committee for growing rhetorical.

Senator COUZENS. We like to hear you orate. But I do not think it adds anything to it.

Under Secretary MILLS. I do not think it adds anything. I will concede that.

Senator BARKLEY. It was one of the best speeches you have made lately.

Senator WATSON. We like to hear you get earnest about it.

Under Secretary MILLS. Great Britain, through investments made over the course of 150 years, at least, the world over, even in this depressed period, has flowing to England a constant stream of foreign exchange, which is available at all times for meeting foreign obligations. She finances all her export and import trade through her own capital. In fact, London, as we all know, has been the banking center of the world for generations. Needless to say, British industries are financed by British capital, and I doubt very much whether, outside the government debt and the city's short-term money debt, Great Britain has any outside commercial debt. Moreover, Great Britain, owing to her foreign investments, is still an enormously rich country. She was not dependent on foreign credits. She had her own capital. She could finance her own industries. She could finance her own export and import trade, and she had such financial strength that, even when she went off the gold standard, there was enough confidence in sterling so that, while it depreciated, it never collapsed, and there never was any danger of its collapsing.

That situation is not comparable to the situation of a nation that is doing business entirely on foreign credits. Moreover, you must not forget this. The people of Germany have not just approached inflation from the standpoint of theory. They have been right through inflation in its most extreme form. They have seen the savings of a lifetime wiped out. They had seen all capital in Germany wiped out. They had seen the most hideous suffering to all classes of the population as the value of their currency went down to zero. The very suggestion that the Germany currency should be cut away from the firm basis of gold or foreign exchange, and should once more become a paper currency, would have produced an unthinkable panic in Germany; whereas the Britisher, while he was not happy, of course, at going off the gold standard—at least most of them were not——

Senator COUZENS. Neither were his creditors, were they?

Under Secretary MILLS. Neither were his creditors. At least, they never lost faith in the pound sterling, and they were sufficiently strong to avoid, and they have avoided, the inflation that would inevitably have followed in Germany under similar circumstances.

Finally, let us remember this. Great Britain was the one country in Europe that put her currency back to the pre-war standard, and in so doing, whatever benefits she derived—and they were considerable—had to be offset by the fact that she did place a very real handicap on herself in so far as competition in the world markets was concerned; and the immediate benefit, even though it be but a temporary one, was to remove that handicap and relieve that particular strain, so that while in Germany going off the gold standard would have been accompanied by wholesale unemployment, in Great Britain the effect has been, far from increasing unemployment, to stimulate employment. I do not know to what extent. So, I do not think the situations are in any sense comparable, Senator.

I think, in a general way, that is the story. Rightly or wrongly, although I did not have any doubts in my own mind in June, I certainly have no doubts now. The action taken was absolutely necessary to avert a major catastrophe.

Senator COUZENS. I am not questioning the action of the President in this matter. What I am trying to get at is this: I understood you to say that the flight of capital from Germany was very great long before the President issued his statement—to the extent of some $800,000,000 or $1,000,000,000.

Under Secretary MILLS. Over a 7-month period.

Senator COUZENS. Yes.

Under Secretary MILLS. But most of it during the last month.

Senator COUZENS. What I am asking is this. If they had gone off the gold standard, that capital would not have been withdrawn, would it?

Under Secretary MILLS. To the extent that it could have been withdrawn, it would have been.

Senator COUZENS. But it would not have been withdrawn with the depreciated mark the same as it would have been withdrawn with the mark at par.

Under Secretary MILLS. I hate to speculate on that, but I think that if Germany, with her background and with the knowledge of her situation, had gone off the gold standard, every foreign depositor that could have gotten out would have taken his loss and gotten out.

Senator COUZENS. He could not have gotten out—that is the substance of it—because he could not have gotten out at anywhere near the value of the mark.

Under Secretary MILLS. No; he could not have.

Senator KING. Mr. Mills, my recollection is that under the Young plan, if not under the Dawes plan, Germany had the right to ask for a moratorium of three years.

Under Secretary MILLS. Two years.

Senator KING. Yes; two years. If my premise is correct, why was it necessary for the President of the United States to ask for the moratorium, if Germany, by asking for it, could have obtained it from all her creditors?

Under Secretary MILLS. But she could not, you see. It was a very limited right. That was the trouble. She had to pay the unconditional annuities under any circumstances, and she could not have done that. Moreover, even as regards the conditional annuities, it simply provided against transfer. It did not cover the fact that she actually had to pay them into the Reichsbank.

Senator HARRISON. Do you know what proportion, or what per cent of the annuities are conditional, and what per cent are unconditional?

Under Secretary MILLS. The total annuities run to an average of, roughly speaking, 2,000,000,000 marks, and the unconditional annuities amount to 612,000,000 marks.

Senator SHORTRIDGE. Mr. Mills, I understood you to say that before the President put forth his suggestion of a moratorium, he had consulted or conferred with a number of Senators and Members of the House.

Under Secretary MILLS. Yes, sir.

Senator SHORTRIDGE. And had received from them, severally, an approval of his contemplated action.

Under Secretary MILLS. That is correct.

Senator SHORTRIDGE. Have you in your mind, or before you, the number of Members of the respective houses that had given their approval?

Under Secretary MILLS. Prior to the action?

Senator SHORTRIDGE. Yes, sir.

Senator KING. You are pleading estoppel in pais, are you?

Senator SHORTRIDGE. Not at all. I just wanted it in the record.

Under Secretary MILLS. I think that the President gave out the list of Senators and Representatives that he was unable to consult up until Saturday noon. I am informed that since then the total number of those who signified their approval is 276 Members of the House and 68 Members of the Senate.

Senator SHORTRIDGE. Have you available the number who had given their approval before he took action?

Under Secretary MILLS. I can give you the names. I refrain from reading them.

Senator SHORTRIDGE. I do not call for that at all. I simply wanted to know for my own information.

Senator COUZENS. I was one of them. I do not want to escape any implication that I was one of them.

Senator SHORTRIDGE. Nor do I.

Senator COUZENS. I am not criticizing it now. I am just trying to get at some facts.

Senator BARKLEY. Under the terms of the debt settlements with the various nations of Europe, they might at any time obtain a 2-year suspension at their own request, as I understand, under certain circumstances.

Under Secretary MILLS. That is correct, Senator, but only as to the principal of their obligations.

Senator BARKLEY. I understand. Did any of those countries make this request for the suspension prior to the time when the President issued his statement?

Under Secretary MILLS. No; they had not; and there would have been no occasion to, because——

Senator WATSON. Mr. Secretary, let me ask you a question. Suppose Congress should refuse to approve this moratorium and take this action? What would be the result?

Under Secretary MILLS. Senator, that is a tough question.

Senator WATSON. You do not need to answer it.

Under Secretary MILLS. I am going to answer it by saying that I think, to begin with, it would do irretrievable damage to the reputation for good faith of our country before the entire world.

Senator HARRISON. Would not every country say that you can not rely upon the promises of the head of the Government?

Under Secretary MILLS. I am afraid it would have that result.

I want to go just a step further. We hold, Senator Watson, the unsecured notes of our debtors. We are not going to send battleships or armies abroad to collect these debts. We are going to rely on the good faith and the character of our debtors to meet their just obligations. In other words, we rely, for the collection of these just debts, on a moral principle; and I say to you that in my judgment, if we do not regard moral principles in dealing with our debtors, then they might well feel, at the same time, that we have given them a moral justification to default on a debt which, while legal in form, depends entirely for payment on the moral obligation raised on the part of the debtor nation.

Senator GEORGE. Mr. Mills, I inferred from your statement, which I followed very closely, that in no event could the Congress have been convened, from the 20th to the 21st of June, to have met this situation.

Under Secretary MILLS. It would have been impossible, Senator.

Senator GEORGE. Without the collapse having occurred in the meantime.

Under Secretary MILLS. The show would have been over.

Senator GORE. I do not want the statement to go unchallenged in this record, that the President of the United States, even if he obtained the written consent of every member of the Senate and every member of the House, can bind the American people legally or even morally. The Constitution prescribes the way in which the American people can be bound, and there is no other way. I want to make this protest at this place.

The CHAIRMAN. It is in the record.

Senator COUZENS. Mr. Mills, may I ask you at this point what will become of the money that is deposited in the New York banks on the December 15 payment? Do you know the extent of it?

Under Secretary MILLS. I do not know that any of it has been deposited.

Senator COUZENS. I saw a statement in the press to that effect.

Under Secretary MILLS. All I know is that there were rumors in the press. I never heard of any money being deposited.

Senator COUZENS. Do you know whether there has been or not?

Under Secretary MILLS. No. I would be very much surprised if there were. None of these people have collected one cent on the debts due them since the 1st of July.

Senator BARKLEY. Is it not possible that some of them, in order to avoid being charged with even technical default, have placed the money there, knowing that it is not going to be called for?

Under Secretary MILLS. I doubt it very much.

Senator CONNALLY. On the matter of withdrawals prior to the President's action, from German banks, have you any information as to the proportion of that which belonged to German citizens who sent it out of the country?

Under Secretary MILLS. No. That is one thing you could never measure—the flight of capital.

Senator CONNALLY. Did the German Government, until the very last, take any steps to prevent the exportation of capital by its own citizens?

Under Secretary MILLS. I would rather not say this for the record——

Senator CONNALLY. I will withdraw the question.

Senator BARKLEY. Do you know to what extent the German Government used its credit, whatever credit it had, which it might have used in payment of reparations, in fostering trade with other countries?

Under Secretary MILLS. I do not think the German Government enters into that picture at all. I do not think the German Government's credit was ever used to finance foreign trade.

Senator BARKLEY. It has been claimed recently that the German Government had been involved in the effort to extend trade with the Soviet Republic.

Under Secretary MILLS. I was just going to modify my statement by saying that they had guaranteed their own exporters up to a certain percentage of the credits granted to Russia. I think you ought to understand that situation, too. They have to-day, I think, over 5,000,000 unemployed in Germany. They are willing to export at any price, and on almost any terms, in order to keep their people at work.

Senator BARKLEY. And to any country?

Under Secretary MILLS. And to any country.

Senator BARKLEY. Is that a fallacious economic remedy, or a hopeful remedy?

Under Secretary MILLS. I would not want to comment. I do not know whether the Russian creditors are good or not. I have no information.

Senator BARKLEY. I have been thinking especially of Russia. I suppose they are willing to do the same thing with any country.

Under Secretary MILLS. I think, in the long run, they will probably collect, but they are confronted with a very real situation, Senator, and they are trying to work it out as best they can.

Senator COUZENS. Has the Secretary any information as to the amount of reparations that have been paid out of taxation of the German people?

Under Secretary MILLS. All of it, of course, has been paid out of taxation in one form or another.

Senator COUZENS. I understood that all the reparations had been paid by borrowing the money from foreign countries. I think the amount of borrowings and the amount of reparations are substantially alike.

Under Secretary MILLS. Of course, you can say that they paid so much in reparations over a given period, and that during that same period German industries and States and manufacturers borrowed more than that amount.

Senator COUZENS. I do not mean the industries, Mr. Secretary.

Under Secretary MILLS. It is principally the industries. The German Government—that is, the Reich—outside of the Young and Dawes loan credits and certain short-term credits, borrowed practically nothing.

Senator REED. The Dawes plan says——

Under Secretary MILLS. But what the Senator unquestionably has in mind are the figures which have been used repeatedly in order to show where Germany obtained the foreign exchange through which reparations were transferred. Of course, if the German General Electric puts up a new factory and they borrow the money in New York on a mortgage to put up that new factory, that makes so many dollars available, and that goes into the exchange market. If Germany has to make reparations payments at that particular time, those dollars are available to make the payments, but the funds, of course, are obtained in Reichsmarks, by taxation of the German people, and the loans are never used to pay the reparations except in the case of the original Dawes loan. I think that is correct, Senator Reed, is it not?

Senator REED. Yes.

Senator SHORTRIDGE. In the opening of your statement you called attention to and read the statement which the President put forth as of June 20, 1931. In your reading you omitted—perhaps properly, but why, I know not—the names of those Senators and Members of the House who had approved the statement, or approved his contemplated action. In the course of that statement the President said:

> I do not approve in any remote sense of the cancellation of the debts to us.

Has he taken any action or put forth any statement which modifies the words in the statement I have just read?

Under Secretary MILLS. No; and I read it, Senator.

Senator SHORTRIDGE. To your knowledge, has the President put forth any statement, or done, or caused to be done, any act modifying or qualifying the statements made in his statement of June 20, 1931?

Under Secretary MILLS. While I hesitate to speak for the President of the United States, I think I am on safe ground when I say that he is unqualifiedly opposed to cancellation.

Senator WATSON. In his debt message a week ago to-day, Mr. Secretary, he repeated that very language.

Under Secretary MILLS. I can say, without qualification of any kind, that the Treasury Department is absolutely opposed to cancellation.

Senator SHORTRIDGE. Adverse criticism having been launched at the President for the statement put forth, or the action taken as a result of his suggestion, are you aware that he consulted with or invited the opinion of Senators absent from Washington and with whom he could not confer personnally?

Under Secretary MILLS. As to this proposal of June 20?

Senator SHORTRIDGE. Yes.

Under Secretary MILLS. Yes, sir. It was done by telephone and telegraph.

Senator SHORTRIDGE. I do not wish to inject my own personality into this immediate hearing nor have anything to say touching my views upon the whole subject, but I will, for the record, Mr. Chairman, ask that there be incorporated a telegram which the President sent to me as of June 22, 1931, addressed to me at Menlo Park. It may serve to read it.

Senator HARRISON. Is that the usual telegram that was sent out to Senators?

The CHAIRMAN. Yes.

Senator HARRISON. I am assuming, for the moment, that he sent a telegram of the same tenor to other Senators.

Under Secretary MILLS. I think that is a fair assumption.

The CHAIRMAN. It will go into the record.

Senator SHORTRIDGE. I want those present to hear it, if you will indulge me. Addressing me, the President said [reading]:

THE WHITE HOUSE,
Washington, D. C., June 22, 1931.

Hon. SAMUEL M. SHORTRIDGE,
Menlo Park, Calif.:

You no doubt have seen my statement in Sunday's press of the proposals of the American Government in respect to postponement for one year of all intergovernmental debts. Inasmuch as the proposal is, of course, contingent upon action by Congress, and as the matter is one of national interest, having no partisan character in that light, I consulted before action the Senators and Representatives of both parties present in Washington and as many as possible who were accessible in the country. This list of generous support from Members was shown in the public statement referred to above. I regret that difficulties of communication rendered it impossible to contact with all Members of the Senate and House. I do not wish to press any Member for reply as to his views if he prefers not to give them at this time, yet if you are favorable to the proposal in the first paragraph of the statement above mentioned it would undoubtedly aid in the negotiation now in progress if you could inform me thereof.

HERBERT HOOVER.

Senator HARRISON. Of course, you answered it.

Senator SHORTRIDGE. I did.

Senator BARKLEY. Is that the same message we all got?

Senator SHORTRIDGE. I assume so.

Under Secretary MILLS. Before I go I would like to say one thing. I assumed from conversation that took place here that you are not going to report the Senate bill but wait for the bill to come over from the House.

The CHAIRMAN. Certainly.

Under Secretary MILLS. The Ways and Means Committee rather objected to the last section of the bill as granting a little too much authority to the Secretary of the Treasury. The legislative drafting bureau drafted it in that form to take care of two particular situations, Greece and Austria. Section 4 will be revised by the Ways and Means Committee. I thought this committee ought to have notice of that change. The bills will not be identical.

Senator GORE. Before Mr. Mills leaves I would like to place this statement in the record—that since the restoration of peace between the United States and Germany the German Governments, national, state, and municipal, have borrowed in the United States $798,000,000, practically all of it since the adoption of the Dawes plan, and German corporations during the same time have borrowed $407,000,000 in the United States.

Senator COUZENS. I am glad the Senator made that statement, because I did not want it to appear from the record, from what the Secretary said, that I was confused as to the private borrowings, such as the General Electric example, and the moneys borrowed by the German Government and its maunicipalities.

Under Secretary MILLS. Now, let us be clear. The German municipalities do not pay reparations.

Senator COUZENS. I understand.

Under Secretary MILLS. The Reich Government, outside the Lee-Higginson credit, and possibly another short-term credit, has received no money through borrowing, except through the Dawes loan and the Young loan. The Dawes loan was admittedly used to pay reparations.

(Then followed informal discussion which the reporter was directed not to record, at the conclusion of which the following occurred:)

The CHAIRMAN. The committee will adjourn until 10 o'clock Friday morning.

(Whereupon, at 12 o'clock noon, the committee adjourned until Friday, December 18, 1931, at 10 o'clock a. m.)

APPENDIX

REPORT OF THE COMMITTEE APPOINTED ON THE RECOMMENDATION OF THE LONDON CONFERENCE, 1931

BASLE, *August 18, 1931.*

The communiqué issued at the close of the international conference, composed of representatives of the Governments of the United States of America, Belgium, France, Germany, Italy, Japan, and the United Kingdom of Great Britain and Northern Ireland, which met at London from Monday, July 20, to Thursday, July 23, contained the following paragraph:

"The conference recommend that the Bank for International Settlements should be invited to set up without delay a committee of representatives nominated by the governors of the central banks interested to inquire into the immediate further credit needs of Germany and to study the possibilities of converting a portion of the short-term credits into long-term credits."

In accordance with this recommendation the Bank for International Settlements invited us to meet at Basle on August 8. Having carefully considered the official documents laid before us setting out the German situation, we beg to submit the following conclusions regarding the two problems remitted to us.

1. THE IMMEDIATE FURTHER CREDIT NEEDS OF GERMANY

The crisis which has occurred in Germany during the last two months has supervened on a condition of exceptional world depression marked by a severe fall in wholesale prices on the international markets of the world, by a drastic reduction in international trade, by very widespread unemployment in industrial countries and by acute financial difficulties for agricultural communities dependent upon export trade. As one of the great trading nations of the world it was inevitable that Germany should feel the effects of the depression in an exceptional degree. It is important at the outset to recognize that the situation we have been asked to consider is in part a phase—albeit a very acute one—of a problem which has affected in varying degrees all countries of the world, and that no permanent improvement in the German situation can be looked for until the causes of the general depression have been removed. On the other hand, Germany plays so important a rôle in the economic life of the world and in particular of Europe that until the situation in Germany improves there can be no general recovery from the existing state of depression.

There is, however, a special feature in Germany's situation which has made her exceptionally vulnerable. We refer to the great increase in Germany's indebtedness to foreign countries. Figures showing how this situation has arisen and the indebtendess of Germany when the crisis came have been supplied to us.

Statistics of foreign indebtedness and of some items in the international payments of a country are necessarily based in part upon estimates and sample inquiries. In those cases where it is possible to compare the figures put forward with figures compiled in other countries there is substantial agreement. But it is, of course, not possible to make any such check over the whole field. We believe, however, that the statistics supplied to us on the authority of the German Government present a picture which is a fair representation of the facts.

Germany's increasing indebtedness.—During the seven years, 1924 to 1930, inclusive, Germany's foreign indebtedness grew faster than her foreign assets by RM 18.2 milliards. The total indebtedness increased to RM 25.5 milliards; but this is partly offset by Germany's own investments abroad.

This net influx of capital to the extent of RM 18.2 milliards, together with three milliards which she has received for the services of her shipping and other services rendered to foreigners, has enabled her—

(*a*) To pay interest on her commercial debt amounting during the seven years to RM 2.5 milliards.

(*b*) To add to her holding of gold and foreign devisen to the extent of RM 2.1 milliards.

(*c*) To pay reparations amounting to RM 10.3 milliards, and

(*d*) To pay for a surplus of imports over exports (including deliveries in kind) to the extent of RM 6.3 milliards.

The situation regarding Germany's balance of international payments has not, of course, been the same in each of the seven years; but Table I, annexed to this report, shows that in four of the seven years in question Germany's net borrowings abroad not only exceeded the interest, etc., on her commercial debt as well as her reparation payments but also enabled her to pay for a surplus of imports. This means that during these years, although German private borrowers provided the funds for paying the interest on their foreign debts and although the government raised in taxation or otherwise the funds with which it met the external obligations of the State, whether political or commercial, the German economy drew capital into the country by means of high rates of interest to an amount greater than was paid out in these ways. The payments made to foreigners in these years, therefore, have not been effectively made out of Germany's own resources, and will not be so made until such time as a corresponding part of these commercial debts are repaid by the export of gold, goods, or services.

In 1926 and in 1930, on the other hand, German borrowings were small and her exports showed an excess over imports, while in 1929 imports and exports balanced. The following figures show the position in 1930 in comparison with that in 1929:

[In milliards of reichsmarks]

	1929	1930
Imports	13.6	10.6
Exports (including reparation deliveries in kind)	13.6	12.1
Proceeds of export surplus		1.5
Net proceeds of invisible exports (services, shipping, etc.)	.5	.2
Net foreign borrowings	2.7	.7
Net efflux of gold and foreign exchange of the Reichsbank	.1	.1
Total available to meet foreign payments	3.3	2.5
Interest on commercial debts	.8	.8
Reparations	2.5	1.7
	3.3	2.5

Thus, in 1930—an exceptional year in which prices of raw materials fell rapidly—a favorable commodity balance was achieved—in spite of lower exports—by a considerable reduction in imports due largely to the fall in prices. This together with the proceeds of invisible exports provided two-thirds of the amount required to meet Germany's foreign obligations (which had been reduced in consequence of the lower reparation annuity payable under the Young plan), leaving nearly one-third to be covered by borrowing.

The capital position of Germany vis-à-vis foreigners at the end of 1930 appears to have been as follows:

	RM milliards
Total foreign investments in Germany	25.5
Total German investments abroad	9.7
Net debt to foreigners	15.8

The weakness of the German financial situation arises from the fact that whereas about RM 5.3 milliards of Germany's investments abroad at the end of 1930 (including the foreign exchange of the Reichsbank amounting to RM 0.8 milliard) were on short term, Germany's short-term foreign indebtedness amounted to no less than RM 10.3 millards, this latter figure having increased from RM 4.1 milliards at the end of 1926. Of these RM 10.3 milliards, RM 1.1 milliards consisted of the short-term debts of the Reich, Federal States, and municipalities, RM 7.2 milliards of obligations of the banks and the balance of other short-term liabilities. No detailed analysis is available as to the source and nature of these debts as at December 31, 1930, but so far as the debts of the leading German banks are concerned an inquiry in respect to the situation on March 31, 1931, shows that out of a total of RM 5,636 millions 37.1 per cent was due to the United States, 20.4 per cent to England, 13.9 per cent to Switzerland, 9.7 per cent to Holland, 6.5 per cent to France, 2.2 per cent to Sweden, and the remaining 10.2 per cent to other countries. About 47 per cent of these debts consisted of foreign-trade acceptance liabilities, 40 per cent of deposits, etc., payable in foreign currency, and the remainder of Reichsmark balances of foreign creditors.

A comparison of the foreign assets and liabilities of the German banks shows that against these liabilities at the end of the year 1930, amounting to RM 7.2 milliards, the German banks had short-term assets abroad amounting to RM 2.5 milliards. Part of the increase in the short-term debt between 1925 and 1929 was a normal accompaniment of the increase which had taken place in the turnover of Germany's foreign trade, which rose from RM 21½ milliards in 1925 to over 27 milliards in 1929. The increase, however, was quite out of proportion to the growth of foreign trade, and there can be no doubt that the short-term credits of German banks have to a very large extent been used in the internal economy of Germany as working capital and therefore can not be readily withdrawn without grave damage to the financial structure. The greatest increase occurred in the three years 1927, 1928, and 1929, when the short-term foreign borrowings exceeded short-term lending abroad by RM 4.3 milliards. It would have been better, of course, if these short-dated debts could have been converted into long-dated debt, certainly to the extent of establishing a fair equilibrium between what Germany owed at short term and what Germany could pay within the same periods. But such conversion was not made and probably could not have been made. In consequence it is evident that short-term money was being used to do the work of long-term money, with corresponding risks to both borrowers and lenders.

The situation in 1931.—During the first six months of this year, although Germany's exports fell off, her imports fell to a still greater extent and her commodity trade surplus (including deliveries in kind) amounted to RM 1 milliard, to which should be added RM 0.1 milliard for invisible exports. This failed to cover her external obligations (interest on commercial debt RM 0.4 milliard and reparations RM 0.9 milliard) by RM 0.2 milliard. There was also a very considerable outflow of capital funds which Germany had to meet.

Figures of the capital position as at the end of June are not available, but investigations have been made into the situation in July. The statistics contained in Annex IV show that at the end of July the short-term debt of Germany, excluding the credits recently obtained by the Reichsbank, compared as follows with the debt at the end of December, 1930:

Short-term debt of Germany

[In milliards of reichsmarks]

	Dec. 31, 1930	July 31, 1931
Short-term debts: Public authorities	1.1	0.8
Banks—		
(a) Current account and acceptance liabilities	7.0	5.1
(b) Other liabilities	.2	
Other short-term liabilities	2.0	1.5
Total short-term indebtedness	10.3	7.4

Thus the withdrawal of short-term funds amounted in the seven months to RM 2.9 milliards. In addition, there was a certain amount of selling by foreigners of long-term investments in Germany—mortgage bonds, etc.—and purchasing by Germans of long-term or short-term investments abroad. The sum of these movements appears to have amounted in round figures to about RM 3½ milliards. This outflow has been met approximately as to RM 1 milliard from the foreign assets of the banks, as to RM 2 milliards from the assets of the Reichsbank (including about RM 630 millions placed at the disposal of the Reichsbank by the Bank for International Settlements and central banks and by a New York syndicate through the Golddiskontbank), and as to the balance from other German assets abroad.

Germany's future balance of payments.—Whether under more normal conditions it is possible for Germany to provide out of her own savings the whole of the capital she needs for her internal development and in addition to meet in whole or in part her commercial and state obligations to foreign countries; or alternatively whether she needs a contribution from abroad—as in the last seven years—toward her internal capital requirements and to borrow the sums needed to meet the whole of her foreign obligations is not a question that we have been asked to decide. We would only emphasize that if the piling of Pelion on Ossa continues, and the obligations of each year are added to the debt, there must be a steadily increasing charge under the heading of interest (including amortization) on the commercial debt; and further, that if any considerable proportion of the growing debt is borrowed on short term it will leave her increasingly vulnerable to crises of the kind which she is now experiencing. It is not, however, necessary to attempt an answer to this question in estimating Germany's immediate credit need, seeing that her balance of payments has been almost entirely relieved from the payment of reparations for a period of 12 months.

Immediate needs.—The points to which we have specially directed our attention are, firstly, whether it is possible to prevent a further withdrawal of capital from Germany and to replace the short-term credits that become due; and secondly, whether it is necessary to replace from foreign sources all or part of the capital which has already been withdrawn.

Standstill arrangements.—With regard to the first of these points we have placed ourselves in touch with the banking groups which have been negotiating with Germany as to the terms on which existing short-term credits should be maintained.

At our invitation representatives of these groups and of German banks met in Basle on Friday, August 14, and after five days' study and consideration have agreed upon and will recommend a plan of prolongation of such credits to the numerous creditor banks and bankers for their acceptance. This agreement provides for the continuation of credits to German debtors up to the total then outstanding for a period of six months from the date of the signing of the agreement, subject to an arrangement being made with regard to the existing central bank credits.

An individual agreement in an approved standard form will be made in every instance directly between the German debtor and the foreign creditor. The form of this agreement has been drawn up so as not to interfere in any way with the normal relations previously existing between the parties; while it involves certain specific assurances, it is essentially based upon the broad foundation of mutual confidence.

Recognizing that it is to their interest to assist in every way possible to insure the stability of the reichsmark, the foreign creditors have come to an arrangement with Germany that the immediate release of their reichsmark balances shall be only partial and that the remainder shall be gradually released during the term of the agreement.

The plan further provides two forms of additional security to the creditors participating in the plan. One is to associate a direct responsibility on the part of the final credit taker with that of the debtor bank itself. The other is an undertaking by the Deutsche Golddiskontbank to take over or to guarantee, within certain limits, the indebtedness to foreign creditors, thus lending the important support of the Golddiskontbank's resources and prestige to the obligation.

Provision has been made to secure by government decree or otherwise that foreign creditors of German banks shall receive equal protection to that of creditors residing in Germany.

For the adjustment of any differences which may arise as to the interpretation and execution of this agreement the Bank for International Settlements has, at the request of all parties to the agreement and in view of its international functions, agreed to set up a committee with full power to deal with such cases. The figures given in Annex V will give some idea of the sums involved.

This agreement, however, does not directly cover certain other classes of Germany's short-term debt, including those of the German Federal States and municipalities, which amount to RM 355 milliards. Arrangements with regard to the renewal of such debts should be the subject of negotiations between creditor and debtor in each case.

Replacement of capital withdrawn.—As regards the replacement of the capital that has been withdrawn, it is evident that the internal economy of Germany will continue under a condition of extreme strain until the situation of the Reichsbank has been relieved and a part at least of the circulating capital that has been suddenly withdrawn from the German economy has been replaced.

Action by Germany.—There are two ways in which this might be achieved by Germany without foreign assistance. The first is by the further sale of some of Germany's foreign assets. According to the figures in Annex IV, these still amounted to at the end of July to RM 8.5 milliards. But the short-term foreign assets of the banks have been reduced since the end of 1930 by 40 per cent and it is to be remembered that considerable banking balances abroad are needed for the normal conduct of international trading operations. Of the other short-term assets, some are needed for current trade and others are not easily realizable. There remain about RM 5 milliards of long-term assets. Many of these assets are not in a rapidly-realizable form, and they include enterprises such as branches of German industries established in foreign countries on account of tariffs or as a means of carrying on German trade. The committee is not of opinion that a plan based upon the mobilization of Germany's assets abroad is practicable or would assist the economic recovery of Germany.

The other possibility is for Germany to carry out a policy of acquiring foreign exchange by endeavoring drastically to reduce her imports while making every effort to maintain or even to increase her exports. The German Statistical Office estimates that it might be possible for Germany to reduce her imports in the last six months of the year to RM 2.5 milliards while exporting RM 4.5 milliards. These figures would then compare with recent years as follows:

[In milliards of reichmarks]

	1929	1930	First half of 1931	Estimated second half of 1931	Estimated total for 1931
Imports	13.6	10.6	3.8	2.5	6.3
Exports (including deliveries in kind)	13.6	12.1	4.8	4.5	9.3
Surplus of exports	....	1.5	1.0	2.0	3.0

The imports to be paid for during the second half of 1931 would be further reduced if the suggestion were carried out that Germany should purchase considerable quantities of commodities on a 3-years' credit. This would further ease Germany's foreign-exchange situation.

But even if this possibility be disregarded, it should be observed that an export surplus of RM 2 milliards out of a total export of RM 4½ milliards involves a much greater disproportion between imports and exports than would be the case if both imports and exports were at a much higher level. It is clearly much more difficult to secure an export surplus of a given amount when prices are low and the volume of trade is small than when prices are high and the volume large. Some restriction of imports in relation to exports and a régime of stricter economy in public as well as in some forms of private expenditure will be needed in the future to enable Germany to meet her annual commitments abroad and to repay the accumulation of debts that she has contracted in recent years. But to export nearly twice as much as she imports would—even if it were practicable—involve a serious dislocation of her economic life. To maintain exports (part at all events of which could at once be made from existing stocks) in the highly competitive conditions obtaining at the present time, involves the sale of goods at very low prices, while the reduction of imports on the scale proposed involves a low level of consumption in Germany. It is, therefore, a policy of continued impoverishment and high unemployment brought about by restricted credit. Clearly, also, it will accentuate the world depression by reducing the sales of other countries to Germany and by creating intense competition from her exports in other markets. If, as is to be feared, this results in the taking by other countries of counter-measures to protect their markets the level of trade will be still further depressed. We consider it highly undesirable in the general interest that Germany should be compelled to adopt so drastic a solution.

Long-term credits needed.—We arrive, therefore, at the definite conclusion that it is necessary in the general interest as well as in that of Germany:

(1) That the existing volume of Germany's foreign credits should be maintained, and

(2) That part at all events of the capital which has been withdrawn should be replaced from foreign sources.

It is, however, obvious that if the additional capital required by Germany were supplied in the form of short-term credits she would be faced with a still greater difficulty than at present in meeting the obligations that will become due in six months' time when the period of prolongation of existing credits comes to an end. In these circumstances such additional credits are unlikely to be forthcoming from private sources. Indeed, the German member of our committee did not ask that any such additional credits should be granted for fear of adding to the embarrassments of Germany.

We are, therefore, of opinion that in order to insure the financial stability of Germany, any additional credits provided should be in the form of a long-term loan and that such parts of the existing short-term debt as may suitably be treated in this way should be converted into long-term obligations.

II. POSSIBILITIES OF CONVERTING A PORTION OF THE SHORT-TERM CREDITS INTO LONG-TERM CREDITS

The second part of our reference requires us to consider the possibility of Germany raising a long-term loan.

When investors are asked to subscribe to a loan of this kind they look, among other factors, to the general economic situation of the country in question, to the balance of its trade with a view to seeing whether it can meet the services of the loan from its own resources either immediately or within a reasonable period of time, and to the budget situation in order to satisfy themselves that the country is on a stable monetary basis.

In the case of Germany these three factors are by no means unfavorable. The London conference recorded its opinion that the lack of confidence in Germany which caused the withdrawals that have precipitated the present crisis "is not justified by the economic situation of the country." The best single index which support this view, which we share, is the rapid recovery of Germany's export trade in recent years. As regards the balance of trade, the statistics we have already given show that Germany was able to convert an import surplus into an even balance in 1929 and to create an export surplus in 1930 and the first half of 1931—though in the later stages this has involved a lowering of the standard of consumption.

As to the situation of her public finances, these have from time to time been the subject of criticism, which found expression in the report of the Dawes committee, and later in the reports and other communications of the agent general for reparation payments. The only comment we have to make on this subject is that the present Government has given proof of its determination in difficult circumstances to put Germany's public finances on a sound basis and that if this policy is rigorously pursued it will greatly contribute to the improvement of Germany's credit.

It is, however, evidence from the price at which Germany's securities are quoted on the stock exchanges of the world that without a restoration of confidence in the financial future of Germany to which the London conference referred it is impossible to raise any long-term loan on the credit of Germany alone. The funding of excessive short-term indebtedness would itself help to improve the position. But two fundamental difficulties remain which must be frankly stated. The first is the political risk involved. Until the relations between Germany and other European powers are firmly established on a basis of sympathetic cooperation and mutual confidence and an important source of internal political difficulty for Germany thereby removed, there can be no assurance of continued and peaceful economic progress. This is the first and most fundamental condition of credit worthiness. The second relates to the external obligations of Germany. So long as these obligations, both private and public, are such as to involve either a continous increase in a snowball fashion of the foreign debt of Germany or alternatively a disproportion between her imports and exports on such a scale as to threaten the economic prosperity of other countries, the investor is unlikely to regard the situation as stable or permanent. Until the existing or potential creditors of Germany are in a position to foresee what her future situation is likely to be in these respects a most serious obstacle exists either to the extension or even to the renewal of short-term credits and to the raising of a long-term loan. We feel certain that the Government representatives at the London conference, in taking the responsibility of recommending the bankers of the world that they should take concerted measures to maintain the volume of the credits they had already extended to Germany, fully realized that their proposal was not a solution of the problem but a means of gaining time during which steps for reestablishing the credit of Germany might be taken.

But time is short. The body of the world's commerce—whose vitality is already low—has suffered a severe shock in one of its chief members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished; but only if the governments of the world will realize the responsibility that rests upon them and will take prompt measures to reestablish confidence. Their action alone can restore it. We think it essential that before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence, which is the sine qua non of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.

We wish, however, to recall that, as we said at the outset, the German problem is part of a larger issue which deeply affects many other countries of the world. In this connection we wish to make two observations. The first is that in order to revive demand and thus to put an end to the continued downward movement of prices—which is inclosing both debtor and creditor countries in a vicious circle of depression—it is essential that the normal process of investment of fresh capital should be resumed with a well defined economic purpose in view, namely, an increase in the purchasing power of the world.

Secondly, we would point out that the case of Germany provides the most forcible illustration of the fact that in recent years the world has been endeavoring to pursue two contradictory policies in permitting the development of an international financial system which involves the annual payment of large sums by debtor to creditor countries, while at the same time putting obstacles in the way of the free movement of goods. So long as these obstacles remain such movements of capital must necessarily throw the world's financial balance out of equilibrium. Financial remedies alone will be powerless to restore the world's economic prosperity until there is a radical change in this policy of obstruction, and international commerce, on which depends the progress of civilization, is allowed to resume its natural development.

The clearly defined and technical investigation to which we have confined our attention does not permit us to offer suggestions of a political character. But we have felt it to be our duty to point out the reasons why it is impossible for the present to suggest definite plans for securing to Germany long-term credits. We wish, however, to add that if a situation were brought about, in which the confidence of the investing public in the future economic and political stability of Germany could be restored, we are satisfied that the consolidation of a part of her short-term debt and the provision of the additional working capital needed by her trade and industry would present no serious difficulties. There are many ways in which this object could be achieved. If we refrain from putting forward detailed schemes to this end, it is only because of our conviction that action which lies outside our province must first be taken before any long-term German bonds, however well secured, can be sold.

We, therefore, conclude by urging most earnestly upon all governments concerned that they lose no time in taking the necessary measures for bringing about such conditions as will allow financial operations to bring to Germany—and thereby to the world—sorely needed assistance.

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