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SENATE

} REPORT
No. 1450

AUSTRIAN LOAN

JANUARY 17, 1929.—Ordered to be printed

Mr. SMOOT, from the Committee on Finance, submitted the following

REPORT

[To accompany H. J. Res. 340]

The Committee on Finance, to whom was referred the resolution (H. J. Res. 340) to authorize the Secretary of the Treasury to cooperate with the other relief creditor governments in making it possible for Austria to float a loan in order to obtain funds for the furtherance of its reconstruction program, and to conclude an agreement for the settlement of the indebtedness of Austria to the United States, having had the same under consideration, report it back to the Senate without amendment, and recommended that the joint resolution do pass.

Following is the House report on the joint resolution:

[House Report No. 1290, Seventy Congress, second session]

The Committee on Ways and Means, to whom was referred the resolution (H. J. Res. 340) to authorize the Secretary of the Treasury to cooperate with the other relief creditor governments in making it possible for Austria to float a loan in order to obtain funds for the furtherance of its reconstruction program, and to conclude an agreement for the settlement of the indebtedness of Austria to the United States, having had the same under consideration, report it back to the House without amendment, and recommend that the joint resolution do pass.

Under the terms of this resolution, the Secretary of the Treasury is authorized, in cooperation with the other so-called relief creditor governments, to subordinate the lien of the United States upon the assets and revenues of Austria pledged for the payment of the Austrian relief bond held by the United States to a lien upon such assets and revenues as may be pledged for the payment of one or more loans floated by Austria in an aggregate net amount of not more than 725,000,000 Austrian schillings and for a period of not more than 30 years; and the Secretary of the Treasury is further authorized, with the approval of the President, to conclude an agreement for the settlement of the indebtedness of Austria to the United States.

The legislation herein recommended is in lieu of House Joint Resolution 247, which was favorably reported to the House on April 23, 1928, and is now pending upon the calendar. At the time House Joint Resolution 247 was reported the Government was not in a position to submit the definite terms of settlement

because negotiations were still pending with some of the other creditor governments. Since that time, however, negotiations have been definitely completed, and the terms upon which the settlement is to be made have become final.

This resolution differs from House Joint Resolution 247 in that it embodies the terms upon which the Treasury Department is to make settlement on behalf of the United States. Previous debt settlements were made by the debt funding commission and approved by Congress. Since the debt funding commission is no longer in existence, this resolution authorizes the Secretary of the Treasury to negotiate the settlement as provided therein. Members of the debt funding commission in Washington at the present time conferred with the Secretary of the Treasury and have approved this settlement.

The reasons for this legislation were fully set forth in the report on House Joint Resolution 247 (H. Rept. 1364, 70th Cong., 1st sess.), which is as follows:

(House Report No. 1364, Seventieth Congress, first session)

The Committee on Ways and Means, to whom was referred the joint resolution (H. J. Res. 247) to authorize the Secretary of the Treasury to cooperate with the other relief creditor governments in making it possible for Austria to float a loan in order to obtain funds for the furtherance of its reconstruction program, and to conclude an agreement for the settlement of the indebtedness of Austria to the United States, having considered the same, report it back to the House without amendment and recommend that the resolution do pass.

The joint resolution embodies two propositions:

- I. The subordination by the United States of its lien under the Austrian relief bond to the new loan to be floated by Austria in the world markets, and
- II. The settlement of the indebtedness of Austria to the United States.

I

In order for Austria to complete her reconstruction program it is essential for her to be able to float in the open market a loan of 725,000,000 Austrian schillings or about \$100,000,000. The entire amount is for so-called productive capital expenditures for the repair and modernization of Austria's telephone, telegraph, and railway systems and should greatly improve that country's economic position and ability to repay its outstanding obligations. Austria is indebted to the United States in the principal amount of about \$24,000,000, which constitutes approximately 20 per cent of the entire relief debt of that country held by nine creditor nations. The lien enjoyed by this debt and by the reparation charges prevents Austria from floating the contemplated loan unless the nine relief creditor governments and the Reparation Commission agree to subordinate their respective liens upon Austria's assets and revenues in favor of the new loan. Unanimous consent is required.

It is understood that the Reparation Commission and all of the relief creditors, except the United States, have agreed to the necessary subordination of the above-mentioned liens. If the United States, of all the relief creditor governments, stands out alone in refusing to grant this concession, it will be impossible for Austria to float the new reconstruction loan and the United States will have to assume full responsibility for the failure.

II

Under the terms of the Lodge resolution of April 6, 1922, payment of all amounts on account of both principal and interest on the Austrian indebtedness was suspended until June 1, 1943. This action was taken simultaneously with similar action by the other relief creditors. Austria now offers to settle the outstanding relief obligations. The proposed terms of settlement have been submitted, not only to the United States Government but to all of the relief creditors. It is understood that they have received favorable consideration, in fact the majority of the relief creditors have stated that the terms are acceptable to them.

The executive branch of the Government is not in a position to submit the definite terms offered while negotiations are still proceeding with some of the creditor governments. It is obvious, however, that the same terms of settlement must be granted to all relief creditors and no one relief creditor can be favored at the expense of the others. The resolution provides in part that—

"The Secretary of the Treasury, with the approval of the President, is hereby authorized to conclude an agreement for the settlement of the indebtedness of Austria to the United States, but the terms and conditions of such settlement

shall not be less favorable than the terms and conditions granted by Austria to any of the other relief creditor governments."

The United States holds only 20 per cent of the relief bonds, whereas the European creditors hold the remaining 80 per cent. While the United States can properly insist on being granted terms of settlement as favorable as any other creditor, it seems fair to assume that the people of the United States will approve the terms of settlement approved by Austria's European relief creditors, many of whom are debtors of the United States.

It should not be forgotten that the loan originated through very humanitarian and charitable motives. We furnished food supplies on credit in order to save millions from starvation. The economic condition of Austria was such at the time that it could not reasonably be anticipated that the amount of credit would ever be recovered in full. In this respect this loan is on a different basis from the war and postwar loans made to countries whose economic position was in no wise comparable to that of Austria.

We are now in a position to settle this entire matter upon reasonable terms and at the same time to put Austria in a position where she can float a new loan for the purpose of completing the reconstruction program which has to date yielded such satisfactory results. Your committee is strongly of the opinion that the United States Government should join the other relief creditors in effecting a prompt settlement and should not under any circumstances take a position which would obstruct proper and well-considered measures for furthering Austria's reconstruction program.

This legislation has the approval of the President, as set forth in his message to Congress of March 20, 1928 (S. Doc. No. 75, 70th Cong., 1st sess.), which is as follows:

Senate Document No. 75, Seventieth Congress, first session.

To the Congress of the United States:

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

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

CALVIN COOLIDGE.

THE WHITE HOUSE, March 20, 1928.

TREASURY DEPARTMENT,
Washington, March 19, 1928.

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

It will be recalled that, during 1919 and 1920, conditions in Austria were so serious that the United States and a number of European governments found it necessary to furnish foodstuffs and other relief supplies on credit. The act of Congress approved March 30, 1919, authorized the United States Grain Corporation, with the approval of the Secretary of the Treasury, to furnish flour on credit "to relieve populations in the countries of Europe or countries contiguous thereto suffering for the want of food." Pursuant to that legislation, flour was sold to Austria, and the Government of the United States now holds an Austrian bond in the principal sum of \$24,056,708.92 given in payment therefor. Certain other governments, namely, Denmark, France, Great Britain, Italy, the Netherlands, Norway, Sweden, and Switzerland, hold relief bonds of similar character in the sum of about \$95,000,000. The relief bonds of 1920 enjoy "a first charge upon all the assets and revenues of Austria." They rank ahead of Austria's reparation obligations.

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

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

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

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is hereby authorized to extend, for a period not to exceed twenty-five years, the time of payment of the principal and interest of the debt incurred by Austria for the purchase of flour from the United States Grain Corporation, and to release Austrian assets pledged for the payment of such loan, in whole or in part, as may in the judgment of the Secretary of the Treasury be necessary for the accomplishment of the purposes of this resolution: *Provided, however,* That substantially all the other creditor nations, to wit, Czechoslovakia, Denmark, France, Great Britain, Greece, Holland, Italy, Norway, Rumania, Sweden, Switzerland, and Yugoslavia, shall take action with regard to their respective claims against Austria similar to that herein set forth. The Secretary of the Treasury shall be authorized to decide when this proviso has been substantially complied with."

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

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

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

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

Since the proposed loan would be for a term of 30 years, and the relief bonds mature in 1943, the mere subordination of the lien may not be sufficient to permit the flotation of the new loan. The Austrian Government is at present negotiating

with the Government of the United States and the other relief creditor governments terms of payment of the relief bonds so as to provide for the liquidation of the indebtedness over a period of years. All of the relief bonds are of similar tenor and contain the following clause:

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

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

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

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

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

Faithfully yours,

A. W. MELLON,
Secretary of the Treasury.

The PRESIDENT,
The White House.

The necessity for prompt action upon the resolution is explained in the following communication from the Secretary of State:

DEPARTMENT OF STATE,
Washington, April 11, 1928.

MY DEAR MR. HAWLEY: In connection with consideration by the Ways and Means Committee of House Joint Resolution 247 concerning the Austrian debt, I desire to call attention to certain aspects of the situation which are of special concern from the standpoint of our international relations.

The relief indebtedness of Austria was contracted for humanitarian reasons under authority of the act of Congress approved March 30, 1920, which authorized the furnishing of flour on credit "to relieve populations in the countries of Europe or countries contiguous thereto suffering for the want of food." Austria's relief debt to the United States, in the principal amount of \$24,055,708.92, is only about one-fifth of her total relief debt, the other four-fifths being owed to European governments, namely, Denmark, France, Great Britain, Italy, the Netherlands, Norway, Sweden, and Switzerland.

Inasmuch as Austria's relief indebtedness, aggregating about \$120,000,000 plus interest thereon, will mature in 1943, and since the relief bonds enjoy a prior

lien on Austria's assets and revenues, Austria can not obtain the funds necessary for continuation of the program of economic recuperation except by agreement of the nine creditor governments. All of these governments but the United States have agreed to defer their liens, not only in the belief that the procurement of new capital by Austria is necessary to permit Austria to continue her difficult but successful efforts for economic progress, but also with the thought that well-considered measures for strengthening Austria will facilitate the repayment of the relief debt. Austria, for her part, has offered to commence the payment of the relief indebtedness on the basis of a plan which has already been found acceptable to most of the creditor governments and which conforms to Austria's capacity to pay. The proposed legislation provides that the terms and conditions of settlement of Austria's indebtedness to the United States "shall not be less favorable than the terms and conditions granted by Austria to any of the other relief creditor governments," to whom Austria owes 80 per cent of the relief debt.

The reasons in favor of the United States cooperating in the plans being developed for dealing with the Austrian situation have been fully and forcefully stated to the committee by the Acting Secretary of the Treasury, Mr. Mills. I shall not undertake to rehearse these arguments. I do, however, desire strongly to emphasize the importance, from the standpoint of our international relations, of early and favorable action. The United States can not afford to be in the position of blocking this joint effort to deal with the difficulties of Austria. I am sure the committee will appreciate that the failure of the Government of the United States to join in facilitating the program of Austrian reconstruction, besides tending to prejudice the ultimate capacity of Austria to repay our advances would also place the United States before the world in a highly unfavorable light and would be embarrassing in the conduct of our foreign relations.

I therefore sincerely trust that it may be possible to take early and favorable action on H. J. Res. 247.

I am, my dear Mr. Hawley,

Sincerely yours,
HON. WILLIS C. HAWLEY,
House of Representatives.

FRANK B. KELLOGG.

