

● PSF War Debts (WW I)-1934

Subject File

Box 190

"Your questions, in the order in which they are set forth, and my views thereon are stated below:

"(1). What Governments, political subdivisions, or associations are in default on their obligations to the United States?"

"'Default' is a common word which conveys at once a known meaning, but as applied to particular situations, it is often a matter of uncertainty whether or not or when a 'default' has occurred. Concerning it, Chief Justice Eyre declared in Doe v. Dacre, 1 B. & P. 250, 258; 126 Reprint 887, 891, 'I do not know a larger or looser word than "default";' but as to civil liability the following definitions are enlightening:

"'As used in such an instrument (a contract), it can mean only the nonperformance of a contract,-- a failure upon the part of one of the contracting parties to do that which he had contracted to do.' (Sixteen hundred Tons of Nitrate of Soda v. McLeod, 61 Fed. 849, 851.)

"'In one sense, any failure is a default, whether it arises from the omission to perform a contract, or from a neglect of duty. In many reported cases the omission to pay a debt or to perform a contract is spoken of as a default.' (Burrill v. Crossman, 69 Fed. 749, 752.)

"However, the word cannot safely be accepted as importing so inclusive a significance when it is used as a penal statute, as pointed out by the Supreme Court of Nebraska in State v. Moores, 52 Neb. 770, 787, upon consideration of a constitutional provision which rendered ineligible to public office 'any person who is in default as collector and custodian of public money or property,' which the court declared to be 'penal in its nature.'

"Lipman v. Equitable Life Assur. Soc. of the United States, 58 F. (2d) 15, and Hartsuff v. Hall, 58 Neb. 417, each dealing with written instruments providing for payment at a stated time with grace, reached contrary conclusions upon consideration of the context and probable intention as to whether 'default' occurred at the time specified for payment or at the end of the grace period, thereby indicating

that no absolute or rigid meaning is to be assumed in a civil case, and a fortiori in a criminal case.

"In view, therefore, of the flexibility of the term, and bearing in mind that a penal statute is to be strictly construed against the imputation of criminality to an act which is not malum in se, I think it is required that we seek carefully from authorized sources the probable intent of Congress. In connection therewith your letter indicates particular concern as to Great Britain and other countries which have made so-called token payments, and as to the Soviet Government which has not yet, as you informed me, recognized as binding upon it the obligations incurred by prior governments in Russia. I shall, therefore, indicate to the extent that I properly can, my views in these instances.

"On November 7, 1933, the President issued the following statement:

"For some weeks representatives of the British Government have been conferring with representatives of this government on the subject of the British debt to this country growing out of the World War. * * *

"It has, therefore, been concluded to adjourn the discussions until certain factors in the world situation--commercial and monetary--become more clarified. In the meantime, I have as Executive noted the representations of the British Government. I am also assured by that Government that it continues to acknowledge the debt without, of course, prejudicing its right again to present the matter of its readjustment, and that on December 15, 1933, it will give tangible expression of this acknowledgment by the payment of seven and one half million dollars in United States currency.

"In view of these representations, of the payment, and of the impossibility, at this time, of passing finally and justly upon the request for a readjustment of the debt, I have no personal hesitation in saying that I shall not regard the British Government as in default.'

"On the same day the Chancellor of the Exchequer addressed the House of Commons to the same effect, concluding with the President's statement that he would not regard the British Government as in default.

"A statement of similar import had been made by the President in June, 1933, shortly before certain installments upon the debts were due. It is unnecessary to repeat here the statement then made or to treat further of later statements by the President and their acceptance in good faith, except to say that Great Britain and certain other countries made partial payments on installments due in June, 1933, and in December, 1933, with the expectation and belief that they would thereby avoid a default.

"In his annual message to Congress delivered at a joint meeting of the two Houses on January 3, 1934, the President stated:

'I expect to report to you later in regard to debts owed the Government and people of this country by the governments and peoples of other countries. Several nations, acknowledging the debt, have paid in small part; other nations have failed to pay. One nation--Finland--has paid the installments due this country in full.' (Cong. Rec. v. 78, p. 5.)

It does not appear, however, that any further report in regard to these debts was transmitted to Congress prior to the enactment of the statute.

"I find no record of the expression of any views in the Senate upon the meaning of the word 'default' when the bill was under consideration, but the matter was considered in the House, as indicated by the following excerpts from the Congressional Record.

'Mr. BANKHEAD. Under this bill, what would be the status of governments like England, that made a so-called "token payment," but has defaulted in the main?

'Mr. MOREYNOLDS. The President of the United States, as I understand it, has held that they are not in default.' (Cong. Rec. Vol. 78, p. 6192.)

'Mr. BRITTEN. Does the gentleman agree with the gentleman from New York (Mr. FISH) that those governments which have made a small token payment will not be held in default by our Government?'

'Mr. JOHNSON of Texas. I am not so sure about that.' (Cong. Rec. Vol. 78, p. 6194.)

* * * * *

"Mr. JOHNSON of Texas. Yes; the language is broad and comprehensive, but the question of what constitutes a default is one that will have to be determined by the terms of the original contracts supplemented by any subsequent agreements that may have been lawfully made." (Cong. Rec. Vol. 78, p. 6195.)

"Mr. KLOEB. Since that time we have beheld the spectacle of all these debtor countries, save one, either actually defaulting in the payments of the installments as they became due or making a so-called "token payment" in order to avoid the ugly word "default".' (Cong. Rec. Vol. 78, p. 6197.)

"Mr. BRITTEN. Mr. Speaker, I am going to vote for this bill because I have, to my own satisfaction at least, concluded that any nation of Europe in default of any portion of its indebtedness, interest or principal, to us is included in the intention of the bill.

"I realize that in the following statement I am disagreeing with the chairman of the committee and probably with the ranking Member on this side, but on page 2, in speaking about the indebtedness it says, "While such government is in default in payment of its obligation or any part thereof." I fail to see why England with a surplus this year of \$160,000,000 in her treasury, or France, with countless millions of gold in her treasury, more gold in her treasury per capita than we have, and governments of that type should be excluded from the provisions of this bill, and France is not, I realize, just because they made some insignificant token payments on account of their vast obligation to us.

"If the State Department were to exclude those nations from the provisions of this bill then Czechoslovakia, Great Britain, Greece, Italy, Latvia, Lithuania, and Rumania would be excluded because they have all made some small payment.

"My contention is that the State Department should not act that way, nor has it the authority to presume that because an infinitesimal payment has been made on an indebtedness of billions it takes that nation out of one class and puts it into a preferred class." (CONG. Rec. Vol. 78, pp. 6197-6198.)

"Mr. McReynolds was in charge of the bill during its consideration by the House and, therefore, under the rules applied by the courts in considering such proceedings, his apparent view that Great Britain and other countries similarly situated were not to be deemed in default, is entitled to especial weight.

"Moreover, the President, by signing the bill, participated equally with the Houses of Congress and his view as to the meaning of words employed in it is of great significance. I cannot assume that he believed Great Britain to be in default, within the meaning of the word as used in the bill, in view of his express statements on the subject; and from such information as I now have before me it would appear that Czechoslovakia, Italy, Latvia and Lithuania fall in the same category with Great Britain. I conclude, therefore, that these five countries are not, at the present time, in default under the terms of the Act in question.

"Beyond this a specific answer as to what governments, political subdivisions, organizations or associations are in default on their obligations to the United States would seem to require a survey of data not immediately available to this office, but in general it may be said, in the words of the statute, that a 'foreign government, political subdivision, organization or association is in default' if it has failed 'in the payment of its obligations, or any part thereof, to the government of the United States,' according to its promise or undertaking to pay a fixed amount at a definite time, unless such default has been postponed or waived in some competent manner or by a transaction having that effect in law or good morals. Should any authoritative statement, in harmony with this opinion, be issued in the form of an administrative declaration that named countries are or are not in default, I should be inclined to follow it in so far as the Department of Justice is charged with the responsibility of instituting prosecutions in cases

of violation, thereby removing misapprehension and uncertainty to those who desire to avoid conflict with the statutory interdiction; and should the question come before the courts it is reasonable to believe that they would honor any such administrative determination.

"With regard to the status, under the Act, of a political subdivision of a defaulting country when the subdivision itself is not in default, attention is called to the fact that while explaining the bill in the House of Representatives, Mr. McReynolds stated that in such a case the political subdivision, such as a city in a defaulting country, would not come within the inhibitions of the bill if the city itself were not in default (Cong. Rec. Vol. 73, p.6200). I approve this view, not only because of the presumption arising from Mr. McReynolds' explanation, but because a reasonable interpretation of the statute itself supports the conclusion that the default of a foreign government would not be imputed to a political subdivision thereof, e. g., a municipality, so as to prohibit the purchase or sale of bonds or securities of the latter, if the municipality is not itself in default.

"It has also been asked whether or not Canada, a member of the commonwealth of nations which compose the British Empire, is to be regarded as a political subdivision of Great Britain. The question should properly be answered in the negative, and this conclusion was suggested in Congress (Cong. Rec. Vol. 78, p. 6195), but it appears to be immaterial in view of my conclusion above stated concerning the intention of Congress as applied to the obligations of political subdivisions. Canada, I believe, is not in default.

"(2). To what types of transactions does the Act apply?"

"The Committee Reports (S.Rept. 20 and House Rept. 974, 73d Cong.) recite that the bill was introduced following an investigation by the Senate Committee on Finance and the revelation therein that 'billions of dollars of securities *** offered for sale to the American people' were overdue and unpaid; that some of these 'foreign bonds

and obligations * * * were sold by the American financiers to make outrageously high profits'; and stated a purpose 'to prevent a recurrence of the practices which were shown by the investigation to be little less than a fraud upon the American people * * * to curb the rapacity of those engaged in the sale of foreign obligations * * *.'

"This, I think, is indicative of a purpose to deal with such 'bonds' and 'Securities' and with 'other obligations' of like nature, observing the rule of ejusdem generis -- that is, obligations such as those which had been sold to the American Public to raise money for the use of the foreign governments issuing them -- not contemplating foreign currency, postal money orders, drafts, checks and other ordinary aids to banking and commercial transactions, which are 'obligations' in a broad sense but not in the sense intended. It was obviously not the purpose of the Congress to discontinue all commercial relations with the defaulting countries.

"(3). What constitutes a renewal of an existing credit?"

"Your Legal Adviser has concluded, in the memorandum transmitted with your letter of April 23d, that:

"It would seem that any instrument which would be issued for the purpose of replacing the evidence of any existing indebtedness would constitute a renewal or an adjustment of an existing indebtedness. If new bonds were issued to replace old ones, it would seem that such a transaction would be permissible. Any instrument given in satisfaction or extension of an existing indebtedness would, it is believed, come within this exception."

"In general, I approve this statement, but obviously it will be a question of fact in each case whether or not what is done amounts in good faith to the mere 'renewal' * * * of existing indebtedness'.

"(4). Does the Act apply to acceptances or time drafts?"

"This question appears to be sufficiently answered by the comments under Question No. 2, supra. It appears proper to add, however, that such transactions must be conducted in good faith, in order to be within the law, and not as mere subterfuges to circumvent its purpose.

"(5). Is the present Soviet Government, as the successor to prior governments of Russia, to be regarded as in default, in view of the fact that no payment has been made on the bonds issued to the Government of the United States by the Kerensky Government, on account of loans made to that Government by the United States during the period of the war, the Kerensky Government having been the immediate predecessor of the Soviet Government?"

"The proceedings in the House of Representatives indicate acceptance of the view that our Government regards the Soviet Government as responsible for the obligations incurred by prior Russian governments. (Cong. Rec. Vol. 78, p. 6192.) The position of our Government in this respect accords with accepted principles of international law, as illustrated by the following authorities:

"Moore, Int. Law Digest, v. 1, sec. 96, quoting Secretary of State Adams (August 10, 1818):

"No principle of international law can be more clearly established than this: That the rights and the obligations of a nation in regard to other States are independent of its internal revolutions of government. It extends even to the case of conquest. The conqueror who reduces a nation to his subjection receives it subject to all its engagements and duties toward others, the fulfillment of which then becomes his own duty."

"Halleck, Int. Law (3d ed.) v. 1, p. 90:

"Public debts, whether due to or from the revolutionized State, are neither cancelled nor affected by any change in the constitution or internal government of a State."

"The same rule is stated, in substance, in Kent's Commentaries (12th ed.) v. 1, p. 26, and in an opinion of Attorney General Griggs, 22 Op. A. G. 583, 584. In connection with, and in support of, these statements the authors cite 1 Whart. Int. Law Dig., sec. 5; Hall, Int. Law, (4th ed.), pp. 104, 105; Rivier, Principes du Droit des Gens, I, pp. 70-72; United States v. MacRae, L. R. 8 Eq., 69; Vattel, Droit des Gens, liv II, ch. XII, § 183-197; Grotius, De Jur. Bel., lib II, cap. II § 8.

"This view, in fact, was stated in Congress (Cong. Rec. Vol. 78, p. 6192) to have suggested the insertion of the provision in Sec. 2 of the statute excluding from its operation public corporations controlled by the United States, which are permitted to engage in the trans-

actions prohibited to individuals and private corporations, if administratively determined to be desirable. I, therefore, regard the Soviet Government as in default, within the contemplation of the statute.

"(6) However the last question may be answered, can the Soviet Government be considered in default to the Government of the United States pending negotiations that are being had with a view to arriving at the amount of the indebtedness due from the Soviet Government to the Government of the United States?"

"Bearing in mind what I have just stated in response to your fifth question, I am aware of no principle of law under which a previously existing default is waived or overcome because of the mere pendency of negotiations 'with a view to arriving at the amount of the indebtedness due,' assuming that there is any uncertainty in this regard, although, of course, the matter might be affected by the outcome of any such negotiations.

"(7). Would the issue and sale in the United States of "scrip" or funding bonds in part payment of outstanding obligations be in violation of the Act?"

"This question appears to present only a detail of the matter treated generally under Question No. 3, and the same answer is applicable. In other words, such 'scrip' or 'funding bonds' are authorized if issued in the bona fide 'renewal or adjustment of existing indebtedness.'

"It is made unlawful, as I have said, 'to purchase or sell the bonds, securities, or other (similar) obligations of any foreign government * * * issued after the passage of this Act, or to make any loan to such foreign government * * * except a renewal or adjustment of existing indebtedness.' The word 'renewal' needs no definition by me -- it is frequently used and commonly understood in banking, business and commercial transactions -- and the word 'adjustment,' relating to accounts or claims, has been used in our statutes since the formation
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of the Government. (See the Act of September 2, 1789, 1 Stat. 65, and the Act of March 3, 1817, 3 Stat. 366). It is used, I think, in the sense of compromising or determining how much is to be paid, when and where, upon what terms and the like. Thus an adjustment of an existing indebtedness within the meaning of the Act is any lawful arrangement entered into in good faith between the debtor and the creditor which comprises or determines the amount to be paid by the debtor to the creditor and it may include other details of composition or settlement.

Respectfully,

HOMER CUMMINGS

Attorney General.

The Honorable

The Secretary of State."

DEPARTMENT OF STATE
ASSISTANT SECRETARY

May 5, 1934.

debt message
W. G. ...
PS#
War Dept

MEMORANDUM FOR THE PRESIDENT

I think this should, in the main, prove very satisfactory since it shows that ordinary commercial transactions between this country and debtor countries will be under no handicap.

Necessarily, the Soviet is declared in default but even so, under Section 2 of the Act, it will be able to engage in credit transactions with us when the Export Bank is prepared to function, that depending on a debt agreement satisfactory to the President.

The token payments heretofore made withdraw, for the time being, the countries making them from the default category. While nothing is said about the effect of future small payments at maturity dates, it may fairly be inferred that they could not operate to further relieve default without practically nullifying the Act.

Respectfully submitted
Rualter M...

May 5 - 1934

PSF
War debts

file

debts

THE UNDER SECRETARY OF STATE
WASHINGTON

May 16, 1934.

My dear Mr. President:

I beg to enclose an extract from a telegram just received from the Embassy in Paris reporting the fourth annual B. I. S. meeting, which was held in Paris May 4th and attended by representatives from all of the twenty-six central banks. It occurs to me that you might be interested in noting the references made to war debts.

Faithfully yours,

William Phillips

Enclosure:
Extract from telegram
from Embassy Paris,
No. 367, May 15, 1 p.m.

The President,
The White House.

Extract from telegram from Paris, No. 367, May 15, 1 p.m.

There was much informal conversation on the American war debt question. Consensus of opinion is that the Johnson Act and recent definitions and explanations from Washington have only confused the situation. It is believed futile to expect the debtors now to advance propositions to the United States in the face of the adamant attitude of Congress. Any offers which their own Parliaments would support would surely be unacceptable and the debtor governments do not desire to run the risk of sharp reaction from the United States as well as the risk of criticism and dissension in their own countries that might ensue. Clay of the Bank of England told me that he thought we might be relieved if England defaulted completely and thus precipitated the whole question since no one of the present token payers or defaulters would pay anything if England stopped. He said that there no longer exists in England the possibility of a year ago of offering a substantial lump sum payment or a long term settlement to the extent that the funds for the latter could be raised through floating bonds in the United States. Ryt1 of the Bank of Finland told me that he thinks Great Britain would not be willing to follow the Finnish debt settlement as a precedent even if the proposed agreement is acceptable to Congress. The general idea is that the President and Congress should either first get together and decide what can be done

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or preferably that after Congress adjourns the President announce the reduction subject of course to Congressional approval of all war debts to twenty per cent in paper dollars of the funded amount. No distinctions should be made between debtors. Neutral observers think no debtor country could refuse to resume or make payment on such a basis. Furthermore, they think that the President acting on his own responsibility and appealing directly to the country to help him end a hopeless tangle would have such support that upon reconvening Congress would accept his act even more readily than it did the Hoover Moratorium. Conferences and individual negotiations will be as fruitless now as ever.

May 16, 1934.

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The President,

The White House.

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*PSF
War Debts*

THE UNDER SECRETARY OF STATE
WASHINGTON

June 4, 1934.

My dear Mr. President:

I have just received the enclosed note from the British Embassy with respect to war debt payments. The situation is summed up in the final paragraph stating that "while suspending further payments until it becomes possible to discuss an ultimate settlement of inter-governmental war debts with a reasonable prospect of agreement, they have no intention of repudiating their obligations, and will be prepared to enter upon further discussion of the subject at any time when in the opinion of the President such discussion would be likely to produce results of value".

This note is to be released in London for publication in the morning papers of tomorrow, June 5th, and accordingly I am giving it to the Press this afternoon for publication here tomorrow morning.

Faithfully yours,

William Phillips

The President,
The White House.

No. 182.

BRITISH EMBASSY,

WASHINGTON, D.C.,

June 4th, 1934.

Sir,

In their note of December 1st, 1932, His Majesty's Government gave a full statement of the reasons which convinced them that the existing system of inter-governmental war debt obligations had broken down. They pointed out the difference between these war debt obligations and normal credit operations for development purposes: they showed the economic impossibility of making transfers on the scale required by these obligations and the disastrous effect which any further attempt to do so would have on trade and prices. They emphasized the sacrifices which the British nation had made in this matter and the injustice of the difference between their funding settlement and those accorded to other debtors. They concluded that a revision of the existing settlements was essential in the interests of world revival and they urged that further payments should be postponed pending such a revision. Nothing that has since occurred has led His Majesty's Government in the United Kingdom to change the views they then expressed.

2. That the present settlement imposes upon the people of the United Kingdom a burden which is both unreasonable in itself and inequitable in relation

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The Honourable

Cordell Hull,

Secretary of State of the United States,

Washington, D. C.

to the treatment accorded to other countries may be clearly seen from the following figures.

In respect of the war advances totalling 4,277,000,000 dollars payments totalling 2,025,000,000 dollars have been made up to date by His Majesty's Government to the United States Government. Yet despite these payments the nominal amount of the debt still outstanding as at June 16th, 1934, amounts to 4,713,785,000 dollars.

Meanwhile in respect of war advances totalling 5,773,300,000 dollars made by the United States Government to other European Governments, aggregate payments made up to date amount to only 678,500,000 dollars. Thus though the war advances to these other Governments exceed by one quarter the advances made to the United Kingdom, payments made by the United Kingdom amount to three times what the United States Government has received from those other Powers.

On the other hand His Majesty's Government are creditors as well as debtors in respect of these inter-governmental obligations. While as stated above they borrowed 4,277,000,000 dollars from the United States, they themselves made war advances to the allied governments totalling £1,600,000,000 (7,800,000,000 dollars at par). These loans were raised by His Majesty's Government from the people of the United Kingdom and the annual interest thereon, and eventually their capital repayment, must, in the absence of payments by debtor governments, be met out of the general taxation of their own people. In this respect

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the position of the United Kingdom is precisely similar to that of the United States: but whereas the United States have received very substantial payments against the domestic charges involved, His Majesty's Government have had to meet the domestic charges of their war loans to allied governments in full, as they have paid over to the United States Government all that they have received both from war debts and war reparations, and they have in addition paid nearly as much again out of their own resources.

If the United States feel the burden of their war advances of 10,050,000,000 dollars, against which they have received 2,703,000,000 dollars, how much heavier is the burden of the United Kingdom, which with one third of the population of the United States has had to meet the full charges on its war advances of 7,800,000,000 dollars without any net receipts against these charges, and has in addition made large payments out of its own resources on account of its war debt to the United States.

None the less, convinced that any resumption of payments on the past scale could not but intensify the world crisis and might provoke financial and economic chaos, His Majesty's Government have suspended their claims on their debtors in the hope that a general revision of these inter-governmental obligations may be effected in the interest of world recovery. But it would be impossible for them to contemplate a situation in which they would be called on to honour in full their

war/

war obligations to others while continuing to suspend all demands for payment of war obligations due to them.

3. The improvement which has taken place in the budgetary situation of the United Kingdom in no way invalidates this conclusion. This improvement is due entirely to unprecedented sacrifices made by the people of this country. Since the war they have been carrying a burden of indebtedness amounting to approximately £8,000,000,000 (40,000,000,000 dollars) or £178 (850 dollars) per head of their population, about one fifth of which represents war loans made to allied governments. They have balanced their budget and even realised a surplus by the painful process of reducing expenditure and increasing taxation. For fifteen years they have been paying taxation on a scale for which it would be hard to find a parallel elsewhere. During the whole of this period the burden of taxation has been higher in the United Kingdom, and for a considerable part of the period twice as high as in the United States, including all Federal, State and local taxation. This taxation amounting to close on one quarter of the national income has aggravated the depression over a long period and the necessity of maintaining an army of unemployed resulting from this depression has constituted a formidable problem to the national finances ever since the war ended. Yet in order to restore the national credit in 1931 the people of the United Kingdom accepted further and heavy increases in taxation, accompanied by rigorous control of expenditure, and cuts in salaries and

allowances/

allowances of all kinds: and despite all these measures the budget would have again shown a deficit last year had it not been possible to secure by the conversion operation carried through in 1932 a reduction in the rate of interest paid on a large proportion of the public debt. This reduction has enabled His Majesty's Government to remit a part of the emergency sacrifices imposed in 1931 and to restore part of the cuts on salaries and the whole cut in unemployment allowances, the continuance of which was imposing a severe strain on the national conscience. It would have been a gross act of social injustice to have denied this relief to the people of this country in order to pay war debts to the United States while suspending war debt payments due to the United Kingdom.

4. But although it is desirable that the internal budgetary position of this country should not be misunderstood, it is really irrelevant to the question of inter-governmental debt, the payment of which has to be related to the balance of trade and not to the volume of internal revenue. The revenues of the United Kingdom are sterling revenues, whereas the debt payments to America have to be made in dollars or in gold. In order to secure the means to pay, therefore, any sums available in sterling would have to be transferred across the exchange. The attempt to transfer amounts of this magnitude would as its immediate effect cause a sharp depreciation of sterling against the dollar, which as His Majesty's Government understand would not be consistent with the monetary policy of the United States Government. And in the long run such international transfers/

Perhaps this may interest
the President - *Phyllis Moore* - May 5/34.

No. 24

Moscow, April 16, 1934.

Subject: Soviet-Japanese Relations.

CONFIDENTIAL

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to thank you most gratefully for sending me a copy of Mr. Grew's despatch on Soviet-Japanese relations, No. 670, dated Tokyo, February 8, 1934. This admirable despatch has been of great value to me, and I trust that the Department will continue to forward to me similar documents.

To Mr. Grew's clear estimate of the situation I can add little. The decision as to war or peace

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transfers would be impossible without a radical alteration in the economic policies of the United States. Payment of debts implies the willingness of the creditor to accept goods and services sufficient to cover the debts due to him over and above the goods and services required to cover his exports: and to make it possible for the United States to receive payment of their claims, it would be necessary to effect a complete reversal of the existing favourable balance of trade between their country and the rest of the world. In the case of the United Kingdom the balance of trade is heavily unfavourable, and the balance of accounts is not such that His Majesty's Government could contemplate the transfer of any substantial sum across the exchange, unless it was compensated by equivalent receipts from the foreign debts of this country. If this were done sterling would not be affected by the payments to America, but the burden would be thrown on the currencies of the European debtor countries, thereby aggravating the present crisis, which it is the object of both the United States and His Majesty's Government to alleviate.

5. Thus the question of the British war debt is only a part of the wider question of inter-governmental obligations resulting from the World War. As has already been pointed out, the United Kingdom, while it was a debtor to the United States, was itself a creditor for larger amounts from France, Italy, and other ex-Allied Powers in respect of war debts, and these in
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turn are co-creditors with the United Kingdom of Germany in respect of reparations. These inter-governmental debts, as stated in the British note of December 1st, 1931, are radically different from commercial loans raised by foreign governments on the markets for productive purposes. War debts are neither productive nor self-liquidating, and the unnatural transfers required for their payment would involve a general collapse of normal international exchange and credit operations. The Administration of the United States under President Hoover recognized this fact and initiated a moratorium on inter-governmental payments in 1931 in order to avert an immediate collapse. But the moratorium of 1931 caused another change in the situation; it made any resumption of the pre-existing reparation and war debt settlements impossible, and the revision of reparations embodied in the Lausanne Agreement was made subject to conclusion of a subsequent agreement for the revision of war debts.

6. It was with these facts in mind that His Majesty's Government approached the United States Government in December, 1932, and the United States Government in their note of December 7th welcomed their suggestion for a close examination between the two countries of the whole subject. After this exchange of notes His Majesty's Government paid the instalment due on December 15th, 1932, in gold, explaining that this payment was not to be regarded as a resumption of the annual payments contemplated by the existing agreement, and that it was made because there had not been time for discussion with regard to

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that agreement to take place, and because the United States Government had stated that in their opinion such a payment would greatly increase the prospects of a satisfactory approach to the whole problem. In accordance with the arrangement then made, discussions took place first in the spring and later in the autumn of last year between representatives of the two countries, and His Majesty's Government appreciate the sympathetic manner in which their representatives were listened to. But on both occasions it was found impossible to arrive at a settlement acceptable to the two Governments in face of the unprecedented state of world economic and financial conditions. Accordingly the discussions were adjourned and on June 15th, and December 15th, 1933, His Majesty's Government made token payments in acknowledgment of the debt and the President expressed the personal view that he would not regard His Majesty's Government as in default.

7. In their note of November 6th last, His Majesty's Government expressed their readiness to resume negotiations on the general question whenever, after consultation with the President, it might appear that this could usefully be done, and His Majesty's Government are glad to note that the President in his message to Congress on June 1st has again stated that each of the debtor governments concerned has full and free opportunity to discuss this problem with the Government of the United States. But unfortunately recent events have shown that discussions on the whole question with a view to a final settlement

cannot/

cannot at present usefully be renewed. In these circumstances His Majesty's Government would have been quite prepared to make a further payment on June 15th in acknowledgment of the debt and without prejudice to their right again to present the case for its readjustment, on the assumption that they would again have received the President's declaration that he would not consider them in default. They understand however that in consequence of recent legislation no such declaration would now be possible, and if this be the case the procedure adopted by common agreement in 1933 is no longer practicable.

8. His Majesty's Government are in fact faced with a choice between only two alternatives, viz., to pay in full the sum of 262,000,000 dollars as set forth in the communication from the United States Treasury, dated May 25th, or to suspend all interim payments pending a final revision of the settlement, which has been delayed by events beyond the control of the two Governments. Deeply as they regret the circumstances which have forced them to take such a decision, His Majesty's Government feel that they could not assume the responsibility of adopting a course which would revive the whole system of inter-governmental war debt payments.

As already pointed out the resumption of full payments to the United States would necessitate a corresponding demand by His Majesty's Government from their own war debtors. It would be a re-creation of the conditions which existed prior to the world crisis and were in a large measure responsible for it. Such procedure would

throw/

throw a bombshell into the European arena which would have financial and economic repercussions over all five continents and would postpone indefinitely the chances of world recovery.

9. Accordingly His Majesty's Government are reluctantly compelled to take the only other course open to them. But they wish to reiterate that, while suspending further payments until it becomes possible to discuss an ultimate settlement of inter-governmental war debts with a reasonable prospect of agreement, they have no intention of repudiating their obligations, and will be prepared to enter upon further discussion of the subject at any time when in the opinion of the President such discussion would be likely to produce results of value.

I have the honour to be,

With the highest consideration,

Sir,

Your most obedient,

humble servant,

(SGD.) R.C.LINDSAY

Pres. War Debt

THE WHITE HOUSE
WASHINGTON

June 13, 1934

MEMORANDUM FOR MR. EARLY:

Mr. Chapin, of the State Department, brought these in yesterday, thinking the President would be interested in it. Accordingly, one copy was put in the President's "To Read" mail. I thought that you might be interested in having the other copies.

K

M. H. M.

File

BSF
War Debts

DEPARTMENT OF STATE
Division of Current Information

June 13, 1934.

AMERICAN EDITORIAL OPINION
ON THE PROBLEM OF WAR DEBTS

Seven hundred twelve (712) editorials, representing all States, with the exception of Nevada and South Dakota, have been used in the preparation of this report.

The editorials cover the period from May 1 to June 11, inclusive.

British "Sunshine Budget"

Current interest in the War Debt problem was first aroused by the announcement in the House of Commons of the "Sunshine Budget" which showed a surplus of 31,000,000 pounds sterling.

Reaction to the Johnson Bill

Reaction to the Johnson Bill has no doubt surprised many people. Only a few years ago the statement, "Pay all or take the consequences", would have aroused enthusiasm throughout the country, but it is now regarded as "bad business" and is giving way to a strong tendency to save as much as possible from the wreckage. Most of the editorials which were non-committal towards the Johnson Bill represented judgment suspended to see if the "tokens" would be any larger as a result thereof. Many of these may now be added to the list of those opposed to the Bill. Furthermore, many editors favored the Johnson Bill because they believed it would cause the debtor nations to make the "'tokens' as big as we elect to accept in exchange for the name of 'defaulter'". Some of these may now also be added to the opponents of the Johnson Act.

Reaction to the President's War Debt Message

The War Debt message was favorably received in all sections of the country, although some editors voiced disappointment because the President did not recommend some definite action to settle the debt impasse. Some of this disappointment may have been caused by the fact that the President gave them little or nothing to shoot at. Others of the disappointed ones expressed the opinion that the President, unfortunately, could not do otherwise, because of domestic politics, than to sign the Johnson Bill and to follow it up with his message to the Congress.

General Attitude Toward the War Debt Problem.

An overwhelming majority of the editors of the United States, while admitting the justness of our position, believe that the war debts will never be

paid

paid in full and that we should, therefore, endeavor to reach as good an agreement as possible at the earliest possible moment.

This general attitude represents all kinds of opinions. A small number are openly sympathetic with the British attitude, partly because of the Johnson Act, and apparently believe that the British debt should be scaled down. Some believe that the interest rates are too high and that we should concentrate our efforts on the recovery of the principal, charging the interest off to experience. Other editors apparently believe that the war debts are nothing but a source of international friction and should be either cancelled or scaled down and that this should be done at once. The opinion is also voiced rather widely, especially in the southern States, that there can be no economic recovery in the United States without similar recovery throughout the world; that this recovery can only be brought about by increased world trade; and that this increased trade can never be brought about as long as we drain Europe's wealth in the form of war debt payments. Whatever the various opinions may be, they all point in the same direction: The debts will never be paid in full and it is our duty, therefore, to save as much as we can from the wreckage of the original agreements.

The following is a recapitulation of the various categories of opinions:-

	<u>Number of</u> <u>Editorials</u>	<u>Number of</u> <u>States</u>
<u>British Announcement of a Surplus:</u>		
Urge payment to the United States.....	20	14
<u>Reaction to the Johnson Act:</u>		
Favorable.....	27	14
Unfavorable.....	155	40
Non-Committal.....	27	18
Regret Attorney General's decision against Russia.....	5	5
<u>Reaction to the President's War Debt Mes- sage:</u>		
Favorable or applaud the President....	94	33
Unfavorable or disappointed.....	31	16
<u>General Attitude Towards War Debt Question:</u>		
Debt pacts should be reconsidered or revised.....	257	40
Opposed to revision.....	39	25
Non-Committal.....	21	14

Attitude

Number of Number of
Editorials States

Attitude Toward British Note:

Unfavorable to Great Britain.....	21	13
Favorable or somewhat sympathetic....	<u>15</u>	12
Total.....	712	

Editorial reaction to British surplus.

With the announcement that Great Britain had not only balanced her budget but had a surplus of 31,000,000 pounds, a number of American editors urged that the British pay the June 15 debt installment. The Albany (N.Y.) TIMES-UNION and the San Antonio (Texas) LIGHT took their hats off to the Right Honorable Josiah Wedgwood, who told his colleagues in the House of Commons that Britain should pay her debts in order that she might "look America in the face". The Fargo (N.D.) FORUM said that the American people would have been more pleased if Mr. Chamberlain had indicated that thought was being given to Britain's indebtedness to the United States, especially in view of his report that Britain now leads the world in export trade. The Salt Lake City (Utah) TELEGRAM says "Now, with 31,000,000 pounds as a surplus, with 129,000,000 pounds in gold and with 11,000,000 on hand for armaments, may we not be pardoned for wondering just how much John Bull will want to have on hand before he remits something on account to Uncle Sam."

The distribution of the editorials is as follows:-

Arkansas	1	New Jersey	2
California	2	New York	3
Colorado	1	North Dakota	1
Massachusetts	1	Tennessee	1
Minnesota	1	Texas	2
Montana	2	Utah	1
New Hampshire	1	Washington	<u>1</u>

Total 20

REACTION TO THE JOHNSON BILL

Favorable.

Of the editorials which favored the Johnson Bill, most were rather lukewarm in their praise. The Washington STAR referred to the application of the Bill to Russia and said that it would strike most Americans as only right and reasonable that until some sort of agreement had been reached, no further American capital should be made available to Russia. The Fresno (Cal.) BEE is laudatory and says "Thanks to the efforts of Senator Johnson no matter how gullible we may prove to be in swallowing European propaganda these welching debtors are going to find their raiding parties on the American Treasury encountering the stone wall of the law." The Pittsburgh (Pa.) POST-GAZETTE observes that it is time to apply to the debtor nations the spur contained in the Johnson measure. "The Johnson Law prohibiting American loans to defaulters should add much to the probability that debt payments will be made June 15, or 'tokens' as big as we elect to accept in exchange for the name of 'defaulter'." "The Johnson Bill," according to the Pueblo (Col.) CHIEFTAIN, "points out that Congress has awakened at last and refuses to let American citizens be preyed upon in the future by foreign nations in collusion with big bankers." Hearst, in his syndicated editorials which appeared in all of the Hearst newspapers, says "Congress a few weeks ago laid down a perfectly reasonable proposition. Passing the Johnson Act, Congress declared that any dishonest nation may default if it wants to, but defaulters cannot borrow any more American money."

The Johnson Bill was upheld by editorials as follow:

California	1	Massachusetts	2
Colorado	1	Michigan	2
Connecticut	1	Minnesota	1
District of Columbia	1	New York	5
Illinois	1	Ohio	3
Iowa	1	Pennsylvania	5
Kansas	1	South Carolina	2
		TOTAL	27

Unfavorable.

While 27 editorials favored the Johnson Bill, 155 in forty different States violently opposed it. The Minneapolis (Minnesota) JOURNAL says that, while the Johnson Bill may have "hidden merit", it is deplorable as salesmanship. As a salesman, Uncle Sam is kicking in the shins a prospect that had promised to be one of his best customers. The Washington (D.C.) POST says that the Johnson Bill created an awkward dilemma and conflicted and interfered with policies which the Administration thought it expedient to follow. The Baltimore (Md.) SUN says that a veto of the Johnson Act, accompanied by a concise statement of what every intelligent man knows about the conditions governing payment of international obligations, would have spared Mr. Cummings and the State Department much dreary
and

in the Far East will be made in Tokyo, not Moscow. It is my belief that only a violation of Soviet territory will drive the Soviet Union to war. I must confine myself, therefore, to reporting the apprehensions of Moscow.

(1) The leaders of the Soviet Government, without exception, believe that Japan eventually will attack the Soviet Union. They believe, moreover, that Japan's objective will be permanent occupation not only of the Maritime Provinces but also of all Soviet territory east of Lake Baikal and the Lena River.

Certain publicists, including Radek and Bukharin, and some minor officials in close touch with the Comintern, are less pessimistic than the Soviet officers and diplomatists. They cling to a tenuous faith in the growth of the communist movement in Japan. Both Radek and Bukharin have told me that, in addition to communist workers, at least one-half the professors in the Japanese universities and schools are now secret members of the communist party. I cannot, of course, estimate the value of these statements. They were, however, made to me in the course of intimate conversations with every appearance of frankness. Radek and Bukharin believe that if war can be delayed for a few years a social upheaval in Japan may not be out of the question. They pretend to believe that the ultimate solution of the Soviet-Japanese conflict will be a communist Japan and a communist Russia marching hand to hand to communize China.

(2) Although

and distasteful labor. "Russia's resentment over the Johnson Act is not surprising. The Soviets can hardly be expected to reconcile this measure with the friendly words and kindly gestures that attended the Litvinoff mission last November..... Japan will be the more provocative because she feels that Russia and America are alienated", according to the Richmond (Va.) NEWS-LEADER. "American trade with Russia is crippled because of our wholly indefensible attitude toward Russia's debt to us", says the New York POST. Speaking in general terms, the Saint Paul (Minn.) DISPATCH says that the Johnson Act is an unwise restraint on restoration of international trade. "Not only does the Johnson Act put a damper on the prospects of reviving our sunken foreign trade", according to the Charlotte (N.C.) NEWS, "but it exudes a puzzling inconsistency. The Minneapolis (Minn.) TRIBUNE says that the Johnson Bill and the Attorney General's opinion do not improve diplomatic relations and only foster retaliation. "There is little to be accomplished under the Act that could not have been obtained by other means", according to Colorado Springs GAZETTE, "and the mere fact of the enactment arouses resentment." The Syracuse (N.Y.) POST-STANDARD says: "The Johnson Bill reaches a new peak in unadulterated dumbness." The Youngstown (Ohio) VINDICATOR says: "Instead of making another token payment on June 15, it is now likely that the British will default and thereby reopen the whole subject for discussion. Perhaps this is what Hiram Johnson wanted although his past record makes one believe, with Sir John Simon, that he is merely irresponsible." The Washington (D.C.) POST says that the Johnson Act was equivalent to inviting a default and brought the debt controversy to a head in a way that creates a great deal of ill feeling and produces no funds. The Dallas (Texas) NEWS says that from the beginning it has held that the Johnson Act was foolish and unworthy of the American Congress. The Washington (D.C.) POST, observing that the British default will be gratefully followed by our other debtors, Finland alone excluded, said that Senator Johnson "may take pleasure in considering that the maladroit, bungling way in which the problem has been settled is all of a piece with the ineffable stupidity with which it has been handled by Congress throughout." "The war debt issue could have been settled amiably", according to the Syracuse (N.Y.) POST-STANDARD, "Now the prospect is that it will be a thorn in the side of international comity for years to come." The passage of the Johnson Act, according to the Charleston (S.C.) POST, has caused the Russians to resume heavy buying in Germany. "It certainly will not help the war debt situation if we force nations that still recognize their obligations into a position of default with those that have already repudiated them", says the Manchester (N. Y.) UNION.

Unfavorable reaction was voiced by 155 editorials in forty states, as follows:

Alabama	2	Colorado	1	1
Arizona	3	Connecticut		5
Arkansas	1	District of Columbia		7
California	8	Florida		3
		Georgia		

Georgia	1	New Hampshire	1
Idaho	1	New Jersey	2
Illinois	2	New Mexico	1
Indiana	7	New York	27
Iowa	1	North Carolina	2
Kansas	3	Ohio	5
Kentucky	3	Oregon	2
Louisiana	1	Pennsylvania	7
Maryland	4	Rhode Island	2
Massachusetts	9	South Carolina	4
Michigan	2	Texas	6
Minnesota	4	Vermont	1
Mississippi	2	Virginia	5
Missouri	5	Washington	2
Montana	5	West Virginia	3
Nebraska	2	Wisconsin	3
		Total	155

Non-committal attitudes towards the Johnson Act.

Twenty-seven editorials as listed below, referred to the Johnson Act in general terms but were non-committal as regards their opinion of it.

Alabama	1	Montana	1
California	1	New Jersey	1
Florida	1	New York	1
Illinois	1	Ohio	2
Indiana	3	Pennsylvania	3
Iowa	1	South Carolina	2
Louisiana	1	Texas	3
Massachusetts	1	Washington	1
Michigan	2	Wisconsin	1
		Total	27

Reaction to the Attorney General's opinion regarding the Johnson Act.

Five newspapers voiced the opinion of the Galveston (Texas) TRIBUNE, which is as follows: "The chief regret is that the ruling destroys all that the Administration has done to open up the vast Russian markets to the United States."

Texas	1
Ohio	1
Wisconsin	1
Arizona	1
California	1

EDITORIAL OPINION OF THE PRESIDENT'S WAR DEBT MESSAGE.

Favorable.

"President Roosevelt has followed the only course open to him politically in discussing the question of war debts. He has reiterated his earlier stand, that debtors who are in difficulties would be listened to with sympathy by our Government."---New York HERALD-TRIBUNE. The Houston (Texas) POST says that the whole troubled war debt problem is brought out in the opinion with characteristic Rooseveltian determination. The position of the United States is clear. The next move is up to the debtors. "President Roosevelt is wise to indicate in diplomatic manner his understanding of the situation and its cause. It is obvious that collection is impossible while our former Allies act in agreed accord the role of deliberate default."---Rockford (Ill.) REGISTER-REPUBLIC. The Phoenix (Ariz.) GAZETTE says that Mr. Roosevelt is to be commended on his stand and has the backing of the American people as a whole in maintaining his position. The Charleston (W. Va.) GAZETTE and many other newspapers defend the President against the attacks of a British newspaper which termed the President's message as a "Highwayman act". "President Roosevelt's message to Congress", said the Scranton (Pa.) REPUBLICAN, "on the foreign debts due the United States was the best expression that has yet been uttered on the question; as it was a most sensible and patriotic reflection of American insistence on the justice of our claims as creditor at the same time that we are willing to meet European honesty of intention with appropriate generosity." "In brief, the President let it be known that this country did not view favorably the diversion to armament of tax funds by foreign governments owing the United States large borrowed sums."---New Rochelle (N.Y.) STANDARD STAR. "President Roosevelt's statement of the American position on the war debts could not have been fairer to the debtor nations or more in keeping with the national interests of this country."---Columbia (Ohio) DISPATCH. "The President used no saccharine words in dealing with the war debt issue. His anxiously awaited message to Congress made positive and lucid the rigid attitude which the American Government proposes to take, and the President spoke the sentiment of a preponderant section of the American people."---Charlotte (N.C.) OBSERVER. "A document of strength, of sincerity, of logic that cannot be denied!"---Wichita, (Kansas) BEACON.

94 editorials from 33 States, as shown in the following list, are outspoken in their praise of the President's message on war debts:

Alabama	1	Illinois	5
Arizona	1	Indiana	1
Arkansas	1	Kansas	3
Colorado	1	Kentucky	1
Connecticut	5	Louisiana	1
District of Columbia	1	Maine	1
Georgia	2	Massachusetts	1
		Michigan	

Michigan	4	Oklahoma	2
Minnesota	5	Pennsylvania	8
Missouri	2	Rhode Island	3
Montana	1	South Carolina	4
Nebraska	1	Tennessee	2
New Hampshire	1	Texas	7
New Jersey	5	Utah	1
New York	6	Virginia	1
North Carolina	5	West Virginia	5
Ohio	6	Total	<u>94</u>

Unfavorable.

"It would appear to be elemental that an immediate and genuine mutual effort should be made to rewrite the debt pacts "----Providence (R.I.) JOURNAL. The Washington (D.C.) POST, in commenting on this question, says that the "seeming inability of the President to make any constructive advance towards settlement is an uncomfortable reflection on his ability to disregard politics in facing a relatively simple economic problem." "The President's message on war debts is disappointing. It does not put us substantially 'forrader' in dealing with this grave problem."----Waterbury (Conn.) REPUBLICAN.

Only thirty-one editorials from sixteen States voice any opposition to or disappointment in the President's message on war debts, and the expressions of disappointment in practically all cases were so weak that they might well have been classified as non-committal. The distribution of the unfavorable editorials is shown below.

Alabama	1	Michigan	1
California	1	New Jersey	3
Connecticut	1	New York	6
Delaware	1	Ohio	1
District of Columbia	1	Pennsylvania	3
Florida	1	Rhode Island	3
Illinois	1	Washington	1
Massachusetts	5	West Virginia	1
		Total	<u>31</u>

GENERAL ATTITUDE TOWARD THE WAR DEBTS QUESTION.

Debt pacts should be reconsidered or revised.

"If President Roosevelt could get even a promise of 11,000,000,000 dollars over the course of the next fifty years he would be making a superb bargain."---Holyoke (Mass.) TRANSCRIPT.

"There is only one way out and that is to empower the President to deal with the problem and work out the readjustments that are imperative if our foreign trade is not to dry up."---Asheville (N.C.) CITIZEN.

"At the present moment we stand to lose everything. If we can redeem fifty percent from our hard-hit neighbors it would be an admirable solution to a dangerous deadlock."---Richmond (Va.) TIMES-DISPATCH.

"It would seem that a compromise could be reached by which claims could be paid on a reasonable basis."---Miami (Fla.) HERALD.

"This may be the year that Americans will screw up their courage and face the facts about war debts."---Canton (Ohio) REPOSITORY.

"Failure to reach an early settlement may cause a change in Soviet plans calling for large purchases in this country."---New York JOURNAL OF COMMERCE.

"It is still possible that the Gordian note of war debts may be cut by renewed negotiations."---Boston (Mass.) GLOBE.

"President Roosevelt has again made it plain that the door is open for any nation that wishes to approach this country for discussion of the debt problem."---Saginaw (Mich.) NEWS.

"Some observers are of the opinion that the President now regrets his acceptance of the Johnson Act "---New York JOURNAL OF COMMERCE.

"That the debts will ever be paid in full no one believes..... That the Johnson Act is not the last work on the war debts may be taken for granted."---Philadelphia, (Pa.) ENQUIRER.

"Though the public is strongly opposed to a complete surrender to the debtor nations, particularly those who have blandly defaulted, there is every reason to believe it would welcome an arrangement whereby the debt principal could be salvaged,.... The pyramiding interest charges can well be charged off to experience."---Nashville (Tenn.) TENNESSEAN.

"It is certain that the terms of the existing funding agreements are not going to be carried out..... It would seem better to undertake a candid re-examination of the whole question of inter-Allied debts."---Galveston (Texas) NEWS.

"As long as so much uncertainty exists as to the terms of final settlement, the present depression will drag along until in desperation the nations will get together and make a final compromise."—Dallas (Texas) NEWS.

"The question of war debts is complex..... It calls for most careful negotiations and diplomatic handling Let us proceed with as little demonstration of ill feeling as possible."—Troy (N.Y.) TIMES.

"Unless this country makes some concessions in admitting goods in payment of debts, there is almost no likelihood of collecting anything."—Flint (Mich.) JOURNAL.

"If Mr. Roosevelt can wrest from the august Senate a latitude which will enable him to carry on pointed and direct negotiations with the representatives of debtor nations, the tangle may assume a different complex."—Greensboro (N.C.) NEWS.

"If President Roosevelt comes by a settlement of the war debts, it will be a glorious tribute to his statesmanship and to his wisdom..... If Mr. Roosevelt even can eliminate this diplomatic cul de sac, he will have accomplished a triumph for better international relations."—Terre Haute (Ind.) TRIBUNE.

"A common sense settlement of the whole problem on the basis of conditions as they are today and with a proper regard for the viewpoints of all concerned would not only remove a source of irritation but would help toward world recovery."—Rochester (N.Y.) DEMOCRAT and CHRONICLE.

The distribution of the editorials favoring reconsideration or revision of the debt pacts is shown below.

Alabama	3	Montana	4
Arkansas	2	Nebraska	2
California	8	New Hampshire	2
Colorado	1	New Jersey	16
Connecticut	7	New York	38
District of Columbia	5	North Carolina	13
Florida	4	North Dakota	3
Georgia	3	Ohio	12
Illinois	4	Oklahoma	1
Indiana	5	Oregon	2
Iowa	4	Pennsylvania	6
Kansas	5	Rhode Island	9
Kentucky	3	South Carolina	4
Louisiana	2	Tennessee	8
Maine	4	Texas	13
Maryland	2	Virginia	9
Massachusetts	19	Washington	5
Michigan	11	West Virginia	1
Minnesota	8	Wisconsin	1
Mississippi	1	Wyoming	2
Missouri	5	Total	257

Opposed to revision or reconsideration of the debt pacts.

"As long as we continue to look like a perennial easy mark, we will get no satisfactory debt settlement with Europe."--Walla Walla (Wash.) BULLETIN.

"Under international procedure, governments are held responsible for the obligations of their predecessors The Soviets can make a debt settlement or they get no credit."--Manchester (N.H.) UNION.

"What Europe owes us is the full amount, interest and principal..... What Europe can or will pay may be a different matter."--San Francisco (Cal.) CHRONICLE.

"The United States should tread carefully before granting any extended credit in the way of loans to Russia for any purpose whatsoever."--Troy (N.Y.) TIMES.

"The question can be settled but it must be on our terms."--Newark (N.J.) STAR-EAGLE.

"The debts were incurred honestly and honorably, and the American people expect the money to be restored in the same fashion."--Huntington (W.Va.) ADVERTISER.

The distribution of the editorials opposed to the revision of the debt pacts is shown below.

Arizona	1	Michigan	1
Arkansas	1	Mississippi	1
California	6	Nebraska	1
Colorado	1	New Hampshire	1
Connecticut	1	New Jersey	3
District of Columbia	2	New York	3
Georgia	1	Ohio	1
Illinois	1	Oregon	1
Indiana	1	South Carolina	1
Louisiana	1	Utah	1
Maine	1	Virginia	1
Maryland	1	Washington	1
Massachusetts	4	Wisconsin	1
		Total	39

Non-committal.

Of the 712 editorials examined, only twenty-one are non-committal toward all phases of the war debt problem. Generally speaking, they merely observe that "it now appears that the debtor nations will not pay anything on their indebtedness to the United States". The distribution of these twenty-one editorials is shown below.

Arkansas	1	North Carolina	2
Illinois	1	Ohio	1
Kansas	2	Rhode Island	2
Massachusetts	2	Texas	1
Missouri	2	Virginia	3
Montana	1	Washington	1
Nebraska	1	Wisconsin	1
		Total	21

GENERAL ATTITUDE TOWARD THE BRITISH WAR DEBT NOTE

Unfavorable to Great Britain.

Twenty-one editorials from widely separated parts of the country were unfavorably disposed toward the British war debt note. Some say that the move was started over a year ago in concert with France and the other nations of Europe. A few editors see in Britain's action a "debacle of British honor". Others see in the British action a cold deliberate attempt to place the cost of the war upon the American taxpayer. The BEACON-JOURNAL of Akron, Ohio, calls the British action "thinly masked repudiation."

Favorable to Great Britain.

On the other hand, fifteen editorials are either openly sympathetic toward the British arguments or place the blame for the British action directly on the doorstep of Senator Johnson. In the latter case the American editors say that the Johnson Bill made it impossible for Great Britain to escape the stigma of default unless the total amount due was paid in full. This, they say, Great Britain was not able to do.

Prepared by:

Walter A. Foote

Approved:

M. J. McDermott,
Chief,
Division of Current Information.

*Passes
in Transit file
in effect*

Pst: War Debt

THE UNDER SECRETARY OF STATE
WASHINGTON

August 30, 1934.



Dear Mr. President:

In accordance with your request, I am sending you enclosed a brief memorandum containing a number of "war debt solutions" which have been lying in the files of this Department. There are, of course, many other solutions which have been suggested, but the ones enumerated in the enclosed memorandum seem to us the more worthy of consideration.

If you would like us to explore any of them further, please do not hesitate to let me know.

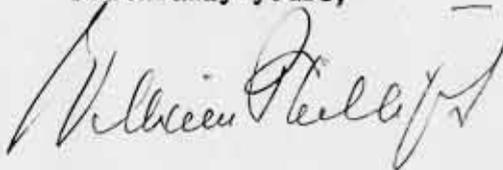
In this connection, it occurs to me that you might be interested to have before you

The President

The White House.

you a report of a conversation between
Ambassador Bullitt and M. Georges Bonnet,
which Bullitt sends us under date of July
14th.

Faithfully yours,

A handwritten signature in cursive script, appearing to read "William Bullitt". The signature is written in dark ink and is positioned below the typed text "Faithfully yours,".

(2) Although there is little or no divergence of opinion as to the eventual certainty of war, there is considerable divergence of opinion as to the date of Japan's attack. Voroshilov and the Army consider the menace imminent and regard the double-tracking of the Trans-Siberian Railroad as the most urgent task of the Soviet Union.

Litvinov, with whom I have discussed the question many times, believes that Japan will not attack this spring or summer. He hopes to negotiate a peaceful settlement of the Chinese Eastern Railway question. Since he has said to me that the sale of the railroad to Manchukuo would constitute de facto recognition of the government of that territory, I should not be surprised if, in order to keep Japan quiet, he should accord full recognition to Manchukuo.

Sokolnikov, who is now in charge of Far Eastern affairs in the Soviet Foreign Office, and Karakhan, the leading Soviet expert on that area, agree that Japan will not attack this spring or summer. They believe that Japan will employ the next six months to extend her influence in North China and Mongolia and to consolidate her position in Manchuria.

(3) Preparations for war in the Far East are being pushed with all possible speed. Work on the double-tracking of the Trans-Siberian Railroad has progressed all winter in spite of physical difficulties. Submarines are now being produced in the Soviet Union in such quantities that Voroshilov has assured me that he is now completely

DEPARTMENT OF STATE

OFFICE OF THE ECONOMIC ADVISER

August 23, 1934.

WAR DEBT SOLUTIONS

Proposals for solving the war debt problem generally present, singly or in combination, the following bases:

- (1) Rearrangement of annuities and reduction or elimination of interest.
- (2) Lump sum settlement.
- (3) Deliveries in kind.
- (4) Interposition of financial machinery to facilitate payment through commercial credits.

I

Rearrangement of Annuities

The present debt settlements are in the form of annuities, generally 62 in number, providing for the repayment with interest of a principal amount established at the date of the agreement (generally between 1923 and 1926). The principal so established included amounts representing unpaid interest from the date the debt was originally incurred. Retroactive application of all payments to principal account would permit the establish-

ment

ment of a new principal amount now owed which, if permitted to be paid without interest by a series of annuities, would greatly decrease the outstanding debt obligation and, in most cases, the amount of the current scheduled annuities. In the case of some countries with ascending annuities (France and Italy) rearrangements on this basis into uniform annuities would not greatly reduce the present scale of payments for the next few years.

II

Lump Sum Payment

A natural way of disposing of a long series of annuities is to settle the obligation by a lump sum payment approximating the present value of the annuities at some agreed on rate of interest, but with some concession by the creditor in view of the advantage of cash over the hazards of future annuities. In view of the size of the necessary lump sum payments and the impossibility of transferring them without upsetting the foreign exchange market, such a settlement would normally depend largely on the public sale of securities of the debtor for dollars in the United States. The absorptive capacity of the American investment market for the securities of the debtor government would

would be a limiting factor.

III

Deliveries in Kind

Inasmuch as war debt payments have been alleged to involve transfer difficulty rather than budgetary impossibility, many suggestions have been made that the right be given the United States Government to draw upon the debtors for payments in kind. In so far as such suggestions would merely mean that transactions that will take place anyway should be paid for by special arrangement between governments rather than through the normal operation of the exchange markets, they would leave the transfer question unchanged. However, suggestions have been made for transactions out of the ordinary, such as the provision by the debtors of raw materials to be held in stock in the United States against war or other emergencies, and plans for stimulating additional tourist travel of Americans in debtor countries with special arrangements of a clearing nature to assure that these additional payments were made available in dollars to the United States Treasury.

IV

Interposition of Special Credit Machinery

Many suggestions have been made that the debtors
pay

pay in their own currency into a fund in the Bank for International Settlements for temporary investment or manipulation by the Bank and eventual transfer to the United States in dollars. It is assumed that the funds could thus be used to great advantage in improving world economic conditions and that this in turn would facilitate the gradual transfer to the United States.

Combinations

Most schemes advanced combine two or more of the above bases, apparently because proposals dealing with payments in kind or banking manipulations seem difficult to advance as a definite solution assuring payment by Europe of a series of 50 annuities averaging about \$400,000,000 dollars each. Many of the best-sponsored suggestions are those, generally vague, which would provide for the establishment of an international financial fund in the Bank for International Settlements to be manipulated by the Bank as trustee with ultimate transfer to the United States.

One or two relatively recent suggestions may be mentioned:

Shephard Morgan Proposal

Mr. Morgan proposes that we accept from our great debtors (this would probably be Great Britain, France,

Italy

Italy and Belgium) marketable bonds representing 10 percent of our total claim against them, that all our debtors should be required to pay into the Bank for International Settlements sums up to the amount of two years scheduled payments, that these deposits be re-lent to the debtor governments by investment in their short-dated negotiable treasury bills, and that the United States be authorized to draw on the deposit of a given country only when for three successive months (or in total for one calendar year) the balance of merchandise trade between that country and the United States become's adverse to the United States. When such withdrawals have taken place the debtor country shall restore the deposit to the original level. Based on 1933 trade figures, this would mean that we could continue to collect from eight small countries representing generally our relief debtors (Austria, Czechoslovakia, Greece, Hungary, Finland, Latvia, Lithuania, Yugoslavia) while the principal allied powers, debtors in respect of pre-Armistice obligations, would pay 10 percent of their present indebtedness and accept a contingent obligation to resume payments to the United States during periods when their normal balance of trade with the United States may be reversed, as by war purchases by the United States.

This

This suggestion is probably relatively close to British ideas. A fuller statement is attached.

International Currency Proposals

In addition to suggestions that debt payments be used to establish an international fund in the Bank for International Settlements to be used to facilitate trade by investment in commercial credits or to be used as a currency stabilization fund, suggestions have been received that the Bank for International Settlements invest such a fund in gold, silver, eligible commercial paper and secured obligations purchased in the open market (or, according to one proposal, in gold, silver, copper, platinum, tungsten, manganese and tin) and shall issue its own currency notes secured on these investments. If such notes could be made legal tender at least for the payment of debts expressed to be payable therein, the notes might circulate as an international currency. Provision would have to be made as to the metals and national currencies in which the international notes would be redeemable. Presumably they would not be made redeemable until several years after the initiation of the scheme.

Flint

Shepard Morgan Debt Suggestion.

Abbreviated from letter of July 25, 1934.

.....

My principal purpose is to discover a method of dealing with the war debts that shall at once recognize economic realities and preserve as far as possible the interests of the United States as creditor. I do not propose cancellation or even the reduction of the obligations owing to us. I do propose that the conditions under which payments on the debts are made shall parallel in an economic sense the conditions under which the debts were contracted.

There are of course only three means of payment, - shipment of gold, delivery of goods and services, and obtaining offsetting credits.

.....
..... Counting out payment in gold because of its insufficiency, and payment from the proceeds of new credits because of their temporary quality, we are left with only one feasible means, payment in goods and services. But this means in turn is subject to severe limitations, which can

be defined most readily by observing the economic conditions under which the debt was incurred. Our trade was immensely in our favor; that is to say, our exports of goods were vastly larger than our imports. That this vast flood of goods could be received without ruining the industry and commerce of the borrowing countries was due to the fact, of course, that they required more goods than they themselves were able to supply. The repayment of the debts can be managed satisfactorily only under similar conditions, that is, when we require many more goods than we ourselves are able to supply.

Such conditions cannot be created artificially. No one would seriously propose that we deliberately check production in order to make a market here sufficiently large to absorb year in and year out foreign goods to the value of our exports plus interest and amortization payments on the debt. Yet in substance that is precisely what those persons demand without realizing it who insist that full payments shall be made punctually according to a pre-arranged schedule. This does not mean, however, that payments are impossible or that the debts must be cancelled. It means, rather, that payments must be so arranged as not to check our production or flood our markets.

For conditions favorable to receipt do and can arise. In the first place, notwithstanding the efforts made to prevent it, war is still an eventuality of which we must take account. Should we become engaged with any first-class power, we would require goods and munitions much in excess of our own immediate capacity to supply them. We ought then to be able to draw upon the resources of our debtors in just the same way as the Allies drew upon ours. To permit the abandonment of the debts because of past difficulties with collection overlooks the advantage they would have for us in any such ultimate contingency.

But it is not solely to serve as a war chest that the debts should be preserved, nor does war provide the only condition under which we can receive payment without impairing our own commerce. At this moment the Central West is suffering from a drought which promises a major disaster to growing crops. Due to the surpluses carried over from previous years, the country will still be able to feed itself from domestic sources until another season. But should the drought reappear next year and a second short crop result, we would doubtless then have to look to abroad for some part at least of our foodstuffs. In such case the condi-

tions

tions would be satisfied under which we could receive payment on the debts.

Finally, it is noteworthy that trade relations as they actually stand between the United States and many of our debtors would permit payments to be made without embarrassing our own production or commerce. In the calendar year 1933 eight out of sixteen debtor countries exported more goods to us than we exported to them. It is more than a coincidence that the only country that has continued to meet its obligations was one of the eight. Though the latter comprise on the whole our smallest debtors, yet their trade balance illustrates the condition under which payments may proceed without hardship to us.

It appears from the foregoing that there are at least three sets of conditions which favor the transfer of war debt payments to the United States. Two are contingent, -- war and wide-spread calamity. The third is actual, as shown by the balance of merchandise trade with eight of our debtors. It remains to outline the method by which both the contingent and the actual may be comprehended in a consistent programme, flexible enough to adapt itself to changes and yet rigid enough to preserve the maximum benefits to the United States.

The programme resolves into five sections, as follows:

1. The debtor countries to pay in their respective currencies the amounts called for in the debt schedules to an institution selected for the purpose by the United States. (The Bank for International Settlements at Basle is unquestionably the institution best suited for this purpose. The B. I. S. was created by international treaty, is amply safeguarded against the hazards of war, and its use is far preferable from our standpoint to the use of the central banks of the several debtor countries. It is under American management and its statutes permit the Federal Reserve Bank of New York upon its own choice to be represented on its board of directors.)
2. War debt payments to continue according to schedule until they reach a certain prescribed minimum, - for example, the equivalent of the installments due in any current and next succeeding year; this minimum to be maintained by further payments if due

or

or past due, replacing funds withdrawn under Paragraphs 4 and 5.

3. The B. I. S. to be authorized to invest any part of the deposit so created in short-dated negotiable Treasury bills of the country concerned, bearing a nominal interest rate and susceptible of being discounted at that rate by the central bank of the country concerned. (The purpose of this provision is to avoid sterilizing funds in case the United States is unable to make use of them for any extended period within the terms of the succeeding paragraphs; and yet to have them immediately available in case of need.)

4. Withdrawals to be made by the United States in the currency of a debtor country only when for three successive months (or in total for one calendar year) the balance of merchandise trade between that country and the United States becomes adverse to the United States.

5. The United States to have the right in these circumstances either to sell drafts on the B. I. S. to its own nationals or to draw upon its deposit for purchases of goods made for its own account, up to the amount of the adverse balance. These drafts to be payable only in the currency of the country concerned; but if drafts are sold, their countervalue to be paid to the United States Treasury in dollars.

So much for the bare outline of the programme. I should make it clear that under normal conditions of foreign trade, or under such conditions as can now be foreseen, the practical result of the programme is to suspend the receipt of dollar payments by the United States from our largest debtors, including Great Britain, France and Germany. Accordingly, the receipt of dollar payments from those debtors who as a general rule have with us a heavily adverse balance of merchandise trade, would depend upon the intervention of extraordinary conditions of the sort I have already referred to. For that reason I would propose that with our great debtors we supplement the programme by accepting from them bonds to be offered in our own market representing, say, ten percent of the then existing total of our claims against them, leaving the remainder to fall within the terms of the general programme. Such an arrangement is fair and practicable. It is fair because it represents

completely satisfied with his Far Eastern flotilla. The statement has been made to me by two Soviet officials that these submarines are shipped in completed form to the Far East, stretched over three large flat cars. I have been unable to check the truth of this statement.

(4) Everyone in Moscow believes that time is running in favor of the Soviet Union, and that within a year and a half the Soviet Union will be impregnable. The Soviet Foreign Office is, therefore, making every effort to postpone the conflict with Japan and to make certain that the Soviet Union will not be attacked by other nations if engaged in war with Japan.

The signing of the non-aggression pacts with the Baltic States was designed not only to reinsure those frontiers but also to compel Poland to enter into a similar extension of her pact with the Soviet Union. Litvinov was triumphant when he told me that Poland would sign the next day and furious when Poland did not sign.

The Polish Ambassador, who conducted the negotiations with Litvinov, told me that Poland's last minute refusal to sign was due to the Soviet Union's unexpected reaffirmation of its position with regard to Vilna. He added that Poland would sign as soon as the Soviet Union would declare an absolute disinterestedness in the frontiers of Poland.

I have investigated with the utmost care the story that Poland and Germany, planning to divide White Russia and the Ukraine between them, had agreed to a joint attack

on

a means of obtaining dollars from the major debtors, just as the programme itself affords a means of obtaining dollars from most of the minor debts. It is practicable because these same major debtors -- certainly Great Britain and France, possibly Belgium - have a credit standing, political eventualities aside, which should make their bonds marketable in this country on a reasonable basis. These are also the countries that have sufficiently varied trade and credit relations to maintain the annual payments of interest and amortization on the bonds, even though their trade with us remains heavily adverse to them.

For the sake of illustration let me apply the foregoing to the specific case of the British debt. The figures I use are of course subject to correction, but they are sufficiently close to serve the present purpose. On January 4 last, according to a newspaper reprint of a Treasury statement, the total British debt amounted to \$4,636,157,358. Negotiable bonds, ten percent of that sum, would amount to \$460,000,000 in round figures, leaving a remainder of about \$4,176,000,000 to fall under the provisions of the general programme. According to the original debt funding agreements the British were due to pay in 1934 to the United States \$182,780,000, and next year \$181,660,000, making a total for the two years of \$364,440,000. They should properly be credited with ten percent of those payments by reason of the delivery of bonds, thereby reducing the amount required to be placed on deposit at the Bank for International Settlements by the end of 1935 to the sterling equivalent of \$328,000,000. There is now past due on account of the British debt the sum of \$261,791,000, which, again reduced by ten percent, would call for a present deposit at the B. I. S. of about \$235,600,000. This would be brought up to the minimum of \$328,000,000 by the debt installments due next December. The B. I. S. would be authorized to invest the funds as received in short-term British Treasury bills, with the understanding that the Bank of England would discount them at the coupon rate on demand. In the event that the merchandise trade between Great Britain and the United States should become unfavorable to us, then the Treasury would have the right to sell sterling bills on the B. I. S. to the extent of the British favorable balance, or could make purchases in England for its own account. The B. I. S. would then proceed to discount sufficient British Treasury bills to

put

put it in funds to meet the bills drawn on it; and the British Government would for its part bring up the deposit again to the minimum figure.

In summary, the results of these several operations would be the following:

1. The United States would immediately have available for marketing in this country (a right it now technically possesses but has not seen fit to use) \$460,000,000, nominal amount, of British Government bonds.
2. Great Britain would be subject to an annual interest charge on the bonds (if the rate is maintained at 3 1/2 percent) of \$16,100,000, diminishing as the bonds are retired; plus sinking fund installments, the amount of which would depend upon the term fixed for the bonds. In addition it would be subject to a nominal interest charge on the Treasury bills sold to the B. I. S.
3. The United States would have funds available at the B. I. S. sufficient to buy, even in a national emergency, all goods the Government or its importers are likely to require from Great Britain over and above the amount of our exports to Great Britain.
4. Trade and credit relations between the two countries would not be impaired. On the contrary, if in coming years merchandise trade comes more nearly into balance, the tendency would be toward stimulating trade both ways, - the British buying more goods from us to escape paying down on the debt, the Americans buying more from the British in order to obtain payment.

There is no need to make similar detailed analyses of how the programme would be applied to each of the sixteen dollars, except perhaps to test it in the case of a country which sells more goods to us than we buy from it. Such a country is Czechoslovakia. In 1933 we imported goods from Czechoslovakia to the amount of \$14,646,000, whereas our exports amounted to only \$1,569,000. This disproportion may be artificially large, because some part at least of the American cotton used in Czechoslovakia may get into the trade statistics as exports to Germany. But Czechoslovakia

will

will serve as an illustration nevertheless.

Quite aside from the question of whether Czechoslovak bonds could be sold in the present market, there is no special object to be gained in attempting a commercialization of any part of the Czechoslovak debt. Collection would be amply taken care of through the machinery of the general programme. For instance: According to the original debt funding agreement Czechoslovakia was due to pay the United States in 1934-1935 the sum of \$6,000,000. This would be the amount of the minimum deposit in the B. I. S. denominated in Czech crowns, to be realized by the end of 1935. According to the Treasury statement to which I referred above the amount already due and unpaid on January 4, 1934, was \$2,852,000. By the end of the current year, with the payment of further installments, the minimum deposit would be substantially attained. The United States would thus be able to sell to its nationals drafts on the B. I. S. to the extent of the unfavorable trade balance; and if the latter corresponds with that of 1933, the deposit would be exhausted. The Czechoslovak government would then be obligated to replenish the fund as and when further installments fell due. The pressure thus exerted on the Czechoslovak treasury would, I should expect, be promptly converted into a demand for the removal of trade barriers against the United States. For the greater the imports from us the smaller the need to pay.

Thus far I have spoken only of countries with which we have already made funding agreements. I understand from the newspapers that discussions looking toward a funding agreement are already under way with Russia. I venture to suggest that a programme of the sort I have outlined offers possibilities for an agreement. From the Russian standpoint it would be attractive if for no other reason because the contract could be carried out. The Russians, perhaps perforce, are more sensitive about their credit standing than most of the capitalistic nations are at the moment, knowing that their plans depend for their fulfillment upon foreign goods. Consequently, if the present regime makes an agreement it is punctilious about carrying it through. From our own standpoint I think it would be useful, not alone because any agreement would help to revive our merchandise exports to Russia, but because the Russian exportable surplus, particularly of food products, may be useful to us another year. I have already referred to the drought and its

effects

effects upon our own food supply. It would be the part of prudence to prepare a source from which it could be replenished to the advantage of our own trade and the Treasury.

Now let me summarize, by way of conclusion, what I have said. There is no escaping the fact that if any real headway is to be made with the war debts we must accept payment for the most part in goods. The problem then becomes one of governing the receipt of goods in such a way that our own production and trade shall not be damaged. The plan I am suggesting takes account of trade as it exists and as it may develop under whatever circumstances, and governs the receipt of payments accordingly. Trade and production are not hampered; they are stimulated, for the incentive is created in foreign countries to lower barriers against our goods, and for our part a practical reason is provided for effecting amicable trade agreements. In this way, the desire to escape payment and the desire to collect work in the same direction, toward the lowering of trade barriers.

I realize that even in this long letter I have failed to cover many points of importance which will at once occur to anyone who examines the outline I am submitting. I had intended, for example, to suggest that the United States should retain the right to use unpaid remainders of the debts, including dormant balances in the B. I. S., for purposes broader than those specifically mentioned, but without impairing the economic principle on which the plan is based. I shall leave the question, however, as well as many matters of detail, until some future opportunity.

Please, dear Mr. Secretary, understand that I am freely at your disposal in arriving at a solution of this or any other related problem in which my experience may be of use. I should add that the responsibility for what I have said is wholly my own.

With high regard, etc., etc.,

SHEPARD MORGAN

5

EMBASSY OF THE
UNITED STATES OF AMERICA.

NO. 96.

Moscow, July 14, 1934.

Subject: Report of conversation between Ambassador
Bullitt and Monsieur Georges Bonnet.

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to report, as of possible interest to the Department, a conversation which I had yesterday with Monsieur Georges Bonnet, former French Finance Minister.

It will be recalled that M. Bonnet, as French Finance Minister, was chairman of the French Delegation to the World Monetary and Economic Conference of 1933 at London. In view of the fact that M. Bonnet at that time had been rancorous in his opposition to the policy of the American Government and that I had been obliged personally to have several most acrimonious conversations with him, I did not anticipate a pleasureable meeting; but M. Bonnet appeared to be a much chastened individual and displayed great cordiality.

M. Bonnet gave me what he said was a full account of a conversation with the British Chancellor of the Exchequer, Mr. Neville Chamberlain, on the final day of the Conference. He said that Chamberlain had invited him to have a formal conference on the subject of war debts, that Chamberlain had said that he was confident that he could settle the British debt to America for ten percent of its face value, that if he should do so he would at once demand of France a settlement of the French debt to Great Britain of sufficient amount to cover all Great Britain's payments to the United States. Bonnet replied (so he said) that he doubted greatly that the Congress of the United States would ever accept a ten percent settlement from Great Britain, that if Great Britain should be able to make such a settlement France would at once make a similar settlement with the United States, that France would not agree to pay England sums which England might pay to America, that the British Government at Lausanne had made promises to the French Government that it would make no demand for payment of France's debt to Great Britain. Chamberlain replied (so Bonnet said) that the situation had been changed by the failure of Great
Britain

Britain to obtain a settlement with the United States and that Great Britain considered her claims against France still valid. Bonnet replied that he could not engage his government in any way but speaking à titre personnelle he could say that he might advise a payment to England which would bear the same proportion to the whole French obligation to Great Britain as any payment made to the United States might bear to the whole French obligation to the United States.

In discussing the present British policy with regard to stabilization Bonnet said that recently he had received full information as to the British point of view, that Chamberlain still insisted that the British would do nothing whatsoever to stabilize the pound until a debt settlement with the United States had been made. He said that to his certain knowledge Chamberlain had always been in favor of default and that Chamberlain had said to him several times that he considered refusal to stabilize the pound the best method of forcing America to accept a ten percent settlement of the British debt. Bonnet asserted that the British were still most anxious to have the debts settled and that the French were also, and asked me if I felt that the British default had seriously injured the
prestige

prestige of Great Britain in the United States. I replied that I believed it had relieved certain persons of the idea that Great Britain's sense of honor extended to matters in which her interests were involved.

M. Bonnet informed me of certain facts with regard to French Financial Attachés which are doubtless known to the Department. He told me that M. Monique was to be withdrawn from Washington and made Financial Attaché at London, that M. Ruef, French Financial Attache in London, was to be given a prominent position in the financial administration in Paris.

In conclusion, M. Bonnet said that the idea of revaluing the franc was gaining headway in Paris and that he personally would have no objection to a devaluation provided it were accomplished by a single act, but that he remained unalterably opposed to subjecting France to a floating currency.

M. Bonnet is about to tour the southern areas of the Soviet Union and then visit Constantinople.

Respectfully yours,

William C. Bullitt.

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War debts

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War debts

THE UNDER SECRETARY OF STATE
WASHINGTON

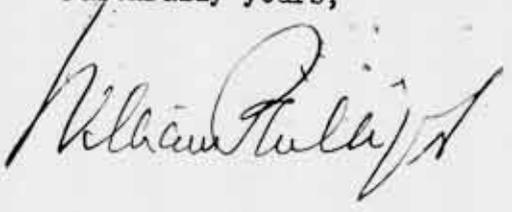
October 31, 1934

Dear Mr. President:

It occurs to me that possibly you may care to have at hand the various suggestions for handling the war debts which have been received here since the Department's letter and memorandum to you of May 22nd last. Some of the ideas are novel and seem to me to be impractical; others are worthy of consideration. They include the suggestions of Ambassador Straus, Ambassador Morris, Shephard Morgan, Judge Manton of New York, etc.

Faithfully yours,

Enclosure:
Memorandum.



The President,
The White House.

DEPARTMENT OF STATE

THE SECRETARY

SA-H

October 27, 1934.

Since the Department's letter and memorandum to the President of May 22, 1934, setting forth suggestions for handling the war debts, several other concrete ideas have been received here, which, because of their source, merit serious consideration. Back of each plan is the same thought, namely, the great desirability of promptly settling the debts in the interest of world recovery, if it is practical to do so.

1. The most novel of the new ideas is that proposed by Judge Martin T. Manton of New York, to invoke the jurisdiction of the Permanent Court of International Justice by an action by the United States against one or more of the debtor countries seeking to collect the debt or debts and possibly effect their reorganization. The Judge is of the opinion that the Court has jurisdiction over the applicant and the debtor in each case and that there is a cause of action and that relief can be effectively given.

2. Ambassador Straus suggests that the debts be refunded on the basis of payment of 1% of principal a
year

on the Soviet Union in case the Soviet Union should become engaged in a war with Japan. I am convinced that there is no truth in this rumor. Litvinov himself has admitted to me that he no longer believes it.

(5) Litvinov, Voroshilov, and many other Soviet leaders have expressed the opinion to me that the largest single deterrent to an attack by Japan this spring was recognition of the Soviet Government by the United States. They believe that the Japanese Government was uncertain as to the extent to which our relations had become intimate and feared an eventual attack by the United States in case of war. They are aware that if the honeymoon of December and January between the United States and the Soviet Union should now culminate in a rapid divorce an attack by Japan would become more likely. For this reason, but for no other, I am inclined to believe that they will not allow their relations with the United States to become so unpleasant as their relations with Great Britain. But it is not to be forgotten that the leaders of the Soviet Government place all capitalist states in the same unpleasant category and that they feel "it is poor picking between rotten apples".

(6) From Japanese sources I have little to report. The Japanese Ambassador here has gone out of his way to be most polite to me and I have the impression that he has received orders to cultivate the closest possible relations with the American Embassy in Moscow. He startled me, however, a few evenings ago at a party at his Embassy in my honor by saying suddenly, "Well, which

WAR

SECRET

THE SECRETARY

DEPARTMENT OF STATE

year with a low interest rate - 1 to 2%; that bonds representing the settlement be delivered to the Treasury and thereafter sold for dollars and be used by the buyers in paying for goods bought from France, and for tourist expenditures and immigrant remittances. There are some important economic objections to using the French bonds in this manner, which are suggested in our memorandum of May 22, 1934.

3. Ambassador Morris suggests the refunding of the post-Armistice Belgian principal debt on a 99 year basis; cancellation of interest on their debt; and probable cancellation or great reduction of pre-Armistice debt; that the debt refunded on the 99 year basis be discounted to date and paid - 20% gold; 20% silver at 15-1/2 to 1 of gold; 60% in Belgian Treasury notes, payable in agreed installments, to be paid into a trust fund to be held by the Bank for International Settlements and used to secure an international loan, the proceeds to go to us. This method would result in around a 70% reduction.

4. Mr. Shephard Morgan, Vice-President of the Chase Bank, suggests the following:

a. The present agreed payments be made by a debtor country to the Bank for International Settlements and the fund left at a minimum sum equal to 2 years installments.

b. The

b. The Bank for International Settlements be authorized to invest the fund in the short-term negotiable bills of the paying country, bearing a nominal interest and discountable at the central bank of the country.

c. Withdrawals from the fund by the United States to be made only in the currency of the debtor country and only when for three successive months, the balance of merchandise trade between the country and the United States is unfavorable to the United States, in the manner set out in (d).

d. Under these circumstances, the United States to have the right to sell drafts on the Bank for International Settlements to its own nationals or draw on the fund for purchases made for its own account, up to amount of adverse balance. Proceeds from sale of drafts covered into the United States Treasury. With respect to our heavy debtors who normally have an adverse balance with the United States, the additional item be proposed that 10%, say, of the whole debt be paid now in bonds saleable in our markets.

5. Mr. J. C. Rovensky, Vice-President of the Chase Bank, suggests that all debts be refunded on a 100 year basis, payable 1% a year, with nominal interest, and the payments made in New York funds as they mature. He believes that the exchanges will stand this. Such an operation would work out favorably except as to Italy, Yugoslavia, Czechoslovakia. Modifications are possible to make it work generally.

6. Mr. S. O. Levinson of Chicago, has resubmitted his plan of combining a war debt settlement with disarmament which, among other things, embodies the idea of lumping the payments and permitting the debtors to agree
among

*File
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*BF
War Debt*

THE UNDER SECRETARY OF STATE
WASHINGTON

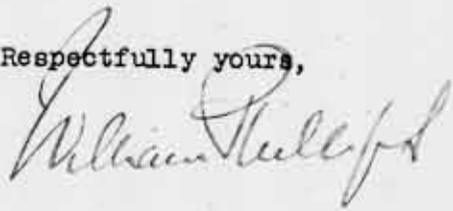
November 8, 1934.

Dear Mr. President:

Secretary Hull has asked me to send you the enclosed copy of a plan for handling the war debt problem, prepared by Mr. S. O. Levinson of Chicago.

The Secretary regards the suggestions as interesting and thinks they might be considered along with other similar material already before you. This plan has already been submitted to you together with similar plans with the Department's memorandum of October 27, 1934.

Respectfully yours,



Enclosure:
Copy of plan.

The President,
The White House.

November 8, 1934.

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Respectfully yours,

Enclosure:
Copy of plan.

The President,
The White House.

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Confidential not for publication

LIQUIDATING WORLD DEPRESSION

Some energetic economist might well collate and catalogue both the ascribed causes of the depression and the numerous remedies prescribed to a suffering world for emergence therefrom. Amid the conflicting theories thus gathered together and the confusions of thought thereby engendered, there looms at least one "bright particular star" to guide our feet. Enough time has now elapsed and adequate perspective developed to make it incontrovertibly clear that the overwhelming cause of our economic woes was the frightful wastage of the World War and its turbulent and profligate aftermath. A few illustrative figures may not be amiss. The generally accepted estimate of the cost of the war in economic waste is three hundred billion dollars, or approximately one-third of the accumulated wealth of the world. Not content with this exhibition of economic insanity, but, with false pride and pseudo-courage, completely ignoring it, the nations, intent upon maintaining the "peace" treaties by "armed force," have expended on new armaments since the Armistice the incredible and staggering sum of fifty billion dollars. With Europe now echoing alarms of war, expenditures for world armaments

armaments have been boosted up to over five billion dollars a year. This mad race to the "next war" is being run at crushing expense and at the fatal risk of civilization itself. The situation defies rhetorical exaggeration. At least one hundred million of the people of America and Europe are living at or under the subsistence level. This large part of the human family in daily want offers a shameful contrast to the wasteful investment of many billions of dollars every year in instruments of slaughter. The world now has the greatest sum total of armaments in history and the twentieth century is challenged to vindicate its right to the name "civilization" by inaugurating a general holiday in armament building to assure recovery from the ravages of the depression. We have had moratoriums on debts; can not a moratorium on arms construction be declared until this hundred million of indigents are decently fed and clad? From the huge savings of such a moratorium we might well set up an international community chest for that purpose, contributed to pro rata by the war chests of the nations. But we should not take a defeatist attitude on this problem. It must and can be solved.

The

The proposed plan is offered as a way out of this international labyrinth. It seeks to equitably lighten the afterburdens of the war, drastically reduce the staggering costs of armaments, revive for our farmers and manufacturers a normal foreign market, make possible a return to prosperity, and to promote genuine and durable world peace. It does not exclude nor hamper other constructive measures but, on the contrary, it will serve to facilitate and insure them.

Two of the cardinal assumptions of the plan are:

1. That the World War and the two post-war panics have so shrunk the wealth, so stagnated the business and so crippled the paying power of the nations that a new, comprehensive and mutually advantageous re-adjustment of the war legacies is made necessary in the common interest.
2. That the United States, being the only clear creditor among the nations, and having expended thirty-eight billion dollars (exclusive of our loans and credits to the Allies) in the war, without expecting, asking, or receiving, any compensation therefor at the peace table, has the right and faces the duty to make these generous proposals and reasonable demands in the name of justice, peace, and suffering humanity.

OUTLINE OF PLAN

(I. TO VI)

I

Allied Payments to the United States

Total principal amount, in round numbers, of loans and credits by the United States to the Allies during the war and shortly after the Armistice, commonly called "Allied debts":	\$10,000,000,000
The United States to be paid in all a total sum of 66-2/3% of such principal amount, or	6,665,000,000
Upon such 66-2/3% the Allies are given credit for the amounts already paid in cash:	2,700,000,000
Balance of the 66-2/3% remaining to be paid by the Allies to the United States:	3,965,000,000
The plan provides that this balance of \$3,965,000,000 be divided into 12 equal annual installments and paid as follows:	
Immediate cash payment on the consummation of settlement, say, April 1, 1935:	330,000,000

And a like amount of \$330,000,000 on April 1 of each of the next eleven succeeding years. These eleven deferred annuities to be secured or guaranteed in a manner satisfactory to the United States so that the adjustment thus made will be final and not subject to revision or reconsideration at any future time. Installment annuities to bear interest after their respective maturities at the rate of 5% per annum.

MEMO:

- (a) As this adjustment will go into effect at the close of the three years of grace given to Germany under the 1932 Lausanne conditional settlement between the Allies and

Germany,

Germany, there will be owing to the Allies from Germany under this Lausanne settlement the sum of \$750,000,000

The payment thereof by Germany will terminate and discharge all the Allied claims for reparations against her.

- (b) The 66-2/3%, or \$6,665,000,000 is a lump sum or joint settlement, the Allies to determine their respective percentages of payment thereof as among themselves, but without prejudice to the payments, securities and guaranties to the United States hereunder. This lump sum settlement would relieve the United States of the burden, delay and friction of protracted negotiations with a dozen or more nations, and we would avoid discussing the unjust disparities claimed by certain Allies in the former settlements. There is no reason why the Allies should not settle their own differences by themselves. The negotiations to that end may also force the solution of some of the acute political problems which so disturb Europe and whose settlement would greatly advance the appeasement and peace of Europe.

II.

German Payments to the United States

The United States to accept in adjustment and compromise of her two claims against Germany, one arising from the Army of Occupation costs, and the other from the Mixed Claims Commission, the same percentage basis as in the case of the Allied indebtedness, namely, 66-2/3% of the original principal, crediting thereon the cash amounts heretofore paid by Germany to the United States.

(a)

- 6 -

war will begin first, Japan and the Soviet Union or Japan and the United States?" Taketomi, Japanese Minister to the Netherlands, when I was on my way to my post, exploded one evening with the following: "The whole trouble is our militarists. Some colonel at any minute may march his men across the Amur River. So long as Hirota remains in office the Japanese Government will not decide to go to war. But how long will he remain in office? And who can tell what our young officers will do?"

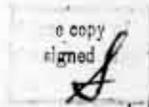
That question cannot be answered in Moscow.

Respectfully yours,

William C. Bullitt.

1 copy to Embassy at Tokyo through the Department.
1 copy to Consulate General at Harbin through the Department.

WCB:CLS



(a)	Army of Occupation costs	\$250,000,000	
	66-2/3% of original principal	.....	\$166,000,000
	Less cash paid by Germany thereon	.....	<u>68,000,000</u>
			\$98,000,000
(b)	Mixed Claims Commission		
	original principal	.....	\$227,000,000
	66-2/3% thereof	.....	\$152,000,000
	Less cash paid by Germany thereon	.....	<u>52,000,000</u>
			100,000,000
	Total amount of German settlement		
	with the United States	.....	<u>\$198,000,000</u>

This amount, \$198,000,000 to be paid by Germany to the United States in twelve equal installments of \$16,500,000 each, beginning April 1, 1935, the installments to bear interest at the rate of 5% after maturity.

III.

Liquidation of Allied and Inter-Allied Debts and Reparations.

All the inter-Allied debts (that is, debts owing by the European Allies among themselves as distinguished from the Allied debts which are owing to the United States) arising from the war and of which there is, roughly speaking, \$7,000,000,000 owing to Great Britain, \$2,000,000,000 owing to France and \$1,000,000,000 owing to Italy, be cancelled and discharged. Thus the whole tangled network of Allied and inter-Allied debts and of German reparations, which at the time of the June 1931 moratorium amounted to the colossal grand total of thirty billion dollars, will under this proposal be cleared up, taken care of, and discharged, upon the payment of four and one-half billion dollars.

IV.
General Disarmament.

All the foregoing adjustments and settlements to be conditional upon the general acceptance of a drastic program of disarmament, as nearly universal as possible.

This program to consist of two parts:

- (a) A complete holiday (subject to completions, replacements and repairs under existing disarmament treaties) in all types of armament construction for a period of 5 years, that is, until full recovery from the ravages of the economic depression.
- (b) Progressive and, as far as is equitable, proportional reduction of armaments during the 5 year holiday so that at the end of the holiday period the total reduction will be substantially 50% of their present level.

The money savings to be effected by these two processes of disarmament are conservatively estimated to be:

Holiday savings for the United States for each of the 5 years.....	\$ 300,000,000
50% reduction per year for the United States after 5 year holiday.....	250,000,000
Holiday saving for Europe for each of the 5 years.....	1,200,000,000
Savings on 50% reduction per year for Europe after the holidays.....	750,000,000

V.
Benefits to the United States & Europe.

The annual benefits to our budget by the payments to and savings by the United States under this plan are:

Annual payment in cash by the Allies to the United States.....	\$ 330,000,000
Annual savings to the United States by disarmament holiday.....	300,000,000
German annual payments to United States in settlement hereunder.....	<u>16,500,000</u>
Total per annum.....	646,500,000

Summarizing the foregoing benefits to the United States, computed for the 12 year period, we have:

Amount received from Allies on the War Debt settlement hereunder would be \$330,000,000 a year for 12 consecutive years, making a total cash payment of..... 3,960,000,000

Amount received from Germany in settlement of our two claims against her would be \$16,500,000 a year for 12 consecutive years, making a total cash payment of. 198,000,000.

Saving to our budget by armament holiday and drastic reduction for 12 years (estimated) \$300,000,000 a year for 5 years of holiday, or \$1,500,000,000 and \$250,000,000 a year for the remaining 7 years, or \$1,750,000,000, making a joint total in armament savings for 12 years..... 3,250,000,000

Total from payments and relief from armaments under this plan.....\$ 7,408,000,000

Add the amount of cash hitherto received from the Allies..... 2,700,000,000

and we have a grand total of payments and savings applicable to the Allied and German debts owing to the United States.....\$10,108,000,000

The amount of saving under the 50% reduction of armaments is necessarily an estimate. However, even exclusive of the recent "billion dollar" Vinson Naval Bill which largely goes into effect in 1936 and which could be suspended under the proposed plan, it is conservative to fix the amount of our savings at two hundred and fifty million dollars annually.

After twelve years the item of savings in armaments of \$250,000,000 (or whatever it exactly is) will continue indefinitely until changed by international agreement.

From the figures shown in IV. Europe will save on armaments alone during the 12 year period over \$11,000,000,000

In addition, the Allies are getting under this plan another substantial reduction of their debt, and will continue to have the benefit of the 50% reduction of armaments indefinitely at the annual rate of 750,000,000

Also, of course, the reopening of world trade and the general stimulation of good will and economic appeasement will be of great financial benefit to Europe. Both Europe and the United States would mutually enjoy the increased foreign buying power of each.

VI.

Incidental Benefits from this Plan

Although the United States Government has no direct or legal interest therein, it is hoped that in removing

causes

causes of international friction all the old disputed and so-called "repudiated" claims of British and other foreign subjects against ten of our sovereign states, be abandoned and discharged. The states involved are: Alabama, Arkansas, Florida, Georgia, Louisiana, Michigan, Minnesota, Mississippi, North Carolina and South Carolina. These claims have nothing to do with our Civil War; some date back as far as 1842 (Mississippi) and as late as 1884 (Arkansas). The details of these so-called "repudiated" claims are fully set forth in a paper procurable from the Treasury Department, entitled, "Repudiation of State Indebtedness" and bearing date "Revised May 15, 1930."

Nothing specific is said in this plan concerning adjustments and fixations of tariffs, quotas and other trade arrangements, nor upon the question of currency stabilization. The natural effect, however, of a general debt-disarmament settlement would be to facilitate and expedite an adjustment of all vexing monetary and economic problems, including tariffs. As to whether all these questions, especially stabilization of currencies by international agreement as well as its running-mate, the return to the gold standard by like agreement, should be included in the debts-disarmament negotiations, is of course for our administration and its negotiators to decide. Personally, the writer believes in the broadest and most comprehensive adjustment

adjustment and cleanup possible. The piecemeal and partial settlements dragged out through the past 13 years have got the world nowhere in terms of durable accomplishment. The nations should now meet to tackle and solve all the important questions that block international trade, prosperity, and world peace. All the nations should place their meed of concession and sacrifice upon the altar of the common good. While the United States should deservedly take the leadership in this movement, it should not be asked to carry the lion's share of the burdens, nor to make further sacrifices without compensating advantages. Uncle Sam's Christian name is not Atlas.

Views of President Roosevelt
and Others

It is well known that President Roosevelt has been balked in his preliminary efforts in the international field by the recurrent tendency of certain foreign emissaries to seek only those adjustments which are particularly beneficial to their countries. For example, emphasis is always laid by them on drastic reduction of the debts. A factor that is far more important, one that promises the greatest aid to financial recuperation and makes further debt reduction attractive, is drastic reduction of armaments. On the occasion of the last meeting of the Woodrow Wilson Foundation, President Roosevelt, in a notable address,

address, said that "at least 90 per cent of the world's population are willing further to reduce their armed forces tomorrow if every other nation in the world will agree to do the same thing. * * * If this 10 per cent can be persuaded by the other 90 per cent to do their own thinking and not be led, we will have practical peace, permanent peace, real peace, throughout the world."

President Roosevelt's deep conviction is that the questions of armaments and of debts should be linked together and adjusted together for the greatest possible benefit both to this country and to the world. And this epitomizes the overwhelming sentiment of the American people.

Senator Borah, in a Senate speech last year, said: "So far as the debts in and of themselves are concerned, taking the debts naked and alone, there is no justification for the reduction or cancellation of these debts. But that is not all there is to this problem. * * * If we could open the markets for the American farm, revive trade and commerce, reestablish our monetary systems upon a sound basis, and drastically reduce the armaments of the world--speaking now of armaments purely as an economic proposition--I think it would be infinitely more valuable to the people of the United States than the

payment

payment of the debts. Whenever a program is presented which gives reasonable assurance that there will be a re-adjustment of the post-war problems which in my judgment now stand in the way of normal operation of economic laws, and if these debts can be used in such a program to break the depression, I shall not hesitate to support the program."

The leading nations have from time to time in the past year given vocal expression to their respective countries' desire to reduce armaments and to advance the cause of world peace. These nations include both Germany and Japan. Germany recently announced her willingness to return to the disarmament conference and even to agree upon general control and supervision of arms in Europe, insisting, however, upon equality of arms for herself. Both Hitler and Hess have spoken to this effect. Very recently, on October 29, the Japanese ambassador, Hiroshi Saito, passed through Chicago and was interviewed on the subject of armaments and the current naval conference in London. He said emphatically "Japan favors drastic reduction of armament by everyone."

If all these nations mean what they have all said then drastic reduction of armament ought certainly to be attainable. If it is feared that many of them do not

mean

mean it, then it is high time that civilization has a showdown on this subject. A conference to consider and carry out some such proposal as contained herein might constitute an international Who's Who on this vital question. A definite line-up of the nations for peace by concrete action should be ascertained. And when that issue is brought up the public opinion of the world will have a chance to function and it will function with a vengeance. Recent disclosures in the opening sessions of our Senate's investigation of the manufacture and sale of arms were of such a nature that the responsible heads of the nations should welcome an opportunity to prove that they are not directly or indirectly in league with armament manufacturers and that they and their peoples are willing and eager to join in an equitable and drastic diminution of arms. This also would furnish an opportunity for the nations which are solemnly pledged so to do under Article 8 of the League Covenant, to cut down their burden of arms. Too long has this pledge laid fallow. The crisis is here; all the munition factories in Europe are running at full speed and somebody must take the lead to stop the explosion that is inevitable if this thing continues. It is as if the whole world were living at the foot of a smoking volcano. Is civilization helpless?

Thus

Thus we see that reduction of armaments has vital relationship to both economic recovery and world peace. Just as the greatest saving can be made through a holiday in arms construction and drastic reduction of armament, likewise peace pacts and peace commitments lose much of their practical value unless and until they are validated by drastic reduction of arms by all the nations. For if the disarmament is both general and as nearly pro rata as practicable the fear of war would be abated and dispelled.

Here then in the proposal drastically to reduce armaments God and Mammon meet for the first time--the God of peace and the Mammon of money saving.

S. O. Levinson

FOR THE PRESS

DEPARTMENT OF STATE

May 5, 1934.

The Secretary of State has received an opinion upon various questions pertaining to the Act of April 13, 1934, entitled "An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States", known as the Johnson Act. The Department of State concurs in the interpretation of the Act expressed in the Attorney General's opinion.

Following is the full text of the Attorney General's Opinion:

"DEPARTMENT OF JUSTICE,
Washington.

May 5, 1934

"Sir:

"I have the honor to refer to your letter of April 17 requesting my opinion upon various questions under the Act of April 13, 1934, entitled 'An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States,' which reads as follows:

'That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. Any person violating the provisions of this Act shall upon conviction thereof be fined not more than \$10,000 or imprisoned for not more than five years, or both.

'SEC. 2. As used in this Act the term "person" includes individual, partnership, corporation, or association other than a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercises a controlling interest through stock ownership or otherwise.'

PSF
War Debts

THE UNDER SECRETARY OF STATE
WASHINGTON

December 10, 1934.

My dear Mr. President:

I have just handed to the press an exchange of notes between ourselves and the Finnish Government with regard to the amounts due to the United States on December 15th. As you will notice, the Finnish Government has agreed to pay the amounts due on that date in full. The amount involved amounts to \$228,538.

Faithfully yours,



The President

The White House.

DEPARTMENT OF STATE

FOR THE PRESS

DECEMBER 11, 1934

TEXT OF NOTE, DATED DECEMBER 11, 1934, FROM THE FINNISH MINISTER, MR. L. ASTROM, IN REPLY TO THE AMERICAN NOTE OF NOVEMBER 22, TRANSMITTING A STATEMENT OF THE AMOUNTS DUE AND PAYABLE ON DECEMBER 15, 1934:

"Legation of Finland,
December 11, 1934

"His Excellency
Mr. Cordell Hull
Secretary of State
Department of State
Washington, D. C.

"Excellency:

"With reference to Your Excellency's note of November 22, 1934, transmitting a statement of the amounts due and payable on December 15, 1934, by the Finnish Government to the Government of the United States, I have the honor to inform you that the amounts due will be paid on the said date in cash, the payment to be made, provided the Department of the Treasury finds it agreeable, as previously at the Federal Reserve Bank at New York City.

"Accept, Excellency, the renewed assurances of my highest consideration."

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TEXT OF NOTE, DATED NOVEMBER 22, 1934, FROM THE UNDER SECRETARY OF STATE, MR. WILLIAM PHILLIPS, TO THE FINNISH MINISTER:

"November 22, 1934

"The Honorable
L. Astrom,
Minister of Finland.

"Sir:

I am requested by the Secretary of the Treasury to transmit to you the attached statement of the amounts due and payable on December 15, 1934, from your Government pursuant to the terms of the Debt Agreement of May 1, 1923, and the Moratorium Agreement of May 23, 1932.

"Accept, Sir, the renewed assurances of my highest consideration.

"For the Secretary of State:
(Signed) WILLIAM PHILLIPS."

STATEMENT OF AMOUNT DUE FROM THE GOVERNMENT
OF THE REPUBLIC OF FINLAND, DECEMBER 15, 1934.

Amount due December 15, 1934:

Principal of bond No. 13 for \$62,000 due December 15, 1934.....	\$62,000.00
Semiannual interest due December 15, 1934, on bonds Nos. 13 to 62.....	147,507.50
Third semiannual installment of annuity due December 15, 1934 on account of Loratorium Agreement of May 23, 1932...	19,030.50
Amount due.....	<u>\$228,538.00</u>
