

**SALE OF FOREIGN BONDS OR SECURITIES
IN THE UNITED STATES**

**HEARINGS
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
SEVENTY-SECOND CONGRESS**

FIRST SESSION

PURSUANT TO

S. Res. 19

**A RESOLUTION AUTHORIZING THE FINANCE COMMITTEE
OF THE SENATE TO INVESTIGATE THE SALE, FLOTA-
TION, AND ALLOCATION BY BANKS, BANKING
INSTITUTIONS, CORPORATIONS, OR INDIVID-
UALS OF FOREIGN BONDS OR SECURI-
TIES IN THE UNITED STATES**

PART 1

{ DECEMBER 18, 19, and 21, 1931 }

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SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

FRIDAY, DECEMBER 18, 1931

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

The committee met at 10 o'clock a. m., pursuant to call of the chairman, in the committee room, Capitol, Senator Reed Smoot presiding.

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

Present also: Senator Johnson of California.

The CHAIRMAN. The committee will give their attention. We will proceed with the business before us. I wish to present Senate Resolution 19, introduced by Senator Johnson on December 10, 1930, which was reported by Mr. Townsend with an amendment; was considered, amended, and agreed to; and I ask that the resolution be made a part of the record, as follows:

Resolved, That the Finance Committee of the Senate be, and it is hereby, authorized, empowered, and directed to investigate the sale, flotation, and allocation by banks banking institutions, corporations, or individuals of foreign bonds or securities in the United States, and particularly to investigate and ascertain—

(a) Whether or not any banks, banking institutions, corporations, or individuals engaged in the banking business in the United States have, as representatives or fiscal agents of any foreign governments, or otherwise, sold, floated, or allocated in the United States securities, evidences of indebtedness, or bonds of any foreign government; and if so, at what prices such securities, bonds, or other evidences of indebtedness have been sold or allocated, and what sums, if any, have been received by the individual, corporation, or bank so selling or allocating as percentage, bonus, remuneration, or commission for such sale or allocation.

(b) The amount of foreign governmental securities, bonds, or other evidences of indebtedness held by banks, corporations, or individuals doing a banking business in the United States, including those securities, bonds, or other evidences of indebtedness issued not only by foreign governments but by foreign governmental subdivisions and foreign municipalities, together with the names of the owners or holders of such foreign securities, bonds, or other evidences of indebtedness, the time and manner of acquisition, and the prices paid therefor.

(c) The amount of foreign securities or bonds or other evidences of indebtedness issued by foreign industrial associations or corporations owned or held by banks or corporations or individuals doing a banking business in the United States, together with the names of the holders thereof and the manner and circumstances of their acquisition.

(d) The terms and conditions upon which all of the said securities, bonds, or other evidences of indebtedness have been acquired, and the amounts paid therefor by any of the said banks owning or holding them.

This investigation shall be made at the earliest possible moment, and the Finance Committee, at the conclusion thereof, shall report its findings to the Senate, the said report and said investigation to be the basis of any legislation deemed necessary relating to the said subject matter.

For the purposes of this resolution the said committee, or any duly authorized subcommittee thereof, is hereby authorized and empowered to hold hearings and to sit and act at such times and, at such place or places as it may deem necessary; to employ clerical and other assistants; to require by subpoena or otherwise the attendance of witnesses and the production of books, papers, and documents; to administer such oaths and to take such testimony as the said committee or any subcommittee thereof may deem necessary; and to do such other acts as the said committee or subcommittee may deem essential in the matter of the said investigation.

The said committee or a subcommittee authorized by it may employ stenographic services to report the said hearings, the cost of said stenographic services shall not be in excess of 25 cents per one hundred words.

The chairman of the committee or any member thereof may administer oaths to witnesses. Every person who, having been summoned as a witness by authority of said committee or subcommittee, willfully makes default, or who, having appeared, refuses to answer any question pertinent to the investigation hereby authorized, shall be held to the penalties provided by section 102 of the Revised Statutes of the United States.

For the purpose of this investigation the expenditure of \$5,000, to be paid out of the contingent fund of the Senate on vouchers approved by the chairman of said committee or a subcommittee thereof, is hereby authorized.

The CHAIRMAN. Is Mr. Lamont present?

Mr. LAMONT. Yes, Mr. Chairman.

The CHAIRMAN. If you will hold up your right hand—you do solemnly swear that the evidence you will give in this hearing before the committee will be the truth, the whole truth, and nothing but the truth, so help you God.

Mr. LAMONT. I do.

The CHAIRMAN. Just take a seat there at the center of the table opposite the shorthand reporter.

TESTIMONY OF THOMAS W. LAMONT, OF J. P. MORGAN & CO., NEW YORK CITY

The CHAIRMAN. Mr. Lamont, you have read the resolution before the committee, have you not?

Mr. LAMONT. I have.

The CHAIRMAN. The committee will be very pleased, indeed, for you to present whatever information you have covering all the requests made in this resolution, as best you can; and any member of the committee has a perfect right to interrupt you at any time, to ask any question he desires to ask. If you are prepared now to proceed, Mr. Lamont, you may do so.

Mr. LAMONT. Mr. Chairman, I have no formal data to present at this moment. I had only a little over a day's notice as to the importance of coming down here, and while I have ample notes with which to reply to Senators' inquiries, the actual tables or data or anything of that kind I should wish to check up and complete upon my return to New York, so as to be sure we are filing with you exactly what you want to have. But upon obtaining exact information on that point, we shall be very glad to file with you very full data on all the points.

Senator REED. So that we may get this in orderly fashion, let me ask: You are a member of J. P. Morgan & Co., are you not?

Mr. LAMONT. I am.

Senator REED. And have been for how long?

Mr. LAMONT. For a little over 20 years.

Senator REED. Will you glance at the resolution which lies before you and tell us as best you can what loans of foreign governments your firm has floated since the armistice.

Mr. LAMONT. May I read from my notes, Senator Reed?

Senator REED. Yes; if you please.

Mr. LAMONT. For the Argentine Government in long-term loans \$159,800,000.

The CHAIRMAN. Mr. Lamont, in order to save time, let me ask: Are you in position also at the same time you are giving us information about securities or bonds, to state at what price such securities, bonds, or other evidences of indebtedness were sold or allocated?

Mr. LAMONT. Yes.

The CHAIRMAN. I think if you have that data with you it would be a good thing to furnish it at the same time.

Mr. LAMONT. Well, Mr. Chairman, that last is a pretty large order. I can give the data that we have coming from our office. Of course as to the actual distribution all over the country, the figures on that we do not have because we are not retail distributors.

The CHAIRMAN. But you have the figures that you sold them for?

Mr. LAMONT. Oh, yes; we have all that information.

Senator REED. Let us take the Argentine loan that you have just mentioned: What spread did you make on those loans?

Mr. LAMONT. The spread, Senator Reed, on the Argentine loan varied from $3\frac{1}{4}$ to 4 per cent, the gross spread.

Senator REED. And out of that of course you had some expenses to pay?

Mr. LAMONT. Oh, well, of course in order to make that statement at all intelligible I should have to break that spread up, because that was the total of the expense of distributing all over the country through bond houses, through houses other than our own.

Senator REED. That is not the spread that your own firm received, between your purchase price and your first sale to the bond group?

Mr. LAMONT. Oh, no, but quite the contrary. For instance, in the Argentine loans our firm received no managing commission whatsoever. A number of institutions were associated with us in the original group purchase, in which the per cent varied from 1 per cent to $1\frac{1}{2}$ per cent.

Senator GORE. Could you give us the number and the names of those institutions, either now or later on?

Mr. LAMONT. I can later on in every case, and will do so. I could not give you that data now because I have not got it here.

Senator GEORGE. Mr. Lamont, the total amount of Argentine bonds you have given us included all bonds you handled?

Mr. LAMONT. It includes all long-term bonds handled.

Senator GEORGE. All long-term bonds handled?

Mr. LAMONT. Yes; for the Argentine.

Senator GEORGE. I thank you.

Mr. LAMONT. When I file this data I can continue, Senator Reed, with the break up of this gross spread, so as to show in what manner it was distributed among the various distributing groups that handled these bonds throughout the country.

Senator REED. All right, I will thank you to do that. But as I understand your answer, neither you nor your firm received any commission as managers or otherwise.

Mr. LAMONT. In the case of the Argentine bonds we received none.

Senator REED. What other foreign bonds have you distributed?

Mr. LAMONT. I will go on now to the others.

Senator REED. I will thank you to do so.

Mr. LAMONT. There were three Australian issues—

Senator GORE (interposing). Just a moment. Could you give us now the number of investment houses throughout the country that handled those bonds to the final purchasers?

Mr. LAMONT. I can not do that now, but I can furnish you in due course with the number of houses that were in our distributing syndicate.

Senator GORE. And then can you give us the number of individual purchasers through those houses?

Mr. LAMONT. No; we have no data on that whatsoever.

Senator GORE. On some of your sales you do have that information, have you not?

Mr. LAMONT. No; we do not sell directly to the investor ourselves.

Senator GORE. The reason I asked you on that point is that I have had read to me Mr. Morrow's article published in a magazine, in which he accounted for distribution through 24 of your investment houses, or those you operated through, giving the number of individual purchasers of the different securities.

Mr. LAMONT. Yes.

Senator GORE. But you are not able to furnish that information generally?

Mr. LAMONT. Not generally. I recall that article very well, and it was a very illuminating one.

Senator GORE. It was, indeed.

Mr. LAMONT. And he took especial pains, Senator Gore, to secure data as a basis for that article. Now, it may be that Mr. Mitchell, of the National City Bank, who is to follow me, and one of whose organizations has been very active in the distribution of bonds, will be able to give you some data on that. But we have never gone into that beyond the particular situation that Senator Morrow described.

Senator WALSH of Massachusetts. How many distributing houses are there in your syndicate, I mean approximately?

Mr. LAMONT. I should say on a large issue there are several hundred, and it is possible it might go up to 1,000 in the case of some issues. But that will appear when we file the actual number in each issue.

Senator GORE. In the case of the Anglo-French loan, it was 2,200, I believe.

Mr. LAMONT. Yes, I think that was so. But that was an unusually large syndicate. You see, the amount involved was \$500,000,000—larger than any other foreign government loan ever placed in this country, being the joint promise to pay of Great Britain and France.

Senator REED. Now, Mr. Lamont, will you go on to the next item?

Mr. LAMONT. The next item is Australia. The total was \$165,000,000 of long-term bonds.

Senator WATSON. Before you go to that, Mr. Lamont, will you permit me to inquire when you handled the last bonds for the Argentine?

Mr. LAMONT. Certainly, Senator Watson. It was April 28, 1927.

Senator WATSON. What was the amount of that issue?

Mr. LAMONT. The amount of that issue, Senator Watson, was \$21,200,000.

Senator JONES. I understood you to say that you got no compensation for handling these Argentine bonds or any part of them.

Mr. LAMONT. No, Senator Jones, that would not be quite a correct way to state it. I said that we got no managing commission for organizing and managing the group that distributed them. But we had a share in the various groups which distributed them, and in that way we received certain compensation, but simply pro rata on the same basis as other banks.

Senator JONES. But in case of some bonds, you did receive a managing commission?

Mr. LAMONT. In the case of some issues, we received a small managing commission, as we are going to tell you about here.

Senator GORE. You say your last sale of bonds was when?

Mr. LAMONT. In the case of the Argentine it was April 28, 1927.

Senator GORE. Oh.

Mr. LAMONT. Oh, yes; Senator Watson's question was directed to the Argentine.

Senator GORE. But you have made other loans since?

Mr. LAMONT. Oh, yes.

Senator GORE. I supposed so.

Mr. LAMONT. No, Senator Reed; you asked me to go ahead. For Australia, \$165,000,000 long-term bonds. We received a managing commission of one-eighth of 1 per cent in connection with those issues, and the rest of the spread was divided up as the record will show. It would take a great deal of time if I attempted to divide it all up here, but I can do so if you like.

Senator REED. No; we have so many witnesses I will not ask you to go into all of those details at this time.

Mr. LAMONT. We will furnish you with complete data on that.

Senator COSTIGAN. Are you prepared to state your compensation in full in each instance, not merely your managing compensation but the total compensation?

Mr. LAMONT. We are prepared to state it in a form from which it can be worked out. In other words, we have prepared these tables in percentage of cost; that is, in accordance with the contracts entered into with the particular governments. Anybody can reduce it to dollars and cents if he sees fit.

Senator REED. What was the maximum spread in the case of the Australian loan?

Mr. LAMONT. The maximum spread was 3 per cent. It varied from 2½ to 3 per cent, depending upon market conditions.

Senator REED. All right.

Mr. LAMONT. Now, next is Austria, a total of \$50,000,000.

Senator GEORGE. Would you be good enough to give the dates of the first transaction and the last transaction?

Mr. LAMONT. In the case of the Austrian loan?

Senator GEORGE. In all cases.

Mr. LAMONT. In that event we will go back: In the case of the Argentine loans, which I testified about (the first date in this post-armistice period that Senator Reed indicated), was June 2, 1925, and the last date, as I have already told you, was April 28, 1927. In the case of Australia, the first date was July 16, 1925, and the last date was May 8, 1928.

Now, we come to Austria: There were two loans, aggregating \$50,000,000, as I have already indicated. The first was June 11, 1923, and the second was July 15, 1930.

Senator GORE. What was the amount of the last loan?

Mr. LAMONT. The amount of each one was \$25,000,000.

Senator GORE. Thank you.

Senator COUZENS. Have you indicated the spread in that case?

Mr. LAMONT. In the Austrian case?

Senator COUZENS. Yes.

Mr. LAMONT. In the case of the first one it was $4\frac{1}{4}$ per cent, and in the case of the second one it was 4 per cent, the gross spread.

Senator REED. Was there any managing commission?

Mr. LAMONT. In the case of the first loan there was none whatsoever. As a managing commission in the case of the second loan it was one-fifth of 1 per cent.

Senator BINGHAM. Did I understand you to say that the gross spread included all profits of all concerns handling them up to the final purchase by the ultimate investor?

Mr. LAMONT. That is it. Of the original group and the further certain groups, and so forth, who purchase these bonds from the Government, we will say, at a certain figure, and retail them finally to the investor at another figure, the difference represents the gross spread out of which all commissions, all expenses, all advertising, all profits and everything of that kind, must be deducted.

Senator BINGHAM. Are there more than two groups for it to be divided among?

Mr. LAMONT. In some cases there are three groups.

Senator BINGHAM. That is, do you mean the original syndicate?

Mr. LAMONT. The original purchasers and sometimes an intermediate banking group, and then the final syndicate, depending upon the conditions prevailing at the time. Sometimes as a matter of safety if the issue can not be handled immediately between the time of purchase and the time of distribution, the risk is distributed among the members of an intermediate group.

Senator THOMAS of Idaho. In the listing of the spread wouldn't it be well to show in the record what you paid the Government for the bonds?

Mr. LAMONT. Oh, certainly that shows in this record that I have here. For instance, in the case of one Australian bond issue the price was 98 and the total spread was two and a half points, which as you will see would make the price that the Government received $95\frac{1}{2}$. That will all appear in this record that we have.

Senator BARKLEY. Let me interrupt for a moment in order to get my mind clear as to the difference between your compensation, in which you share in prorata percentage with the other institutions, and what you call your managerial compensation. In some cases, as I understand it, in addition to sharing the compensation received by

the other institutions, you have an item which you call a manager's compensation.

Mr. LAMONT. Quite so.

Senator BARKLEY. Which is in addition to that prorata compensation, and which I assume is charged for the responsibility and effort of handling the whole issue.

Mr. LAMONT. For the responsibility, yes, and the actual work involved, which is very heavy and very expensive in itself, in managing such a syndicate in these large instances. To tell you the truth, gentlemen of the committee, I am a little mortified in indicating the very limited amount of managing commissions that we have received. I am afraid I may invoke the sympathy and pity of the committee too much.

Senator BARKLEY. Why would that compensation apply in some cases and not in others when you assume the original responsibility in all cases?

Mr. LAMONT. It would depend upon the circumstances in the case of any particular issue. Where one could see that the amount of managerial work involved was going to be very heavy you would arrange for yourself a fraction of a commission to try to cover that. In a case where the work was not going to be so heavy you might omit it entirely. In the case of the first Austrian loan, there as a matter of principle, we declined to take any compensation because that was considered more or less in the light of a public duty, if we can call it that. Austria was on the verge of collapse, and this loan had been arranged by the allied nations of Europe and a guaranty given it by certain nations. It was for the purpose of trying to rehabilitate the economic situation of a people suffering from depression and almost in despair, and we made a very extraordinary endeavor to have the expense just as light as possible.

Senator BARKLEY. But you have no such rule to apply generally? In other words, each case stands upon its own bottom?

Mr. LAMONT. Yes; each case stands upon its own merits.

Senator GORE. That was one initiated under the League of Nations?

Mr. LAMONT. The finance section of the League Nations worked out the plan, yes. Now, shall I proceed, Mr. Chairman?

The CHAIRMAN. Yes; if you please.

Mr. LAMONT. We have got through the A's, namely the Argentine, Australia, and Austria. Now, we come to the B's, and first is Belgium. We issued a total of long-term bonds for Belgium of \$260,000,000. The first one was June 1, 1920, and the last one was October 23, 1926.

Senator GEORGE. Did you show the houses that handled all the securities for those countries that you have named, or do you know that?

Mr. LAMONT. Well, the data that we will furnish, Senator George, will show exactly what houses were associated with us in the original group, what houses, if any, were associated with the original group.

Senator GEORGE. I should have said your syndicate. Did they have other agents here who also handled some securities?

Mr. LAMONT. We were not agents in the ordinary sense of that word. That is, our house had no fixed agency arrangements with any of these governments. They were all free to go elsewhere at any time they liked. But as a matter of fact, practically speaking, as long as we were serving them acceptably, just as in the case of the old family doctor, they stuck to their bankers.

Senator GEORGE. And so far as Belgium was concerned, it dealt entirely through your house?

Mr. LAMONT. Belgium dealt entirely through our house and the Guaranty Trust Co. It was a so-called joint account. And in the same way with other issues, as will appear from the data we give you, various nations dealt with us and the National City Bank on joint account. But that will all appear on the record here.

The CHAIRMAN. Have you that in your record there?

Mr. LAMONT. Yes; but I should like to make the point if I may that we have no fixed agency arrangements with any of these governments, not even with the British, the French, or any of them. They are as free as the air to go elsewhere as they may like.

Senator GORE. In January, 1915, you made arrangements with the British Government? You were the fiscal agent of the British Government as per an arrangement of January, 1915.

Mr. LAMONT. Of what year?

Senator GORE. 1915.

Mr. LAMONT. That arrangement I think, Senator Gore, that you allude to, was of a different order. We had a commercial agency arrangement, so called, under which we undertook in behalf of the British Government to purchase all the great bulk of their supplies in this country, their supplies of grain and provisions, and raw materials and all that sort of thing, because they wanted on obvious grounds an orderly conduct of the matter to have their perfectly enormous purchases in this country during that period, before we got into the war, handled as promptly and expeditiously as possible.

Senator GORE. But that did not relate to the sale or flotation of securities?

Mr. LAMONT. Oh, no. We did float more than one loan for the British Government; but each loan stood on its own bottom as it came along.

Senator WALSH of Massachusetts. Did you not enter into a written agreement with those countries?

Mr. LAMONT. Oh, in the case of any particular loan we enter into what is called a loan contract, yes, in the case of every single issue.

Senator WALSH of Massachusetts. But up to that time they are free to go to any banking house they choose to in order to float the loan, are they?

Mr. LAMONT. Yes; and after that particular issue is completed they are free to go anywhere they please again.

The CHAIRMAN. Can you, Mr. Lamont, in the case of each one of these countries, give us the length of time in which a bond issue was to run, from the date of issue to the date of payment?

Mr. LAMONT. Yes. And even in the case of this rough table which I had prepared for my own use here to-day I have indicated not only the total amount of the original issue, but the amount of bonds still outstanding under that issue. In the case of several of these issues the entire amount has already been retired. For instance, in the

case of the Belgian, the first two issues aggregated \$80,000,000 and have already been completely retired. In the case of these other issues, the operation of the sinking fund, which, of course, is a very important point in our scheme of things in protecting the American investor, has resulted in a reduction by a material amount of the bonds outstanding. You can take the case of the first Austrian issue, which was \$25,000,000, and the operation of the sinking fund means that the amount outstanding has been reduced to below \$18,000,000.

The CHAIRMAN. Will that all appear in the statement that will go in the record?

Mr. LAMONT. That will all appear in the statement.

The CHAIRMAN. Very well. You may proceed.

Senator COUZENS. Except the spread.

Senator LA FOLLETTE. Except the spread or where you received any managerial commission.

Mr. LAMONT. In the case of the Belgian loans the total spread varied from 6 points, or 6 per cent, in the early loans when the market was very, very difficult, down to 4 points in the last loan.

Senator LA FOLLETTE. Did you have any commission there, Mr. Lamont?

Mr. LAMONT. I am now looking that up. In the case of the first two Belgian loans, Senator La Follette, we did not have any commission. In the case of the third loan we had a commission of three-twentieths of 1 per cent—

The CHAIRMAN (interposing). Was that the second loan?

Mr. LAMONT. The third loan. As I have said, in the first two loans we did not have any managing commission. In the case of the fourth loan we had a commission of two hundred and twenty-five one-thousandths of 1 per cent. In the case of the fifth and sixth loans we had, in each instance, a commission of one-fifth of 1 per cent. I think that finishes with Belgium.

Senator SHORTRIDGE. Did you give the total amount of the issues separately?

Mr. LAMONT. Yes; the total amount was \$260,000,000, distributed among five issues.

The CHAIRMAN. You may proceed.

Mr. LAMONT. Next comes Canada with \$105,348,000.

Senator WALSH of Massachusetts. At what time?

Mr. LAMONT. April 25, 1922. Well, now, there seems to be a little discrepancy here which will have to be straightened out. The large table that I have says \$100,000,000 and the small summary that I have says \$105,348,000. But that was the only Canadian long-term issue. The gross spread was 2½ per cent; managing commission, none.

Senator LA FOLLETTE. What was the last date?

Mr. LAMONT. There was only one issue, and that was April 25, 1922. We apparently have one issue for Chile—but, before we leave Canada—

Senator SHORTRIDGE (interposing). What was the life of the Canadian bonds?

Mr. LAMONT. The life of the Canadian bonds meant that they ran from 1922 to a maturity in 1952, a 30-year bond.

Senator COUZENS. What is your distinction between a short-term bond and a long-term bond?

Mr. LAMONT. My general distinction is this, Senator Couzens, that a long-term bond is the form of obligation that investors all over the country are seeking to obtain, in order to have a stable rate of interest over a long period of time. Short-term notes or something of that kind, which I will allude to briefly later on, have to do more with investments for banks, such as short-time paper that revolves quickly and matures.

Senator COUZENS. In the matter of years or months, what is the distinction between long term and short term? For instance, say there are bonds issued for 5, 10, or 20 years, what is the general distinction when you refer to them as long-term or short-term bonds?

Mr. LAMONT. That would probably vary according to the opinion of various experts. I suppose we would call a long-term issue anything from 10 years up. It would be unusual to have any issue maturing between a 5 and 10 year maturity, and five years or under we would call a short-term issue. I think that in general would be a proper distinction.

Senator COUZENS. None are issues serially but all for fixed periods, do you mean?

Mr. LAMONT. That is almost always true. But the serial effect is reached by means of the operation of the sinking fund.

Senator COUZENS. Oh, yes; I understand that, but I meant in the hand of the owner they are not serial.

Mr. LAMONT. Not serial as a usual thing.

Senator KING. Do I understand that the interest rates begin at the date of issue or only after the bonds have actually been sold?

Mr. LAMONT. Interest dates are fixed in each instance by contract. That is to say, suppose we were issuing a bond in the middle of September, usually the interest date would be fixed as of the 1st of October and the 1st of April; and the investor would, of course, whenever he paid for the bond, receive any accrued interest, if there was any.

Senator COUZENS. May I ask at that point: Does the agency that sells these securities act as trustee also for the sinking fund?

Mr. LAMONT. The issuing house or some trust company that may be designated acts as trustee for the sinking fund.

Senator COUZENS. Obviously there have been some difficulties in this country, where the issuing house also acts as trustee for the sinking fund. Is that a wise practice, for the issuing house to act as trustee for the sinking fund?

Mr. LAMONT. I had not heard of the instance you allude to. In the case of our house I venture with some lack of modesty to say that it is a very wise practice.

Senator COUZENS. There have been cases that have come to my attention where the issuing house also was trustee for the sinking fund, and they diverted the sinking fund for other purposes. I am not saying that it applies to your house or to any other house.

Mr. LAMONT. Oh, no.

Senator COUZENS. I mean that there is a hazard there, that the investor does not seem to be adequately protected.

Mr. LAMONT. I had not heard of those instances. Of course, we must always presume that the investor, who has a growing desire for information and intelligence on these points, will buy his bonds from a house whose reputation is of high standing, or of a bank.

Senator REED. Needless to say that has never happened in the case of any of your issues.

Mr. LAMONT. Oh, no.

Senator COUZENS. Tell us why you think it is a wise policy to have the issuing house also the trustee of the sinking fund?

Mr. LAMONT. Well, I do not know just what is the answer to that. It is the usual practice. It has been the banking practice for generations, both in this country and abroad. The house that issues bonds is supposed to be more closely in touch with the conditions existing in the country of issue, and it is the natural thing that the operation should be centered there. You take the case of two outstanding German Government issues which our house handled—the Dawes plan loan in 1924 and the Young plan loan in 1930—and there has been some question at times in the public mind whether the German Government was depositing promptly and fully the amounts in the case of those two issues with its sinking fund agent. We happen to have knowledge that it is and always has. That is a very valuable thing, for some one in authority to know and to be able to inform legitimate inquirers as to the situation, you see.

Senator COUZENS. Is there any limitation placed upon the agent as to how he may invest that sinking fund?

Mr. LAMONT. Oh, certainly; that is all prescribed in the contract between the Government and the issuing house. Of course, the sinking fund in America is used very largely for the retirement from the market of outstanding bonds, just as I have quoted in this case of Austria.

Senator COUZENS. And in some cases there may be a very large profit to the sinking fund by buying their own securities below market value.

Mr. LAMONT. In some cases that is possible.

Senator KING. And that enures to the issuing company.

Mr. LAMONT. It enures to the issuing government. But in the case of these European governments and cases of that kind, I do not think it has been very marked. I could get information on it, probably.

Senator COUZENS. Would it not be of a very marked nature under existing bond market conditions?

Mr. LAMONT. It would be if foreign governments were able to take advantage of it.

Senator COUZENS. Might not the sinking fund take advantage of this depressed market on bonds?

Mr. LAMONT. I suppose if the sinking fund contained a provision that would enable the Government to go into the open market and buy the bonds it would.

Senator COUZENS. Well, isn't that true?

Mr. LAMONT. No; it does not always contain such a provision. Sometimes it does provide that bonds shall be retired by lot or by drawing. Mr. Mitchell, I take it, knows more about these things than I do. But that is the way it works.

Senator WALSH of Massachusetts. Are the contracts which you make with these governments submitted to the State Department for approval?

Mr. LAMONT. Not the contracts.

Senator WALSH of Massachusetts. What is your relation to the State Department about these foreign loans?

Mr. LAMONT. I would answer that question by saying this. In 1920 President Harding requested bankers in New York, and I think also in Chicago, to come to Washington, and explained to them that before they undertook to make any issues of foreign government bonds he would like to have it arranged with the State Department that it should have cognizance of such projected issues, and the department would have the privilege, if they so desired, of intervening in any particular instance. The bankers all acquiesced in such an arrangement. So far as our particular house was concerned there was nothing new in that matter. We had always informed the State Department, by word of mouth or however it might be done, of any foreign issue.

Senator WALSH of Massachusetts. Has that practice continued up to the present time?

Mr. LAMONT. Yes; although in recent years Washington has not, so far as I have been able to judge, made so much of it.

Senator WALSH of Massachusetts. In the case of Cuba, is there any different arrangement with the State Department? Don't you have to get their approval first?

Mr. LAMONT. I do not believe I can answer the technique of that, Senator Walsh. Of course, the relationship between the United States Government and Cuba as set forth in the so-called Platt resolution—

Senator WALSH of Massachusetts (interposing). The Platt amendment, you mean.

Mr. LAMONT. Yes; the Platt amendment—always comes in. But we have been very careful in every instance to notify the State Department, so that I would not make any distinction in the case of Cuba.

Senator BINGHAM. Isn't it true that the Platt amendment requires the Cuban Government to secure the approval of the American Government before it can float any foreign loans?

Mr. LAMONT. I think you are right on that.

Senator WALSH of Massachusetts. Is it not more acute in the case of Cuba?

Senator BINGHAM. Yes; it is under our own law.

Senator COUZENS. Have you any record of where the State Department has issued an affirmative letter on these proposed loans, affirming the sale of them?

Senator REED. You mean approving the issue?

Senator COUZENS. Yes.

Mr. LAMONT. They do not do it in affirmative form. They have done it heretofore in negative form. That is to say, our practice has been to call up the Secretary of State or one of his assistants and say that we have under negotiation with, for instance, the Belgian Government, an issue of \$25,000,000, which we propose to make on or about such and such a date, and would you be good enough to inform us in advance as to whether the department interposes any objection. And we confirm that in writing, and would probably receive from the State Department in the course of a few days, after it has consulted with the Treasury Department and the Department

of Commerce, a simple letter stating: "We have received your letter of such and such date and do not desire to interpose any objection."

Senator COUZENS. Is your understanding of that matter what Senator Glass generally means when he speaks of the State Department O. K.ing these foreign loans?

Mr. LAMONT. I would assume that that is what Senator Glass has in mind, on the ground that the absence of objection constitutes a blanket approval, which, of course, we have never seen, with all due respect to Senator Glass.

Senator WALSH of Massachusetts. Do you know whether the representatives of these countries consult the State Department first before they take up the matter with you?

Mr. LAMONT. I can answer that in a general way. I assume that they do not, because they rely upon us to do that. It is not a diplomatic matter; it is a financial matter.

Senator GORE. They have never disapproved of more than two proposed loans, have they?

Mr. LAMONT. I do not believe I can answer that.

Senator GORE. The potash proposition to France and the Brazilian Government with regard to coffee?

Mr. LAMONT. Well, you have got that more clearly in mind than I have, Senator.

Senator GORE. I do not think they did.

Senator CONNALLY. Regardless of how it is construed, when you advise the department that you want to float these loans and it says they have no objections—

Mr. LAMONT. Yes.

Senator CONNALLY. You construe it as being all right and they go ahead?

Mr. LAMONT. Senator, we construe simply this: We construe that there is no point of high politics involved which is of such great importance as to lead the Government of the United States to think it unwise for us to have such initial negotiations.

Senator BARKLEY. In case the State Department registers an objection the loan is not floated, is it?

Mr. LAMONT. Oh, certainly not.

Senator BINGHAM. Do you, in your advertisements, advertise the fact that this loan has been approved by the United States Government?

Mr. LAMONT. We do not.

Senator COUZENS. Do you know of any house that does?

Mr. LAMONT. I have not know any such, Senator Couzens.

The CHAIRMAN. Mr. Lamont, did Brazil make an application to you for a loan and it was disapproved by the Treasury Department or the State Department?

Mr. LAMONT. I will answer that, Senator Smoot, by saying that we have never had any financial relations with the Brazilian Government, and so they have never made application.

The CHAIRMAN. Have you with Santo Domingo?

Mr. LAMONT. No.

Senator REED. Do you interpret the absence of objection as being in any sense affirmation of the State Department that the loan is a secure one or that the credit is good?

Mr. LAMONT. Why, Senator Reed, in no sense have we ever made such construction.

Senator REED. They do not undertake to pass upon the solvency or the continued security of the loan?

Mr. LAMONT. They have never given to us any indication of any such authority.

Senator GORE. I think the State Department has positively disclaimed any such implication or responsibility.

Mr. LAMONT. No; they made it plain, as I said to the Senator on my left a moment ago, that it was only a question of some high politics involved about which the bank would be presumably in ignorance but which affected the interests of the United States Government.

Senator REED. They have never presumed to pass upon the security of the loan?

Mr. LAMONT. Oh, never. Never. But I suppose in the case of all governments or small countries, if they had any special information as to pending revolutions or anything like that, they would give a friendly word to the inquiring house. But as for any affirmatory investigation of the kind you mentioned, never.

Senator HARRISON. Mr. Lamont, has your house had anything to do with the Nicaraguan bonds, or were they all with the house that issued the first bonds many years ago?

Mr. LAMONT. We have never had anything to do with the Nicaraguan bonds.

Shall I proceed with this summary?

The CHAIRMAN. Yes; proceed.

Mr. LAMONT. I was going back to Canada, because under Canada there were two very small issues of Province of Manitoba bonds, aggregating a little over \$5,000,000, and both of them have matured now.

Senator BINGHAM. That is the discrepancy in that figure of \$5,000,000.

Mr. LAMONT. Oh, I guess it is. You are right. Thank you.

Senator REED. Those bonds have been paid, have they?

Mr. LAMONT. Those bonds have been paid; yes.

Now we come to Chile. We had one issue of bonds on February 15, 1921, all of which have been redeemed.

Senator LA FOLLETTE. What was the amount?

Mr. LAMONT. The amount was \$24,000,000, Senator.

Senator SHORTRIDGE. What rate of interest?

Mr. LAMONT. They were 8 per cent bonds.

Senator CUTZENS. And the spread?

Mr. LAMONT. The gross spread was 5 per cent. The managing commission was nothing.

Next we come to two issues of Republic of Cuba bonds, aggregating \$59,000,000, the first made on January 15, 1923, the second July 1, 1927.

Senator BINGHAM. Mr. Lamont, may I ask a question with regard to the Chilean loan?

Mr. LAMONT. Certainly.

Senator BINGHAM. Do you happen to know how that came to be paid off so promptly? Were they able to refund them at a low rate of interest through some other country?

Mr. LAMONT. I assume that that was the case. I assume that that was the case, but I do not know, but I can have it looked up.

Senator BINGHAM. They did not refund them by any loans which you floated?

Mr. LAMONT. No; they did not refund them through us.

Senator BINGHAM. Do you know if they were refloated in this country?

Mr. LAMONT. That I do not know.

Senator BINGHAM. Will you let us know?

Mr. LAMONT. Yes; although it is possible that some one of the other witnesses whom you may call that had to do with the subsequent issues may be able to inform you. But we can look it up.

Now, let us see: Cuba bonds, the gross spread in one instance was 2.48 per cent commission, and the other instance 1.122 per cent commission.

Senator HARRISON. Mr. Lamont, did your house float more than one issue of the Cuban bonds?

Mr. LAMONT. Two.

Senator HARRISON. Two issues?

Mr. LAMONT. Two. One in 1923 and one in 1927.

Senator HARRISON. The National City and the Chase Bank floated loans for Cuba, did they not?

Mr. LAMONT. I recall that the Chase Bank did. I do not recall about the National City Bank, Senator, but Mr. Mitchell, when he comes on the stand, will be able to inform you undoubtedly.

Now we come to France: A total of \$300,000,000 of bonds in three issues; the first, September 3, 1920; the second, November 24, 1924.

Senator LA FOLLETTE. And the third?

Mr. LAMONT. Excuse me—the first is September 3, 1920; the second, May 23, 1921; and the third, November 24, 1924, each for a hundred million dollars.

The first issue has been completely retired. The second issue has been reduced from a hundred to below \$61,000,000. The third issue has been reduced from a hundred million to below \$71,000,000.

The gross spread in these loans ranged from 5 to 6 per cent. In the case of the first two loans there was no managing commission. In the case of the third loan there was one-quarter of 1 per cent.

The CHAIRMAN. And the rate of interest?

Mr. LAMONT. The rate of interest on the first loan was 8 per cent; second, 7½; third, 7. The rate of interest declined, as you can see, as market conditions improved, manifestly.

Senator SHORTRIDGE. And the life of the bonds?

Mr. LAMONT. The first issue in 1920 was due 25 years thereafter; the second was due in 20 years, and the third in 25. As I say, of the total of \$300,000,000 all but about \$131,500,000 have now been retired.

Senator COUZENS. When you say "retired," you mean the sinking fund has retired? They may be in the hands of the public, though, may they not?

Mr. LAMONT. No; retired; taken out of the hands of the public; no longer outstanding.

Senator COUZENS. You mean called?

Mr. LAMONT. Called.

Senator COUZENS. And the percentage was added for the calling privilege, was it not?

Mr. LAMONT. Was added for what?

Senator COUZENS. A percentage was added for the privilege of calling, was there not?

Mr. LAMONT. Percentage to whom?

Senator COUZENS. To the owner. Usually a bond carries 1 or 2 per cent for the privilege of calling.

Mr. LAMONT. I could not answer that, Senator, in these particular instances, but there is no secret about the arrangements.

Senator COUZENS. No; I understand.

Mr. LAMONT. And it may be made clear in every instance.

Senator SHORTRIDGE. When you say it was retired, do you mean it has been paid off?

Mr. LAMONT. Paid off.

Senator SHORTRIDGE. Paid off?

Mr. LAMONT. Yes. So that the total obligations of the Government of France in this country in long-term bonds out of these three issues is now \$131,000,000 instead of \$300,000,000.

Senator COUZENS. Does the issuing bank receive a specific security or does it just have the general obligation of the country?

Mr. LAMONT. That depends in different instances, Senator Couzens. In the case of the larger countries it is usually simply on the good faith, on the absolute obligation of the government to pay it themselves.

Senator COUZENS. In the case of the two issues in Germany?

Mr. LAMONT. Yes.

Senator COUZENS. There was specific collateral put up, and it was not the general obligation of the country in those cases?

Mr. LAMONT. There were specific revenues allocated.

Senator COUZENS. Yes.

Mr. LAMONT. And that is the next item on my list and, if I may, I will acquaint you with that as I come to it.

Senator COUZENS. That is all right.

Senator HARRISON. Mr. Lamont, you said the last issue of the French securities was in 1924?

Mr. LAMONT. That is right, 1924.

Senator HARRISON. What did they sell—those securities to the public?

Mr. LAMONT. The issue price was 95.

Senator HARRISON. Ninety-five?

Mr. LAMONT. Yes.

Senator HARRISON. Was France, in 1926, in as good condition—

Mr. LAMONT (interposing). Wait a minute; the 1924 bonds were sold at 94.

Senator HARRISON. Was France, in your opinion, in as good condition economically in 1926 as they were in 1924? There was somewhat of an improvement, was there not?

Mr. LAMONT. So much water has flowed over the dam, Senator, that I do not know whether I can cudgel my memory enough to detail what France's exact economic position was in those years by way of comparison. Her general condition would be measured by her credit in the public markets. Do you see? Now, if you will tell me what you have in mind, perhaps I can clear up your mind on it.

Senator HARRISON. What I have in mind is that these sold at 94, I believe?

Mr. LAMONT. Yes.

Senator HARRISON. We funded the French debt in 1926, I think, on the basis of 51. They got a very good bargain, did they not?

Mr. LAMONT. Well, it is not for me to pass upon, either approve or disapprove the arrangements the United States Government made. I thought the United States Government, in general, made very excellent arrangements with its debtor countries.

Senator HARRISON. They were very generous in that funding agreement?

Mr. LAMONT. Well, I am not prepared to enter into motives of generosity or nongenerosity. I think that they made a very good arrangement.

The CHAIRMAN. Is it not true, Mr. Lamont, that their currency went all to pieces, the franc went down to 2 cents just before that settlement was made?

Mr. LAMONT. When did you say that was?

The CHAIRMAN. In 1926 was when the settlement was made.

Mr. LAMONT. Why, yes. Now, as you remind me, it comes back. The franc began a precipitous decline some time in 1924, and it got worse and worse, and in May, 1926, or April, 1926, there was complete despair on the whole subject of the franc, and the general prognosis was that the franc was going over the dam.

The CHAIRMAN. It was freely sold, however, at 2 cents?

Mr. LAMONT. I do not remember the exact figure, but it was very, very low. It was not until Poincaré came back into power and had been in power some months and succeeded in stabilizing the franc that French Government finance began to come back.

Senator GORE. That was in 1927 or 1928, was it not?

Mr. LAMONT. Well, I should think that was 1927; yes. Perhaps it was early in 1927 that things began to look better. Well, let us see. Sometime in 1926 he took such measures as gave a better look to the situation, late in 1926.

The CHAIRMAN. Stabilized the franc at 5 cents?

Mr. LAMONT. Not as high as that. About 4 cents.

Senator HARRISON. At 4.

Senator GORE. About 4.91 and a fraction.

Senator JOHNSON. Was either one of these French issues purchased outright by Morgan & Co.?

Mr. LAMONT. They were all purchased outright by Morgan & Co. and their immediate associates.

Senator JOHNSON. Yes. At what price, if you please, did they purchase the French issues?

Mr. LAMONT. I can answer that best by indicating the issue price and the spread, which, subtracted from the issue price, gives you the price that they netted the Government of France. Is that what you want?

Senator JOHNSON. I want first—as I understood, one of the issues was purchased outright by J. P. Morgan & Co.

Mr. LAMONT. They were all purchased outright by ourselves, and our associates, Senator; yes.

Senator JOHNSON. Let me see if I can understand it. If I am in error, I beg your pardon, but perhaps I may refresh your recollec-

tion in that regard. Was there not one issue that was purchased outright by Morgan & Co. and that subsequently was syndicated in the fashion in which these loans are syndicated?

Mr. LAMONT. Well, now, my record would not indicate that. I can have that special point looked up.

Take the case of the first loan, Senator Johnson; it was a hundred million dollars. The issue price was par, and there was a gross spread of 6 points, which would mean that France netted 94 for that. And the original group consisted of four houses.

The second one was issued at 95 with a gross spread of 5 per cent which made 90 net that the Government of France secured, and in the original group purchase there were four parties again.

The last one was issued at 94 with a gross spread of 5 per cent, making 89 net, and there again there were a group of four in the original purchase.

Senator JOHNSON. All right; the four that you name were the original purchasers outright of the entire issues; is that correct?

Mr. LAMONT. That is correct.

Senator JOHNSON. Yes, sir.

Senator GORE. Who were the parties?

Senator JOHNSON. All right; Senator Gore asked who were the four?

Mr. LAMONT. I would have to look that up, and I will furnish it in the general record that I furnish.

Senator JOHNSON. Now, subsequently, after the purchase thus by the four—

Mr. LAMONT. Yes.

Senator JOHNSON. At the specific price that you have indicated, in syndicating these bonds was anything charged the syndicate by the four?

Mr. LAMONT. No; it was not put in that form, Senator Johnson. I would not put it in that form. The original group of four purchased them at the figures I have indicated, and they resyndicated them to the next group, respectively, at a half of 1 per cent up and at three-quarters of 1 per cent up.

Senator JOHNSON. Yes. That is the original four purchased them and they formed another syndicate; that is correct, is it not?

Mr. LAMONT. Yes; in which the original four had an interest.

Senator JOHNSON. In which the original four had an interest?

Mr. LAMONT. Yes.

Senator JOHNSON. And the original four received one-half per cent and three-quarters per cent?

Mr. LAMONT. That is it.

Senator JOHNSON. In forming that new syndicate?

Mr. LAMONT. Yes.

Senator JOHNSON. Then the second syndicate thus formed retailed the bonds at par, did they not?

Mr. LAMONT. No. In those instances, because the issues involved were so considerable, and the market was in such a state as it seemed wise to require it, there was formed a third, a final, distributing syndicate.

Senator JOHNSON. Yes. So that there were the first four, then the second syndicate from whom or to whom was charged the 1 per cent or the half per cent or the three-quarters, as the case may be?

Mr. LAMONT. Yes.

Senator JOHNSON. Then there was a third syndicate formed?

Mr. LAMONT. Yes.

Senator JOHNSON. Was that syndicate charged, then, any percentage of the price?

Mr. LAMONT. The third syndicate—yes; they got the larger amount of spread. The final syndicate got the larger amount because the actual work of distribution fell upon that final syndicate more fully. They got 4 per cent, respectively, 4 per cent and 3 per cent.

Senator JOHNSON. Now, let us start with the prices paid for those three issues by the original syndicate of four.

Mr. LAMONT. Yes.

Senator JOHNSON. What were those prices, please?

Mr. LAMONT. Those prices were, respectively, 94—

Senator BINGHAM (interposing). 90 and 89.

Mr. LAMONT. 90 and 89; that is right.

Senator JOHNSON. 94, 90, and 89?

Mr. LAMONT. Yes, sir.

Senator JOHNSON. For what sum or for what price were those bonds ultimately then sold by the last syndicate to the people generally, or to banks generally?

Mr. LAMONT. They were ultimately sold to the investor, respectively, at 100, 95, and 94. The banks as purchasers are usually allowed a small commission as purchasers.

Senator BINGHAM. Then that accounts for what you call the spread of the 6 per cent on the first loan, 6 per cent on the second—

Mr. LAMONT (interposing). Five on the second.

Senator BINGHAM. Five on the second and 5 on the third?

Mr. LAMONT. That is it.

Senator JOHNSON. Would you give, please, the dates of the three issues each in a hundred million dollars?

Mr. LAMONT. Yes.

Senator JOHNSON. That have been dealt with in the fashion that you have just detailed?

Mr. LAMONT. Certainly. September 3, 1920, May 23, 1921, November 24, 1924.

Senator JOHNSON. Thank you.

Senator BINGHAM. Now, Mr. Lamont, may I make an inquiry?

Mr. LAMONT. Certainly.

Senator BINGHAM. I notice in a number of these issues where the issue came out in 1920 or 1921, as, for instance, in the Belgian loan in 1920, where the spread was 6 per cent; Chilean loan of 1921, where the spread was 5 per cent; the French loan of 1921, where the spread was 6 per cent—that the spread seems to be very much greater than bonds issued later, as, for instance, the Cuban loan of 1927, where the spread was only 1.122, and the Canadian loan.

Mr. LAMONT. Yes.

Senator BINGHAM. Where the spread was only 2½ per cent?

Mr. LAMONT. To be sure.

Senator BINGHAM. I am curious to know why it was possible in later years to do business at so much less profit, and why in the period of 1920 and 1921, which was, of course everybody remembers, the reconstruction period in this country, that it was necessary to charge such a high profit.

Mr. LAMONT. That is, if you will allow me to say so, a very pertinent question. And when you use the word "profit," we are not able to use that word "profit." We call it a "spread," because the most of it, the greater part of it, was absorbed in actual expenses, in distribution over our very wide territory in this country.

For that reason we had to have a larger spread to work on in the houses throughout the country in the early postwar years, and it was because those were the days of early reconstruction in Europe before the countries were all, in the public mind, thoroughly back on their feet. And it took more of a process of enlightenment and explanation, for instance, to point out why the obligation of the French Government, payable in United States dollars, with the present degree of weight and fineness, was absolutely good than it did later on in the later years of this decade when conditions had become more stabilized.

In this connection, your former colleague, Senator Morrow, and a dear friend of a great many of us, testified before a Senate committee, I think it was in 1926, on that very point, Senator. He covered it very fully—covered it really better than I can do to-day—and I would refer you to that testimony. He also covered at that time very carefully the process by which these bonds are distributed throughout the country, the necessary expenses involved by these various groups in seeing that they find ultimate lodgment in the hands of the investor.

Senator WATSON. Mr. Lamont, they are distributed very largely to your correspondent banks, are they not?

Mr. LAMONT. Senator Watson, I would answer that by saying we do not have—our house, you see, is not a bank in itself; it is really a house of merchants. We do not have exactly what we call correspondent banks. We have what we call a syndicate group that we utilize to distribute through from time to time as these issues arise. It is made up of banks and institutions which have distributing facilities and distributing houses, and so forth. The syndicate lists in any instance you like will be furnished to you. There is no secret about that.

Senator REED. Mr. Lamont, in estimating the reasonableness of this spread of which you have spoken, it is a fact, is it not, that you have to bear in mind the possibility that the syndicate will be unable to dispose of its bonds and may really incur a loss in each case?

Mr. LAMONT. Certainly, Senator Reed. In any case that arises where the syndicate has been unable to dispose of the bonds its members necessarily have to take over their pro-rata share of the bonds.

Senator WATSON. Has that happened?

Mr. LAMONT. And, of course, every issuing house makes a great point of seeing to it, if possible, that there is not a comeback on the syndicate. But you are quite right in indicating that in each one of these groups part of the spread must be devoted, we will call it, to purposes of insurance; that is to say, any risk of underwriting.

Senator REED. In recent years it is a fact, is it not, particularly in London, that these distributing syndicates have been forced to absorb a great part of the issues?

Mr. LAMONT. London has a very sad story on that, Senator Reed. Oh, yes; they have come back on the hands of the underwriters in London very heavily.

Senator WATSON. Has that very frequently occurred here, Mr. Lamont?

Mr. LAMONT. It has occurred sometimes, Senator Watson. I do not recall offhand instances of them, but probably there are. There is always the chance of it, you know.

Senator COUZENS. Has the Morgan Co. had any experiences such as that?

Mr. LAMONT. I suppose we must have had in our long term of—

Senator COUZENS (interposing). I mean in the last few years?

Mr. LAMONT. Senator Couzens, I honestly do not remember, because those are details that do not come to my attention.

Senator COUZENS. They could not have been very extensive for you to not remember, could they?

Mr. LAMONT. I think if they had been very extensive, my memory would not fail me.

Senator GORE. Will the supplementary data that you are going to file, Mr. Lamont, show the net profit? You say the gross profit, and the expenses have to be deducted to arrive at the net profit?

Mr. LAMONT. That is it.

Senator GORE. Will any of these that you are going to file show your net profit?

Mr. LAMONT. There is no way to arrive at that that I know of.

Senator GORE. In making out your income-tax returns?

Mr. LAMONT. Well, when you make out your income-tax returns you turn in your profit for the year after all your expenses of every kind have been paid.

Senator GORE. I understand, but you have to show your net profits on each transaction.

Mr. LAMONT. We can not do it, because you would not know just how much to deduct for overhead in each particular instance, you see.

Senator GORE. In connection with each particular instance, don't you arrive at your net profit?

Mr. LAMONT. I should not be able to say in any instance what a net profit was. All I know is that we take any such commissions as finally accrue to us, and from that, of course, there has to be deducted all legal expenses—expenses of advertising, all that sort of thing, circularizing, and so forth—and then you arrive, perhaps, at a net figure, which if you wanted to arrive at a net profit would be again subject to deduction for overhead or something like that. But we never attempt to refine things down to that point.

Senator BARKLEY. Mr. Lamont, this contract that you enter into with each government for each individual loan provides in advance the amount of spread that should be applied to the loan?

Mr. LAMONT. Oh, quite.

Senator BARKLEY. Is that supposed to cover all these subconditions that are distributed among these subsyndicates where you have more than one?

Mr. LAMONT. It is not only supposed to but does, because the Government does not concern itself with how its spread is divided up.

Senator BARKLEY. So that the 1½ and three-quarters percentage which the subsyndicate, the third group, got, say, in the case of these French loans and any such syndicate commissions which might have been furnished to any groups or syndicates would be included in these three issues that you have given to apply to these loans?

Mr. LAMONT. Oh, yes; completely.

Senator WALSH of Massachusetts. Does the extent of the loan depend upon the marketability of the bonds in the given country? For instance, is not one of the explanations for the difference between the spread in the French bonds and the Canadian and Cuban bonds the fact that Canadian and Cuban bonds are more easily marketable in this country?

Mr. LAMONT. Unquestionably, as applied to the conditions at that particular time. Unquestionably.

Senator WALSH of Massachusetts. Are they not among the two best foreign bonds sold in this country, considered by purchasers?

Mr. LAMONT. Well, I would not want to express an opinion on that, Senator Walsh.

The CHAIRMAN. During the time of the negotiations for these bonds the French franc was in a very precarious condition. Many thought it would go below 2 cents, did they not?

Mr. LAMONT. Right.

The CHAIRMAN. And that had some—

Mr. LAMONT (interposing). Well, a good many people, Senator, thought it would go over the dam entirely, like the German mark.

The CHAIRMAN. And that had a great effect upon the amount of interest discount that was required to place those bonds in this country?

Mr. LAMONT. Why, it had a very direct effect. It had a very direct effect; and, as your colleague here has pointed out, we were able gradually to make the issues on a slightly rising scale, but in the case of France back in those years, those difficult years, it was always a pretty heavy job for the distributors of the loans.

Senator GORE. Mr. Lamont, when France stabilized the franc at less than 5 cents that cut down her domestic indebtedness four-fifths, did it not?

Mr. LAMONT. Oh, yes; it cut down her domestic indebtedness and it cut down—you could call it the so-called wealth of her people, by 80 per cent, because in effect she repudiated her obligation to her own people by 80 per cent.

Senator GORE. Yes; that is, reduced the wealth of the bondholders?

Senator BINGHAM. No; of all the people.

Senator GORE. I would not think the diminution of their tax levy to pay the bonds would have injured the French people, if they had to levy only one-fifth as much taxes to pay these as they would otherwise. I mean the burden, the actual burden, taken from the people in the form of taxes.

Mr. LAMONT. Of course, what we mean applies not only to the French Government domestic bond issues themselves, which were in effect written off to the extent of 8 per cent, but it refers also to all contracts issued in francs.

Senator GORE. Certainly; all time contracts.

Mr. LAMONT. You are quite right about that.

Senator GORE. You would not care to express an opinion as to the wisdom of that action?

Mr. LAMONT. The wisdom of the action of what?

Senator GORE. On the part of France in revaluating the franc.

Mr. LAMONT. Oh, no; I do not think it is a question of approving or disapproving. It was a question of what the—very arduous conditions that they were up against at that time. Unfortunately, I do not think they were able to do anything else. You remember that they had to spend in northern France enormous sums to get their people even decently housed again.

Senator GORE. What I was getting at, regardless of the reason or justification, it was a form of repudiation?

Mr. LAMONT. Certainly, just as in the case of Germany the entire value of the mark was repudiated, so to speak. In the case of Italy, not so much, but the Italian lira is worth $5\frac{1}{2}$ cents—Senator Reed—something like that as against nineteen and a third originally.

Senator GORE. And England slipping off the gold standard did indirectly the same thing?

Mr. LAMONT. Oh, quite. Quite; just as we were off the gold standard in this country from 1860, whatever it was, to 1877, 1878, or 1879.

Senator GORE. Yes; 1861 to 1879.

Mr. LAMONT. We have all been through it.

Senator GORE. Yes.

Senator KING. Mr. Lamont, you stated that Senator Morrow has given a memorandum of the methods by which these bonds were sold to the public.

Mr. LAMONT. Yes.

Senator KING. Was anything ever done by your syndicate or any other syndicate that you have any knowledge about that might be construed in the slightest way as coercion upon the part of your syndicate or any of your related banks to coerce other banks or other people to take part in this distribution?

Mr. LAMONT. Not the slightest, in anything that we ever heard or had to do with. Every bank or banking house to whom we addressed the syndicate letter offering it participation in the syndicate has an absolute right to reject it, and they frequently do, if it does not happen to suit their convenience.

Senator KING. I think perhaps they might do that with reference to Morgan & Co., with their standing, but they might not do it with reference to other syndicates.

Mr. LAMONT. Now, that is very complimentary of you, Senator. I appreciate it. But I think all syndicates exercised the same right of declination if it did not happen to suit their convenience at the time.

Senator BARKLEY. Mr. Lamont, in connection with the observation you have just made relative to the effect of the English pound, of the slipping of England from the gold standard, you would not care to express an opinion as to the probable effect of all that upon the standard of value in the United States. It is not pertinent to this inquiry, but your opinion is very valuable.

Mr. LAMONT. Well, that is ever so good of you, but I think I would have to take a couple of days off with you and sit down—

Senator BARKLEY (interposing). I will not require you to do that.

Mr. LAMONT. I would love to do it, if you give me time. We are under a little pressure these days, but any time we will be glad to compare notes on that.

You spoke of Senator Morrow's testimony on the method of expense of distributing these bonds throughout the country. Senator Morrow made another awfully good point, it seemed to me, as I ran over his testimony again, and that was this point: He emphasized the fact that the banks throughout the United States, the banks in New York and all that sort of thing, are not "loaded up," using that phrase "loaded up," with the foreign bonds to the extent that a great many people in the public think they are. There seems to be a general impression on the part of the public that these are bankers' bonds, that the bankers are loaded up with long-term bonds of countries all over the world and that their resources are impaired by the extent of those bond holdings, coincidental with the decline of domestic bonds, and that that is a very menacing—on the one hand—a very menacing point in the situation, and on the other constitutes a particular class of creditor whose object is to work together or to being some particular pressure to bear in some direction.

Senator GORE. That is true now, Mr. Lamont?

Mr. LAMONT. That is not true.

Senator GORE. They are not loaded up now with these?

Mr. LAMONT. I would say decidedly not, because, as Mr. Morrow pointed out, the method has been to distribute these bonds throughout the country and they are so distributed.

Senator GORE. That is the point. Now, the shrinkage of value in these bonds occurred in the hands of the men that purchased them, did it not? In other words, Tom, Dick, and Harry have taken the loss, not the bank?

Mr. LAMONT. Well, it is a very deplorable thing that in the present depressed state of the world affairs, our private investors have been obliged to witness severe declines in United States Government bonds, in foreign government bonds, in railroad bonds, industrial bonds, and every kind of bonds.

Senator GORE. Yes.

Mr. LAMONT. But answering your question: It has been and is today the great investing public upon which those declines have chiefly fallen, rather than on the banks. Of course, the banks—

Senator GORE (interposing). Has the policy of your house and the other banks been pretty much the same since the spring of 1927 as before that date with reference to the flotation of these bonds? You have handled quite a good many since then?

Mr. LAMONT. I do not believe I get your point as to a particular date.

Senator GORE. Yes; since the spring of 1927, for instance.

Mr. LAMONT. Oh, yes; we have had quite a lot since then.

Senator GORE. The reason I asked that question, Mr. Lamont, I was reading a speech you made before the Pan American Conference here, and I thought it very wise myself, in which you seemed to see the clouds rising in this foreign-bond market, and said the American banker was sitting on the doorsteps of these European governments importuning them to accept money, and that municipalities and corporations were encouraged to compete for American money.

Mr. LAMONT. Now, Senator, did I make that speech before the Pan American Congress?

Senator GORE. Yes, sir.

Mr. LAMONT. I remember being asked to make it, but I do not remember making it.

Senator GORE. I have it here.

Mr. LAMONT. Oh, well, you have it.

Senator GORE. And I think it is good sense, I will say that, if it had been acted on.

Mr. LAMONT. Good enough. I am glad I was guilty at some time of good sense. May I look at it?

Senator GORE. Yes. It is in there, and it is over the last speech. It has "read" written under it.

Mr. LAMONT. Oh, this is back in 1927. You are right.

Senator GORE. 1927.

Mr. LAMONT. You are right. I thought you meant this spring.

Senator GORE. It is a passage toward the last of it.

Mr. LAMONT. Do you want me to read it?

Senator GORE. I wish you would; yes, because I want to get it in the record.

Mr. LAMONT. All right. It is under a subheading, which is entitled "Necessity to Exercise Caution," and it reads as follows:

From the point of view of the American investor it is obviously necessary to scan the situation with increasing circumspection and to avoid rash or excessive lending. I have in mind the reports that I have recently heard of American bankers and firms competing on almost a violent scale for the purpose of obtaining loans in various foreign money markets overseas.

Naturally it is a tempting thing for certain of the European Governments to find a horde of American bankers sitting on their doorsteps offering them money. It is rather demoralizing for municipalities and corporations in the same countries to have money pressed upon them. That sort of competition tends to insecurity and unsound practice. The American investor is an intelligent individual and can be relied upon to discriminate. Yet, in the first instance, such discrimination is the province of the banker who buys the goods rather than of the investor to whom he sells them.

I may be accused of special pleading in uttering this warning, yet a warning needs to be given against indiscriminate lending and indiscriminate borrowing.

Senator GORE. It seems to me, Mr. Lamont, that you at least saw a danger signal or a red light, and I was wondering whether it had been regarded or disregarded by the bankers since that speech was made?

Mr. LAMONT. Well, I do not think anybody can answer that in general terms, Senator.

Senator GORE. The general policy has remained the same since then as before?

Mr. LAMONT. I think that most of the bankers of the country that were trying to keep in close touch with world conditions felt about as I have indicated there at that time. It was necessary to go very carefully; very cautiously.

The CHAIRMAN. Mr. Lamont, have you a copy of the late Senator Morrow's letter?

Mr. LAMONT. Letter?

The CHAIRMAN. Testimony, I should say.

Mr. LAMONT. It was testimony. It was before a Senate committee.

Senator COUZENS. What year was it, Mr. Lamont?

Mr. LAMONT. It was 1926.

The CHAIRMAN. I would like to have it in this record.

Mr. LAMONT. It was not a letter; it was a series of replies to inquiries from the Senators.

Senator JOHNSON. It was in an examination that was held before this committee, in which the examiner really was the Senator from Mississippi in the main, and Senator Morrow testified quite at length. I have a copy of it. That, if the chairman desires, I will bring to him this afternoon.

The CHAIRMAN. Give it to me and I will have it put in the record at this point.

Senator REED. It may go in at the close of this hearing. We do not want to break in Mr. Lamont's testimony.

(The matter referred to by the chairman appears in the appendix.)

Mr. LAMONT. Yes. In the course of Mr. Morrow's testimony he alluded to a letter that I addressed to Representative LaGuardia on some points on which he had been misinformed, you see, and I have a copy of that letter with me, as a matter of fact.

Senator HARRISON. Are you familiar with the article that he wrote in Foreign Affairs?

Mr. LAMONT. Yes. That would be very valuable.

Senator GORE. I have that here.

The CHAIRMAN. At the close of your testimony have it put in the record.

(The article referred to appears in the appendix.)

Mr. LAMONT. Yes. Thank you. Do you desire me to proceed now, Senator, with this list?

The CHAIRMAN. Proceed; yes.

Mr. LAMONT. We finished with France. We come to Germany. A total of long-term bonds of \$208,250,000.

Senator BINGHAM. Date?

Mr. LAMONT. October 14, 1924, was the first one.

Senator REED. That was the Dawes loan?

Mr. LAMONT. That was the so-called Dawes loan, Senator, \$110,000,000. That was all so far as this country is concerned.

The second was June 12, 1930, the so-called Young loan, \$98,250,000. Of course these data that I am giving you are already all a matter of public record, with the exception of the details of the spread which Senator Johnson wanted to know about particularly.

Senator WALSH of Massachusetts. What was the interest on those loans?

Mr. LAMONT. The interest on the first bonds, Senator, was 7 per cent, and on the second issue it was 5½ per cent.

Senator SHORTRIDGE. What is the life of the several issues?

Mr. LAMONT. Twenty-five years was the life of the first and 35 years the life of the second. The respective spreads were 5 per cent on the 1924 loan, and 4 per cent on the 1930 loan.

Senator REED. How did those spreads correspond with the spreads received by the European bankers on that part of those loans that was taken abroad—substantially the same?

Mr. LAMONT. It was substantially the same; in one or two instances a little less, I think, and in one or two a little more. They varied according to the banking practice in the different countries.

Senator WATSON. Were other German bonds floated in this country, to your knowledge, through other houses?

Mr. LAMONT. No other German Government bonds, Senator Watson.

Senator WATSON. That is what I meant. You had the sole issue.

Mr. LAMONT. These are the two sole issues of German Government bonds. I suppose there are municipal and perhaps provincial bonds.

Senator WATSON. I mean German Government bonds.

Mr. LAMONT. The total obligations of the German Government were confined, in this country, to these two issues, which have been reduced, respectively, by the operation of the sinking fund, in the instance of the first issue, already to under \$77,000,000. It has been reduced about thirty-three million odd dollars from the top. In the case of the second bond, although issued only in 1930, a year and a half ago, it has been reduced to \$95,670,000.

Senator WATSON. Has there been any default whatever in any payment on those bonds?

Mr. LAMONT. No default whatever. The German Government has been most meticulous in complying with all the provisions of the sinking fund and having every installment paid on the dot.

Senator COUZENS. What procedure was taken to retire those bonds from the top?

Mr. LAMONT. Just the operation of the sinking fund, Senator Couzens.

Senator COUZENS. How did you accumulate the bonds that you paid out of the sinking fund?

Mr. LAMONT. I can not answer that offhand, but I can furnish you full information.

Senator COUZENS. That is important, because I would like to know whether these bonds are still in the hands of the public.

Mr. LAMONT. No; they are not.

Senator COUZENS. How did you proceed to pay up certain of them and leave certain others in the hands of the public?

Mr. LAMONT. Either by calling, by number, you see—

Senator COUZENS. You do not know for sure?

Mr. LAMONT (continuing). Or by retiring, by private purchase in the market.

Senator COUZENS. You do not know?

Mr. LAMONT. No. In the hands of the American public, out of the \$208,000,000 issued by the German Government, there remains a total now of only \$170,000,000 odd.

Senator BARKLEY. In addition to these two loans to the German Government, has your house handled any loans to municipalities?

Mr. LAMONT. No; none at all.

Senator BARKLEY. Or any private industrial bonds?

Mr. LAMONT. German, you mean?

Senator BARKLEY. Yes.

Mr. LAMONT. None.

Senator BARKLEY. So that, so far as your house is concerned, these two loans cover the entire activity of your house with the German people, either through the Government or otherwise?

Mr. LAMONT. These two loans constitute the entire activity.

Senator BARKLEY. Public or private?

Mr. LAMONT. Yes. It just so happens that we have not had banking relations in Germany. They turned to us to have these two loans issued, because they were in connection with large financial settlements under the two reparations plans, the importance of which was obvious to the whole world. It was a question, in 1924, of attempting to put Germany back upon her feet so that she could continue to finance her imports from every part of the world, including America; and the loan under the Young plan in 1930 was also of great importance, only secondary to the first loan.

Senator BARKLEY. Do you know through what houses these municipal bonds you hear so much about in Germany have been issued in this country?

Mr. LAMONT. It is easy enough to compile a list. As a matter of fact, I think the Department of Commerce keeps tab on those.

Senator BINGHAM. Mr. Lamont, I have often heard people express wonder as to why American bankers were willing to loan Germany money at such low rates, just after Germany had wiped out all internal indebtedness by allowing the mark to become worthless, and thereby shown that they had no practice, or that they did not follow the ordinary practice of trying to get their obligations somewhere within reason by meeting them somehow. It seems to many people almost incredible that when they wiped out their entire internal debt by inflation, that American bankers should have been willing to loan them hundreds of millions of dollars within a very few years afterwards. What is the answer?

Mr. LAMONT. I think the answer to that is this—and I will address myself, if I may, to the two issues of bonds which our house was primarily responsible for. Those bonds constitute the unconditional obligation of the German Government, payable in American gold dollars of the present degree of weight and fineness without any “ifs” or “ands” or questions whatsoever, with particular revenues allocated to the service of those bonds. Germany had been put back by the operation of the Dawes plan and by this international loan issue upon a gold-standard basis and there was no possible reason, I think, on the part of American bankers, as there is none to-day, to question the good faith or the ability of the German Government and the German people to meet their external obligations to that extent.

Senator BARKLEY. As a matter of fact, did not the fact that Germany paid all her internal debts by a so-called process of repudiation rather encourage the bankers to believe that they would be more prompt in paying new loans that might be floated in this country?

Mr. LAMONT. That might be one way of putting it, but one has to draw a very sharp distinction, Senator, between the external obligations of any government, payable in the currencies on the markets where those obligations are issued, and their own internal obligations. On their internal obligations they have a right, as the American Government has a right, to tax the people in one form or another until the issue is out of existence, almost. It can be taxed out of existence. They have no such right in the case of any of these foreign obligations, because the contract provides not only that they are payable in American gold dollars but they are payable without any deduction for taxes so far as the issuing country is concerned.

Senator LaFOLLETTE. What were the special revenues that were set aside for these bonds, if you have the record?

Mr. LAMONT. Senator Couzens mentioned that to me a moment ago. I have it right here.

So far as the inflation is concerned—domestic inflation, of course—we have all been guilty of that at times. During the time of our own inflation period, from the time of the Civil War until 1878 or 1879, whenever it was, nobody would have questioned the soundness of any issue of bonds that the American Government might make if it promised to pay it in sterling, we will say, of the legal weight of gold.

Senator BINGHAM. Mr. Lamont, I was not questioning the issue of these bonds in connection with the Dawes plan or the Young plan, but I wondered whether the remarks you made, which Senator Gore brought out you made in 1927, cautioning the public and the bankers against going on a campaign of seeking bonds across the seas, had any reference to the efforts of certain American bankers and investment houses in pushing loans into Germany at a rate which has been shown not to be justified.

Mr. LAMONT. Of course, every loan stands on its own basis. You might take a loan to the city of Bremen, or the port of Bremen, whereby it was shown that certain port duties were allocated to the service of the loan, and it could be shown that that loan, under all normal conditions in Germany, would be perfectly safe; and I assume that no loan has been made by any banker in the United States without taking precautions on that point. I do not think that the American banking community generally contemplates any ultimate repudiation of any of those German municipal or provincial obligations—none whatsoever.

Senator GORE. They amount to about \$700,000,000, I understand.

Mr. LAMONT. I do not know. We do not happen to have had any of them, but I do not think that in the long run the German people are going to repudiate those. In fact, there is not a single instance up to date where the service on those loans has been in default.

Senator LA FOLLETTE. Would you mind answering the question as to what specific or special revenues were to be used for service on the Dawes and the Young plan loans?

Mr. LAMONT. I have it right here, Senator La Follette, and will be very glad to give it to you.

1. In the external loan of 1924, all service of interest and amortization constitutes a direct and unconditional obligation on the German Government, chargeable on all the assets and revenues of that government.

2. A specific first charge on all payments provided for under the Dawes plan, to or for the account of the agent general for reparations payments, such charge being prior to reparations and other treaty payments, which, in turn, have a specific precedence over the existing German debt.

3. A first charge, by way of collateral security on the controlled revenues, that is, the gross revenues of the German Government derived from the customs and from the tax on tobacco, beer, and sugar. The net revenue of the German Government from the spirits monopoly, and such tax, if any, as may be similarly assigned to the German Government in accordance with the terms of the final

protocol of the London conference. The German Government may not create any further charge upon the controlled revenues ranking prior to or equally with the charge created in favor of the bonds of this loan.

Then, at the London Conference, the governments entered into a protocol whereby they specifically approved such allocation, and waived their own rights to reparations subordinate to that.

Senator GORE. You have not been taking any of this beer money?

Mr. LAMONT. We have been very careful, of course, to see that no revenue came from that. [Laughter.]

Senator GORE. I want to ask one question, Mr. Chairman.

Mr. LAMONT. Excuse me a minute, Senator. Senator La Follette asked me to finish on this.

Senator GORE. Pardon me.

Mr. LAMONT. We come to the second loan of 1930, but I will repeat myself somewhat and cover both loans:

As to security respecting German external loan 1924 (Dawes loan), and German Government international 5½ per cent loan, 1930 (Young loan):

The service of interest and amortization of the Dawes loan is:

(1) A direct and unconditional obligation of the German Government chargeable on all the assets and revenues of that Government.

(2) A specific first charge on all payments provided for under the Dawes plan to or for the account of the agent general for reparation payments, such charge being prior to reparation and other treaty payments, which in turn have a specific precedence over the existing German debt.

(3) A first charge by way of collateral security on the "controlled revenues," i. e., the gross revenues of the German Government derived from the customs and from the taxes on tobacco, beer, and sugar; the net revenue of the German Government from the spirits monopoly and such tax (if any), as may be similarly assigned by the German Government in accordance with the terms of the final protocol of the London conference. The German Government may not create any further charge upon the controlled revenues ranking prior to or equally with the charge created in favor of the bonds of the loan.

The London protocol declared that "the signatory governments further declare that they consider the service of the loan as entitled to absolute priority as regards any resources of Germany, so far as such resources may have been subjected to a general charge in favor of the said loan, and also as regards any resources that may arise as a result of the imposition of sanctions."

The payment of the principal, interest, and sinking fund of the loan is the direct and unconditional obligation of the German Government to the bondholder, for which the full faith and credit of the German Government are pledged.

By way of guaranty for the service of the annuities, the German Government has, in accordance with the new plan, created a fixed annual direct tax of 660,000,000 reichsmarks (\$157,212,000) on the German Railway Co. for 37 years, such tax enjoying priority over any tax now or hereafter to be levied on the railway company.

Under the new plan the German Government has further undertaken, without prejudice to the securities for the German external loan, 1924, to reserve free from any charge for any other loan or credit the proceeds of the customs, tobacco, beer, and alcohol (monopoly administration) duties save with the consent of the Bank for International Settlements, and then only subject to the priority in favor of the annuities as provided for in the new plan.

Those provisions, in general, Senator La Follette, constitute the security.

Senator GEORGE. Mr. Lamont, are any of these German bonds now held by your house, or the distributing agencies or syndicates, as you call them, or any member of the distributing agencies?

Mr. LAMONT. On the latter point, Senator, we have no idea whether they are held or not. I mean to say, we do not know what the private holdings, if any, may be of any of these houses. So far as we are concerned, we hold a few. I do not know how many, but it is easy enough to look up.

Senator GEORGE. Would you mind putting that in the record?

Mr. LAMONT. Any amount of these two issues of bonds?

Senator GEORGE. Yes.

Mr. LAMONT. Of course, that is a matter of our private affairs, but I do not believe there is any objection to it.

Senator GEORGE. I asked you if you would mind putting it in the record.

Mr. LAMONT. I will say, informally—

Senator REED. Would it not be better, Mr. Chairman, to have the witness and all other witnesses furnish a statement directly to the committee, and then we can decide whether we want to put it into the record or not? We can then decide whether or not we want to put private affairs into the record.

Senator COUZENS. Mr. Chairman—

Mr. LAMONT. So far as I am concerned, I do not think we have the slightest objection.

The CHAIRMAN. Then, send that information to the chairman of the committee and we will take it up with the full committee, as to whether it should be published or not.

Senator COUZENS. Mr. Lamont, the amounts you have just referred to were the amounts that were floated in this country?

Mr. LAMONT. Yes.

Senator COUZENS. What was the aggregate floated in all the countries? Or do you know?

Mr. LAMONT. I ought to know, and I think I can tell you, Senator Couzens. In the matter of the first loan, the total amount of the loan was approximately \$200,000,000.

Senator COUZENS. Of which you took—

Mr. LAMONT. Of which a little over half was done in this country.

Senator COUZENS. Now, the second?

Mr. LAMONT. The second one was, as I recall it, \$300,000,000, of which about a third was done in this country. That is subject to correction. Do you recall, Mr. Mitchell?

Mr. MITCHELL. I beg your pardon.

Senator REED. Do you know the exact amount?

Mr. MITCHELL. That is about right.

Mr. LAMONT. That is about right. I think we took about a third of them in this country. That, of course, is a matter of public record.

Senator COUZENS. In retiring these bonds through the sinking fund, do you know whether all the countries had the same procedure in retiring these bonds out of the sinking fund?

Mr. LAMONT. The customs and the practices as to sinking funds, Senator Couzens, differ in almost all countries. The British practice in sinking funds is quite different from the customary American practice. The French practice, I think, is different in another way. I can not detail the different variations, but each one, of course, has been built up by tradition, based upon what was best applicable to its own market.

Senator COUZENS. So far as the retirement in this country are concerned, they would all have to go through your house; is that correct?

Mr. LAMONT. They would all have to go through the sinking fund, if that happened to be handled at our house.

Senator COUZENS. In this case where is the sinking fund in this country—in your house?

Mr. LAMONT. I think so.

Senator COUZENS. You do not know whether the German sinking fund is in your house or not?

Mr. LAMONT. I am almost sure it is, but I would want to check up on that. We might have invoked the services of a trust company, but I think it is with us.

Senator COUZENS. I think it is important to know how the sinking fund is applied in the retirement of the outstanding securities.

Mr. LAMONT. That is very readily ascertainable.

Before I take up the next item, you were asking me, Senator, whether the dealings of J. P. Morgan & Co. with Germany have been confined to these two issues of bonds, and I replied that they had. In that connection it may be appropriate at this time to say that, so far as the short-term credits are concerned—short-term credits of the German banks—we do not happen to have a dollar of those, because we did not have dealings with the German banks.

In that connection, there has been a great deal of misunderstanding and exaggeration in the public mind as to the extent of the holdings of American banks in short-term German bank credits. It is a very unfortunate misunderstanding. It is a very unfortunate exaggeration, because an entirely wrong impression, in our judgment, has been created.

What has happened, as all you gentlemen know, has been simply this, that American banks, and the big banks generally over the country, from the Atlantic to the Pacific, have had German banking correspondents for years, probably for generations, and they have been in the habit of granting commercial, and sometimes other sorts of credits, to these German banks for the financing of the exports of American cotton, copper, and all sorts of things. That has been the practice that has gone on, and I am told that there are 90 of these American banks that have been engaged in this perfectly legitimate, proper banking process, very necessary to the whole export trade of our country, so far as Germany is concerned. And yet the public mind has been apparently almost inflamed with the idea of large figures. I have heard statements made that certain New York banks,

for instance, were loaded up with these short-term German credits to the extent, in any individual case, of two or three hundred million dollars. Of course that is perfectly fantastic. I have not looked at the portfolios of the banks in New York, but I happen to know that the largest amount of credit outstanding in any bank is \$70,000,000 or thereabouts, and it would be in the case of a bank whose other capital resources were so large that it was not a matter of danger, or even of comment.

Senator GORE. Do they not have security anyway, Mr. Lamont?

Mr. LAMONT. Yes; they presumably have security. These bills are of two orders, chiefly, presumably, for commercial transactions—what they call commercial bills, drawings by the German banks against their American correspondents in Chicago, Boston, New York, or wherever it may be, concerning the financing of shipments.

Senator GORE. The banks have not assumed any particular risk in connection with short-term credits, have they?

Mr. LAMONT. It is obvious that the total of the short-term credits extended to German banks by the aggregate of banks in America, Great Britain, France, Switzerland, and Holland, we will say, has been a cumbersome amount. I will put it that way. That is obvious, because when things came to a crisis in Germany last summer you will recall that a temporary arrangement was entered into in which these banking credits would be extended automatically for a period of six months, until investigation could be made and an orderly process restored. Mr. Wiggin and other bankers from other countries are now in Berlin, as you know, for the purpose of arranging a schedule of gradual liquidation of these.

Senator GORE. The morning paper says credit has been extended for a year.

Mr. LAMONT. That may be true, but I think it is important for this committee to know—as it would ordinarily know anyway—that these short-term German credits do not constitute, in their volume, a danger to the American banking situation to-day.

Senator COUZENS. Mr. Lamont, with reference to those bills, were they not self-maturing?

Mr. LAMONT. I have no doubt that a large part were self-maturing. Some were not self-maturing. They were what might be called finance bills; but I assume that there was a general understanding between the German bank—it might be the Deutsche Bank, or whatever it might be—and its American correspondent, that as one particular bill fell due it could be replaced with an equivalent amount from another good bill.

Senator COUZENS. May I ask what effect it would have had upon those short-term credits if Germany had gone off the gold standard, say, last May, or April, or June?

Mr. LAMONT. I do not know what public effect would have been had, but so far as the ultimate effect is concerned, I would not look to see any, because those are dollar credits, you understand.

Senator COUZENS. But they are not the same dollar credits as are referred to in the bonds, where the fineness and weight are considered.

Mr. LAMONT. The same document is not invoked. It is not such a formal document, but they are just as much payable in American dollars, finally, as any bond is.

Senator COUZENS. So that, in effect, if Germany had gone off the gold standard last April, for example, these short-term loans would not have been affected in value, except psychologically?

Mr. LAMONT. That is all. And if she should go off the gold standard to-day, by any chance, they would not be so affected.

Senator REED. It would merely take more marks to raise that many dollars.

Mr. LAMONT. To raise the same amount in dollars.

Senator SHORTRIDGE. The obligation is to pay in American gold dollars.

Mr. LAMONT. That is it.

Senator BARKLEY. That applies, of course, only to \$200,000,000 of this \$500,000,000 German issue that you mentioned a while ago.

Mr. LAMONT. I beg your pardon?

Senator BARKLEY. That situation applies only to \$200,000,000 of the \$500,000,000 you spoke of a while ago. The total of the two issues of your house—

Mr. LAMONT. Let me make the discrimination there. The two issues I spoke of, Senator, were two long term bond issues of the German Government.

Senator BARKLEY. Yes.

Mr. LAMONT. These short-term credits are not to the German Government at all, and the German Government has no immediate concern. They are to German banks.

Senator WALSH of Massachusetts. Do our banks carry short-term credits from other countries?

Mr. LAMONT. Oh, certainly—France, Italy, and all over the world.

The CHAIRMAN. It seems unlikely that we shall be able to get through with the witness at this morning's session.

Senator JOHNSON. Before you adjourn, Mr. Chairman, there are two questions, merely for additional clarity.

About what would you say, Mr. Lamont, was the amount of the short-term credits—the average amount?

Mr. LAMONT. What do you mean by "the average amount"?

Senator JOHNSON. What would be, generally speaking, the short-term credits that are outstanding?

The CHAIRMAN. In the United States.

Mr. LAMONT. You mean of German banks?

Senator JOHNSON. Yes.

Mr. LAMONT. I could not answer that, Senator Johnson, because we have not been in close touch with that situation, but I think Mr. Mitchell, when he comes on the stand, will probably be able to give you an approximate reply.

Senator JOHNSON. I have seen it stated in the press—and I do not, of course, vouch for the accuracy of it because of that fact—that they aggregate something between \$700,000,000 and \$800,000,000. Would that be substantially correct, in your opinion?

Mr. LAMONT. That I honestly do not know.

Senator JOHNSON. Of these short-term credits, you have said that one bank has \$70,000,000 at the present time.

Mr. LAMONT. That is the largest holding, I understand, of any one institution.

Senator JOHNSON. That is, one single institution in this country has \$70,000,000. That is all, sir.

Senator BARKLEY. Just one question in connection with these German loans. These two loans, in which you participated to the extent of about \$200,000,000, aggregate \$500,000,000. Three hundred million dollars were floated in other countries; is that correct?

Mr. LAMONT. Yes.

Senator BARKLEY. The Dawes and the Young loans?

Mr. LAMONT. Yes.

Senator BARKLEY. Do you know whether the German government has floated additional loans in other countries?

Mr. LAMONT. No; she has not. Not so far as I am aware; I will put it that way.

Senator BARKLEY. Up to this time there has been no default of any sort in keeping the bond of these loans?

Mr. LAMONT. No.

Senator WALSH of Massachusetts. Mr. Chairman, I move that we recess.

Mr. LAMONT. Mr. Chairman, may I make one observation just before we adjourn, brought about by Senator Johnson's emphasis on this sum of \$70,000,000? I quoted deliberately that amount of \$70,000,000 to show how exaggerated the statements were as to very much larger amounts in individual institutions, and I added the fact that in the case of this particular institution, whatever it was, its capital resources were so great as to make this amount constitute nothing in the way of a menace or danger of any kind. The reason that I have perhaps gone out of my way before this committee to emphasize these points about these credits was that there is a good deal of unwarranted and undue tremor in the public mind about the soundness of certain large financial institutions, and I think that every opportunity should be taken to reassure the public mind on the points which are weighing upon it now. I make that statement by way of explanation.

The CHAIRMAN. If there are no further questions at this time—

Senator THOMAS of Idaho. Mr. Lamont, do you feel, then, that the investing public is unduly exercised about the German bonds?

Senator WALSH of Massachusetts. Securities, you mean.

Senator THOMAS of Idaho. The German bonds that they hold.

Mr. LAMONT. I would say from my observation that they are unduly exercised.

Senator GORE. I would like to ask one question in connection with Germany, Mr. Chairman. We hear it repeatedly stated, Mr. Lamont, in the magazines that Germany has been making reparations payments, either directly or indirectly, out of borrowings and not out of revenues; that she has been paying her old debts by creating new debts. I know of no truth to that effect. Are you in a position to say whether that is true or not?

Mr. LAMONT. Senator Gore, in answering that you would have to point out this: You can not divide the revenues of any government into various pockets in the way of receipts and then divide it into other pockets in the way of outgo. The thing all comes in and it all goes out. Undoubtedly the loans which countries foreign to Germany have made to the German Government, to German municipalities, and to German industries—if in any case—and to German banks have helped to put the German people in a position so that they could better pay reparations. These loans have undoubtedly helped to

reestablish the German economy, to get their industry going, and, in so far as that has been accomplished, and in so far as they have been users of American products, those loans have been very constructive for America.

Senator GORE. The point is that she was not getting out of debt and was not paying debts with revenues, but with money borrowed.

Mr. LAMONT. That is perfectly true. Also, as these revenues have flowed through other governments to the United States, they have so far helped to pay intergovernmental debts to the United States Government.

The CHAIRMAN. If there are no further questions to be asked at this time, the committee will stand adjourned until 1.30 this afternoon. Mr. Lamont, we would like you to continue at that time.

(Whereupon, at 12 o'clock noon, the committee recessed to meet at 1.30 o'clock p. m.)

AFTER RECESS

The committee resumed at 1.30 p. m., at the expiration of the recess.

The CHAIRMAN. The committee will come to order. Mr. Lamont; you may proceed.

**TESTIMONY OF THOMAS W. LAMONT, OF J. P. MORGAN & CO.,
NEW YORK CITY—Resumed**

Senator JOHNSON. Mr. Chairman, before the witness proceeds with his statement may I ask him if it is within his knowledge and he can do so, if he will answer this question: Can you take a loan like the first one that was mentioned, the Argentine loan of \$159,800,000, and follow it through so we may know exactly the procedure in relation to the various loans that have been made?

The CHAIRMAN. Senator Johnson, did you mean to follow it through up to date, so that the committee may know what is its status now?

Senator JOHNSON. I want Mr. Lamont to follow it through the various steps taken by his house, in order that we may understand exactly the mode of procedure in the matter of these various loans. Thus far he has stated, and very frankly, but in general terms concerning them. I thought if he would take one loan, like the Argentine loan, and that was the first one he spoke of, and would just describe it from beginning until it was disposed of in this country, it would give us a picture of the entire situation which otherwise we would not have.

The CHAIRMAN. Mr. Lamont, have you that information?

Mr. LAMONT. I think so. But I am not sure that I can satisfy Senator Johnson. Yet I think, with the information I have at hand, I should be able to do so. At least I can go ahead, and then by inquiry Senator Johnson can develop any points that I do not fully cover.

Senator JOHNSON. I will thank you to do so.

Mr. LAMONT. That first loan to the Argentine was back June 2, 1925; and I assume that prior to the date of that issue the representatives of the Argentine Government stated to us they desired to secure a certain loan in an external market, like the American

market, and that they described the purposes for which the Government legitimately required such a loan. I assume that this purpose appealed to us as sound and constructive and that we undertook to canvass the situation and ascertain whether we could issue such a loan upon the American market, subject to a check up with Washington to find if there were any political questions involved. Whereupon I assumed that some time prior to the date of issue—

Senator JOHNSON (interposing). Will you pardon me for a moment?

Mr. LAMONT. Certainly, Senator Johnson.

Senator JOHNSON. You say you "assume." May we take that as a colloquialism for stating the fact?

Mr. LAMONT. That is my way of stating that that was the invariable practice, Senator Johnson.

Senator JOHNSON. Yes, sir.

Mr. LAMONT. I can not recall the circumstances relating to this particular issue, of course, but that is undoubtedly what took place.

Senator JOHNSON. All right.

Mr. LAMONT. Then, in due course and prior to the issue, we undoubtedly executed a contract with the Argentine Government, and I assume that the Argentine Government's signature was given through the Argentine ambassador at Washington, or something like that, and we formed our syndicate group, in that instance consisting of 782 participants; and in due course on the date mentioned, June 2, 1925, we proffered those bonds to the public.

Senator JOHNSON. Do you know at what price they were proffered to the public?

Mr. LAMONT. Certainly.

Senator JOHNSON. Will you please tell us?

Mr. LAMONT. At the issue price of 96. There was the same spread as described this morning, when I spoke of that and the other issues. At the same time that we offered them to the public the members of the syndicate, consisting of banks, banking houses, bond houses, and so forth, undoubtedly offered those bonds to their own clients throughout the country. They had their salesmen, I assume, to offer them, and finally in due course the issue was completed. Now, I assume that in the case of this issue, as in the case of the great bulk of the issues of bonds, they were placed with investors and that, after continuing the syndicate for a certain number of days to be assured that the market was sound and required no support on the part of the syndicate, we dissolved the syndicate, and then that operation would have been completed.

Senator JOHNSON. Was there more than one syndicate there?

Mr. LAMONT. No; in that instance only one.

Senator JOHNSON. In the first instance were the dealings undertaken entirely by your house?

Mr. LAMONT. No; they were undertaken by our house and one other.

Senator JOHNSON. And what was that other house, if you please?

Mr. LAMONT. It is not recorded here, but I assume it was the National City Bank or the National City Co.

Senator REED. Now, if I may interrupt you, Senator Johnson.

Senator JOHNSON. All right.

Mr. LAMONT. That will all appear in the record that I will furnish—I will add for your benefit, Senator Johnson.

Senator JOHNSON. I thank you.

Senator REED. Was the purchase price that you and your one associate in this case paid to the Argentine Government made known to the seven hundred and odd members of the syndicate who took the bonds over from you?

Mr. LAMONT. Approximately, oh, yes; in every case.

Senator REED. You have not concealed from them the fact that the purchasing group was making a small profit before selling to the syndicate, have you?

Mr. LAMONT. Oh, no. On the contrary, in the syndicate letter we say that the bonds will be syndicated at such and such a price, that price "representing a profit to the original group."

Senator JOHNSON. In the first instance what was the purchase price, if you please?

Mr. LAMONT. The bonds were originally purchased at 92.

Senator JOHNSON. That is by you and the National City Co.

Mr. LAMONT. That is it.

Senator JOHNSON. Now, the syndicate was immediately formed after the purchase of the bonds?

Mr. LAMONT. I do not know how soon after the purchase, but it was formed subsequent to the purchase.

Senator JOHNSON. At what price were the bonds handed to the syndicate?

Mr. LAMONT. They were handed to the syndicate at 93½.

Senator JOHNSON. At 93½ did you say?

Mr. LAMONT. Yes.

Senator JOHNSON. And then the syndicate sold them at what price? If you have stated it, I did not get it, and I wish you would repeat it for my benefit.

Mr. LAMONT. At 96.

Senator JOHNSON. They were sold at 96 by the syndicate.

Mr. LAMONT. That is right.

Senator JOHNSON. I thank you.

Mr. LAMONT. Does that complete your inquiry, Senator Johnson?

Senator JOHNSON. It does for this particular instance.

Mr. LAMBERT. Good! Now, I will say—

Senator REED (interposing). Mr. Lamont, will you start at that point in your table at which you were last interrupted and complete the list of foreign loans?

Mr. LAMONT. I can do that I think without much delay. To Italy there were two loans. This record, which I will file with the committee in a day or two, will show one was in 1925 and the other in 1927, one of them direct to the Italian Government of \$100,000,000, and the other to what was known as the Italian Credit Consortium, being a corporation owned by the Italian Government, as I recall it, but the exact relationship does not appear here, for a total of \$12,000,000. The original issue of \$100,000,000 has been reduced by the operation of the sinking fund to about \$89,000,000, and the other to about \$9,000,000 from the original amount of \$12,000,000.

Senator SHORTRIDGE. As to all of the Government bonds issued concerning which you have testified, they were severally payable in gold, were they not?

Mr. LAMONT. They were severally payable in gold dollars.

Senator SHORTRIDGE. Of a certain weight and fineness.

Mr. LAMONT. Yes. In no instance have we issued any other character of bonds. Now, to go ahead with the Italian bonds: One issued for the city of Rome in 1927 for a total of \$30,000,000, which has been reduced by the sinking fund to \$27,500,000, in round numbers.

Then, in February, one to Japan, and that was what was known as the large reconstruction earthquake and fire loan—

Senator JOHNSON (interposing). You have passed away from Italy now.

Mr. LAMONT. Yes.

Senator JOHNSON. Will you please state what, if any, compensation or remuneration was received by you in the case of the Italian loans?

Mr. LAMONT. In the case of the first Italian loan the gross spread was $4\frac{1}{2}$ per cent, and our managing commission was two hundred and twenty-five one thousandths of 1 per cent. In the case of the second loan the gross spread was 4 per cent and our managing commission was one-fifth of 1 per cent. In the case of the Rome loan the spread was 4 per cent and our managing commission was one-fifth of 1 per cent.

Now, if you are ready, we will come to the Japanese bonds.

Senator JOHNSON. Just pardon me for a question before you leave the Italian bonds.

Mr. LAMONT. Certainly.

Senator JOHNSON. Were the Italian bonds taken alone by the house of Morgan?

Mr. LAMONT. Oh, no. In the original purchase group in each instance there were three participants.

Senator JOHNSON. I beg pardon, but I did not hear your answer.

Mr. LAMONT. I say, there were three participants in the original purchase group.

Senator JOHNSON. Will you state what three they were?

Mr. LAMONT. I do not remember; but we will certainly furnish that information to you.

Senator JOHNSON. All right.

Senator HARRISON. What was the date of the last Italian issue?

Mr. LAMONT. The last Italian Government issue was a 7 per cent bond issued at $96\frac{1}{2}$.

Senator HARRISON. And that was after we had funded the debt with Italy at 23 cents on the dollar, wasn't it?

Mr. LAMONT. Yes; that is right.

Senator JOHNSON. And the other one was taken at what price, please?

Mr. LAMONT. That was the last one. The other one was at $94\frac{1}{2}$, being a 7 per cent issue.

Senator JOHNSON. So that we have one before and one after the funding of the Italian debt?

Mr. LAMONT. No; not one before the funding of the Italian debt.

Senator JOHNSON. Both afterwards?

Mr. LAMONT. Yes; both subsequent to that time.

Senator REED. And both of them had to carry 7 per cent on the face value.

Mr. LAMONT. Yes.

Senator HARRISON. Wasn't that issue being negotiated about the time we were negotiating the funding of the Italian debt?

Mr. LAMONT. I can answer that question very specifically because I happened to conduct the negotiations. So I will say that there was not even one word or hint or suggestion of a loan from us until they had signed up here in Washington. If I understand the nature of your inquiry I think it well to make a comparison between the rates of the Government settlement and the rates of this. Of course, these bonds that were issued to the public have got to be priced in accordance with market conditions prevailing at the time, and that is the sole guiding feature. If French bonds are selling on a 7 per cent basis you could not hope to offer Italian bonds on better than a 7 per cent basis, and perhaps not quite so good. That is the sole consideration in the pricing of these issues. What is the value of money being invested in the general market based upon bonds of a similar order of credit?

Senator JOHNSON. Don't you think you could put that in another way. That that represents the capacity to pay of the debtor, too?

Mr. LAMONT. I would think so.

Senator REED. Those two Italian issues were offered for the Italian Government in order for it to raise new money?

Mr. LAMONT. Yes.

Senator REED. And the Italian Government quite naturally had to pay the market price to get that new money?

Mr. LAMONT. That is it.

Senator REED. But the refunding of the American Government's claim against the Italian Government was not an attempt to bring in new money, but an attempt to salvage money already owed, a salvaging operation for an existing debt which was made in the stress of war time?

Mr. LAMONT. That is correct.

Senator HARRISON. You advised your correspondents, however, that these Italian issues were good and sound, a safe investment?

Mr. LAMONT. Why, Senator Harrison, we never issue a bond unless we believe it to be good.

Senator KING. Let me ask right there: Were those bonds purchased?

Mr. LAMONT. Yes.

Senator KING. So that you practically underwrote them?

Mr. LAMONT. Yes; all of them were purchased. On the point that Senator Reed makes let me say: I recall at the time that it was Count Volpi, Italian Finance Minister, who said to us when he opened up the question of a loan that he had entered into certain commitments with the United States Government which he was obliged to fulfill in due course, and that it was absolutely necessary in his scheme of things to arrange for the stabilization of the Italian currency at the earliest possible moment, and that in order to do that effectively he must seek some foreign credit.

Senator JOHNSON. Can you state approximately how long after the funding of the debt with the United States Government those loans were made?

Mr. LAMONT. As I recall it, the Italian settlement was made some time in the autumn of 1925, and after it was signed up, and very soon thereafter, Count Volpi came to New York.

Senator WALSH of Massachusetts. That rate of 7 per cent was considerably higher, at the time those bonds were issued, than the rates current upon municipal, State, and industrial bonds of this country, was it not?

Mr. LAMONT. Oh, certainly.

Senator WALSH of Massachusetts. So that there was somewhat of an inducement on the part of bankers in this country to invest abroad because at a larger rate of interest.

Mr. LAMONT. Well, of course, the rate of interest is always gaged by the credit of the obligor. You are quite right about that.

Senator WALSH of Massachusetts. It is also a benefit to the purchaser of the bonds to get the high rate of interest?

Mr. LAMONT. Certainly, as high a rate as he can get consistent with safety.

Senator SHORTRIDGE. Mr. Lamont, from time to time as you are proceeding you speak of retiring certain bonds by and through the sinking fund.

Mr. LAMONT. Yes.

Senator SHORTRIDGE. Would you have the goodness to make that clear? There are those who do not quite understand that process. What I want developed is, in order that all may understand what is meant by the retirement or payment of outstanding bonds, the application of funds in the sinking fund.

Mr. LAMONT. All right.

Senator SHORTRIDGE. Will you have the goodness to explain that?

Mr. LAMONT. Certainly. That is along the same lines that I answered certain questions propounded by Senator Couzens this morning.

Senator SHORTRIDGE. Yes.

Mr. LAMONT. In the case of these foreign bonds, speaking in general terms, the contract provides that the Government, which is the obligor, shall annually or semiannually meet not only the interest due—that is, the coupons—but shall also remit a certain amount of money to act as a sinking fund for the retirement of the bonds. Sometimes the amount of that sinking fund is so considerable as automatically to retire the entire issue of bonds by maturity. Sometimes it is not as large as that. It depends upon circumstances. Then that sinking fund operates in one, perhaps, of two ways: Sometimes it is, such as the British practice, for the sinking fund simply to take bonds by lot or by drawing into the fund and pay a certain price for them, and the bonds, so far as any reissue is concerned, are not kept alive, but the sinking fund operates each year to reduce the amount of the bonds outstanding.

The other method is by the market operations that Senator Couzens was developing this morning, that is to say, in the case of the Italian bonds the Government might say, "We will place in your hands one, two, or three millions of dollars per annum, where-with you shall acquire at the market price from time to time such bonds as may be available."

Senator SHORTRIDGE. That is to say, you buy outstanding bonds by the application of the money in the sinking fund?

Mr. LAMONT. That is it exactly.

Senator SHORTRIDGE. And you retire the bonds so purchased.

Mr. LAMONT. That is it exactly. And as they are retired of course it makes the total of the bonds diminish, and automatically adds to the safety of the residue held by the American investors.

Senator REED. This particular Italian issue you are talking about has a definite call price, I think. I think I recall seeing an advertisement calling bonds by lot within the last couple of weeks.

Mr. LAMONT. Well, that is very likely, Senator Reed.

Senator GORE. In those loans that you managed for Italy, you considered their capacity to pay, you said a moment ago. You took their willingness to pay for granted, did you?

Mr. LAMONT. Not only their willingness to pay, but their determination to pay.

Senator GORE. But in relation to the debts which that government owes to the United States, both the capacity to pay and the willingness to pay seem to constitute factors.

Senator REED. If I might interrupt I will say: I think the only cases in which an unwillingness to pay has been shown by a foreign government is the case of Russia.

Senator GORE. I do not think so. I think France has shown considerable unwillingness to pay in connection with reparations payments to her.

Senator REED. They have not defaulted.

Senator GORE. I do not mean to say that they have defaulted, but they have stated and restated, have iterated and reiterated their unwillingness to pay unless they collect reparations. I have read to me newspaper statements to that effect at least, but I do not know whether the newspaper statements to that effect are correct or not.

Senator KING. Senator Gore, do I understand you to mean that France, since she has negotiated a settlement with the United States the terms of which it is not necessary to inquire into here, has given out statements, that is, any responsible government in France or any person responsible in France to speak for the government, to the effect that France would not pay the United States as the obligations mature unless reparations were paid to her by Germany?

Senator GORE. I could not say that any one officially authorized to represent the French Government has said that, but that statement has been repeatedly published in the newspapers, and Mr. McFadden in the House stated a day or two since that within four or five days there had been received such a communication from France. Now, I do not think we ought to attach too much importance to that, and it was for that reason I introduced a resolution calling for the information, because I think a whispering campaign of that sort is unfortunate, and of course if it is not true the facts ought to be known. But there is no secret that France at least has been represented, whether responsibly or not, as having the fixed purpose not to pay the Government of the United States unless she collects reparations from Germany, and I think that represents her attitude to-day. But, Mr. Chairman, pardon this digression.

Mr. LAMONT. Mr. Chairman, shall I now proceed?

The CHAIRMAN. Senator Gore, the time to find that out is when France refuses to pay, and I do not think she is going to do it.

Mr. LAMONT. We come now to the two direct Japanese Government issues, the first one of February 11, 1924—

Senator GORE (interposing). Pardon the interruption. But, Senator King, that was connected with their ratification or approval of the Berenger-Mellon agreement, that her payments depended upon reparations.

Mr. LAMONT. I will continue.

The CHAIRMAN. Please do so.

Mr. LAMONT. The first of these Japanese loans, being that of February 11, 1924, and being known in general terms as a loan for reconstruction and rehabilitation of Japan after their terrible earthquake and fire of the previous September; that was in effect an international loan in respect of the fact that there was an offering in the British market coincident with the offering in the American market. The total amount of the issue was \$150,000,000 in the American market, bearing $6\frac{1}{2}$ per cent interest, and issued at $92\frac{1}{2}$. There was an outside spread of 5 per cent. The operation of the sinking fund has reduced the outstanding issue from \$150,000,000 to \$133,000,000. There was a very large public response to that issue, particularly because of the faith in the promise to pay I take it, of the Japanese Government, plus a feeling of great sympathy for the hardships which their people were enduring.

The second Japanese Government bond issue was made in May of 1930. It was for \$71,000,000 as I have it here, at 90, with a 4 per cent spread.

Senator JOHNSON. With how much of a spread?

Mr. LAMONT. Four per cent.

Senator JOHNSON. I thank you.

Mr. LAMONT. Then coming to the three issues—

Senator REED (interposing). Those were $5\frac{1}{2}$, were they not?

Mr. LAMONT. Yes. Then coming to the three Japanese issues guaranteed by the Imperial Government, one of them was to the city of Yokohama in November, 1926, a 6 per cent bond for approximately but not quite \$20,000,000, and which has been reduced by the sinking fund to \$18,000,000 plus, issued at 93, with a 4 per cent spread.

The next was a loan to the City of Tokyo, guaranteed by the Imperial Government, made in March of 1927, $5\frac{1}{2}$ per cent bonds, for a little over \$20,000,000, and which has been reduced by means of the sinking fund to a little over \$19,000,000 now, issued at $89\frac{1}{2}$, with a $3\frac{1}{2}$ per cent spread.

The third issue, last June, to the Taiwan Electric Power Co., that is, an electric power company operating power in the Island of Formosa, guaranteed by the Imperial Government, of \$22,800,000, at $5\frac{1}{2}$ per cent, issued at $93\frac{1}{2}$, with a $3\frac{1}{2}$ per cent gross spread.

The only other long-term issues that we have had were, two to the Government of Switzerland, one dating back to August 1, 1923, a 5 per cent loan of \$20,000,000. Well, that was really not a long-term loan. It has all been matured and paid off now.

Senator KING. Was that a loan to the Government of Switzerland or to one of the cantons?

Mr. LAMONT. No; that was a loan made directly to the Government of Switzerland.

Senator KING. I thank you.

Mr. LAMONT. The next loan was in April of 1924, issued for \$30,000,000, at 5½ per cent, at 97½, with a 3½-point spread.

Senator JOHNSON. Returning to the Japanese loans for just a moment, please: Were they all syndicated?

Mr. LAMONT. They were all syndicated, Senator.

Senator JOHNSON. And were they all disposed of to the general banks and the general public?

Mr. LAMONT. Well, I can not answer that. I have not enough details to show, but I assume that the syndicate was wound up without having to take any of the bonds back. But as to that I do not know. It is easy enough to find out, however. As I have said, in the case of the first issue there was a very strong response on the ground that—

Senator JOHNSON (interposing). That was after their great disaster?

Mr. LAMONT. Yes; after the great earthquake.

Senator JOHNSON. Were those bonds in the first instance all taken by the house of Morgan?

Mr. LAMONT. The original purchasing group included four, and I happen to remember in that instance that they were J. P. Morgan & Co., Kuhn, Loeb & Co., the National City Bank, and the First National Bank.

Now, the Switzerland loans I have already given to you, and that covers our issues since the war, or since 1920, of long-term indebtedness of foreign governments.

The CHAIRMAN. Mr. Lamont, will you hand that list to the shorthand reporter for the purpose of our record?

Mr. LAMONT. I should like to have this to take back with me to check it over and supplement it with certain information in response to inquiries made here, so as to make it more complete. I got this up very hastily.

The CHAIRMAN. That will not take you very long?

Mr. LAMONT. No.

The CHAIRMAN. Then we will have to hold up our printing until you can get that to us.

Mr. LAMONT. But this would be very likely as an annex to the record.

Senator WALSH of Massachusetts. I note that you have had only one issue of foreign bonds during the past year.

Mr. LAMONT. Yes.

Senator WALSH of Massachusetts. And that is a small issue.

Mr. LAMONT. Yes.

Senator WALSH of Massachusetts. Is that due to conditions in Europe and throughout the world?

Mr. LAMONT. That is due to conditions throughout the world.

Senator WALSH of Massachusetts. But I suppose you have had applications?

Mr. LAMONT. Well, I think the most of the foreign governments have fully realized prevailing conditions and have refrained from making application.

The CHAIRMAN. You may proceed.

Mr. LAMONT. We also in the course of these years issued certain very short-time securities, and also certain revolving credits to the

governments, all of which have matured and been paid off, and none of which had to do with the investing public, which I assume this resolution has particularly to do with.

Senator KING. And I assume some of those were based upon commercial transactions, were they not?

Mr. LAMONT. In general, Senator King, they were, I would say, because they were Government transactions, more in connection with Government operations. It might be some temporary credit, for the stabilization of the lira, or something like that, which was matured and paid off. But that was the general purpose.

Senator REED. Mr. Lamont, has American commerce benefited from these loans in any way?

Mr. LAMONT. Why, Senator Reed, I should think that American commerce had in the long run benefited very greatly by these loans. Of course it is quite arguable that in certain instances the matter of foreign loans has been overdone, but to take the situation as a whole we all know that foreign nations in Europe found themselves after the war denuded as to working capital. That applied to the industries; it applied to a very great many different phases of their situations. And those loans have been designed, as is quite manifest as stated on their face, either for stabilization purposes or to furnish funds that might be used for temporary credit in an attempt to restore the normal course of commerce. We all know that our foreign trade is dependent upon the normality with which those processes can be carried out. And I go so far as to say that not only have they contributed very materially to the maintenance during those years of our foreign trade, but that they have contributed very, very materially to the capacity of the borrowing governments to enable them to discharge their obligations when due, and punctually, to the United States Government.

Senator BARKLEY. The press over a period of years or months has constantly stated and reiterated that Germany was paying reparations to the European nations out of money which she borrowed in the United States and that in turn those nations paid to the United States out of their war debt, and that that vicious circle seemed to be perpetual, until this year, when no longer could they borrow money in this country with which to pay reparations, the present condition arose, and that that was largely responsible for the so-called moratorium. To what extent has Germany paid reparations to other nations in Europe out of money borrowed in the United States?

Mr. LAMONT. Well, a somewhat similar question was propounded to me this morning, and I ventured to point out that you could not make an exact coupling between those two forms of operation, because you can not form a direct connection between a loan, for instance, that some American bank may make to the city of Bremen for harbor improvements and a payment by the German Government of reparations. But in general you can say this without any question, that the loans made to the German economy as a whole, governmental, municipal, industrial, and so forth, and even credits extended to the banks, were designed to improve the conditions toward a restoration of normal conditions in Germany, and to put her people in a way to enable them to pay reparations. So that if you want to

be very rough and ready about the thing I think you are quite warranted in saying that the loans made to Germany were moneys which will help enable Germany to pay reparations, which restored her so that her economic situation was such as to enable her to pay reparations to other European governments, and the moneys such governments received in that way added, of course, to their capacity to meet their obligations to the United States Government.

SENATOR BARKLEY. So far as actual loans to the German Government are concerned, only a little more than \$200,000,000 having been engaged in this country since 1920, that means that Germany could not pay all of her reparations from money she has borrowed as a Government.

MR. LAMONT. No.

SENATOR BARKLEY. Whatever indirect effect all the loans might have in the way of assisting the German Government in its ability to pay reparations, it is decidedly untrue to state that the Government of Germany as such, out of the money borrowed from this country, had paid reparations during a period of years.

MR. LAMONT. Such statement is entirely inaccurate.

SENATOR KING. None of the loans were earmarked so as to know that they were money for reparations to pay other countries, I take it?

MR. LAMONT. No.

SENATOR REED. It is also true that the German Government has borrowed more money from other European countries, including Great Britain, than it has borrowed from us, is it not?

MR. LAMONT. I have no record of that, Senator Reed, but that would be my guess, because the German Government or people in one way or another have borrowed, I think, a good deal of money in Switzerland and in Holland and in Sweden, and so forth.

SENATOR REED. We know that more than half of the Dawes and Young loans were floated abroad.

MR. LAMONT. More than half of the Young loan was, but about half of the Dawes loan.

SENATOR REED. That is the only long-term borrowing that the German Government, properly speaking, has done, is it not?

MR. LAMONT. In this country, yes, and otherwise too so far as I am aware.

SENATOR WALSH of Massachusetts. Can you state the total extent of the value of foreign bonds your company has handled in this period?

MR. LAMONT. I can tell you the total value, Senator Walsh, at the time of the issue, and the total remaining outstanding.

SENATOR WALSH. I should like to have that for the record.

MR. LAMONT. The principal amount of the bonds offered by us, long-term bonds I mean, and let me put that in, in the period referred to, namely, since 1920, has been \$1,807,578,000. Out of that amount there has been retired by the operation of sinking funds and otherwise the sum of \$438,280,100, leaving outstanding as of December 15, this month, \$1,369,297,900.

SENATOR WALSH of Massachusetts. I thank you.

SENATOR LA FOLLETTE. Mr. Lamont, what factors do you take into account in making arrangements before you undertake to underwrite

or float one of these loans? I am not now speaking of any particular loan, but your general practice.

Mr. LAMONT. The factors that we take into consideration of course are, first, the standing of the government itself which proposes to become the obligor; the factor as to whether its budget is in balance, or nearly in balance, or is headed closely toward a balanced budget. Manifestly if a government were headed toward getting her budget further out of balance, that would be an adverse factor and a very strong deterrent. The next question would be the purposes for which the proceeds of the issue were to be devoted, whether on the whole those purposes were constructive or otherwise. And that is a point one can not entirely answer always. I mean in the case of a lesser government you can ask specifically: Just what are you going to do with this money? In the case of the French Government or the Government of Great Britain, latter of which of course does not appear on this list, where the government is above all question as to its soundness of method, why, it might devote it to the general purposes of the government. We may happen to know, as in the case of Italy, that it is for the stabilization of the lira, that that was foremost in their mind. Those are the chief factors, plus the state of our own market, which is a very important point.

Senator LA FOLLETTE. Do you take into account the ability of the Government to convert their currency into dollars? In other words, do you take foreign exchange from both angles into consideration?

Mr. LAMONT. Oh, yes; that is taken into consideration; and we always make certain to our own satisfaction that the service, interest and sinking fund, on any issues we propose to bring out are not so considerable as to be an undue burden upon the exchanges.

Senator LA FOLLETTE. Do you take into consideration—for instance, in the case of Germany—a possible conflict between payments on these obligations which you underwrite and obligations which the Government has in the way of war debt or reparations payments?

Mr. LAMONT. We think that might be an academic question, Senator La Follette, but not a practical question. It is not a practical question because, as you bring up the case of Germany and we may look to that particular instance, we know that the only method by which Germany can be restored to economic health and by which she can pay any obligations she may be undertaking for reparations is to have the normal course of trade and commerce restored in that country. So that while it might be on the face of things a conflict, and you may call it a priority, or whatever it may be, there is no actual question there. Take the case of France vis-a-vis Germany: It is realized that unless German commerce is restored, unless she is put in position where her people and corporations can pay taxes to continue government revenues, reparations can not be paid. So that while there has been considerable in the papers of late on this question of priorities, as a matter of actual practice we do not think it is going to amount to a row of pins.

Senator LA FOLLETTE. If I understood you correctly a while ago, you stated that J. P. Morgan & Co. have not underwritten any loans which have been floated for industrial corporations in these foreign countries.

Mr. LAMONT. Might I ask you to repeat that?

Senator LA FOLLETTE. I will ask the shorthand reporter to read my question to you.

(Thereupon the question was read, as follows:)

Senator LA FOLLETTE. If I understood you correctly awhile ago, you stated that J. P. Morgan & Co. have not underwritten any loans which have been floated for industrial corporations in these foreign countries.

Mr. LAMONT. We have issued no such loans except in one or two cases that I pointed out in this list.

Senator WALSH of Massachusetts: To Japan, I think it was.

Mr. LAMONT. Japan I think was the only one.

Senator KING. That was in reference to the city of Yokohama.

Mr. LAMONT. No; that was to the electric power company to which I have referred.

Senator LA FOLLETTE. In that case do you endeavor to make an analysis of the financial condition of the company, as you would for an issue of domestic bonds?

Mr. LAMONT. In that particular case, yes; we were furnished with very complete information as to the operations of the company, its policy, and all that sort of thing. But, frankly, we relied more in the last analysis upon the guarantee of the Japanese Imperial Government than we did upon the original obligor, although that in itself was deemed to be perfectly sound.

Senator LA FOLLETTE. Speaking from your general information, would you say that there is available as complete and accurate an analysis of the financial situation of foreign corporations for which bond issues are floated in this country as you are able to obtain in the case of domestic corporations seeking to float bond issues?

Mr. LAMONT. Well, you see, Senator La Follette, I do not believe I can answer that question with authority because—

Senator LA FOLLETTE (interposing). I was asking for your opinion, and I qualified the question by saying from your general information.

Mr. LAMONT. Well, my general experience would lead me to believe that on the whole American banking houses are very careful to secure complete and adequate information in any instance that you might have in mind.

Senator LA FOLLETTE. Have the stock exchange listing requirements concerning foreign bonds had any effect upon the character of the issues floated in this country?

Mr. LAMONT. Not that I know of. But I do not believe I quite understand what you mean.

Senator LA FOLLETTE. As I understand it, the stock exchange has within the period we have been discussing adopted some requirements concerning the flotation of foreign securities that are to be listed on the New York Stock Exchange. I wondered whether, in your judgment, these requirements have had any influence upon the character of the issues floated.

Mr. LAMONT. I can answer that in a general way; no. The requirements of the New York Stock Exchange are designed to the one end of making the technical issue of a bond perfectly safe, in that no counterfeit or anything like that can be brought about. And there has to be very great caution exercised in that respect; with the result that certain countries now and then have said, I

suppose: Well, it seems to us you are taking undue precaution there. But those are the rules and they are complied with.

Senator LA FOLLETTE. There is nothing in those requirements which tend to improve the character of the bonds which are listed?

Mr. LAMONT. Oh, well, in general terms. I would not go so far as to say to improve their character, but to improve the technical safety of the issue. I will put it that way.

Senator LA FOLLETTE. Do you think the policy of the State Department in giving a negative answer concerning the issues of bonds to foreign governments has resulted in improving the character of foreign bonds issued?

Mr. LAMONT. I do not believe I could venture an opinion on that, simply because the practice which I said inhered in our house and in other places, like the National City Bank, and so forth, always to have consulted the authorities over here in Washington, and long before there was any request of that kind made.

Senator LA FOLLETTE. What were the factors that resulted in the flotation of such a large volume of foreign loans in this country, in your judgment; what were the more important factors?

Mr. LAMONT. The important factors, of course, were, as I said a while ago, that many of these foreign governments, or the most of them I would think, had found themselves more or less impoverished because of the ravages of war; that while their people were industrious and hard working they were suffering from the effects of the war and they felt that the ravages could be restored if they could get something like working capital to help restore it. The American investing public and the bankers, on the other hand, looked over there and saw those countries in the last degree ultimately solvent, as we thought and as we believe will prove to be the case. We saw that they required this situation alleviated, and we further saw that unless we were able to obtain a certain amount of foreign loans for them our own foreign trade would be imperiled. There was American money available at that time, and money was fairly easy, so those were the chief factors.

Senator LA FOLLETTE. Do you think the incentive of the commissions to be made through the flotation of these loans had any influence in the large volume that was floated?

Mr. LAMONT. Oh, I think, Senator La Follette, that the matter of the gross or the net profit with respect to any buy-and-sell operation is always important. We are merchants. That is what we are, just like any merchant in the grain business or the cotton business, or anything else, and the question of a legitimate profit is certainly a consideration.

Senator LA FOLLETTE. Do you think that the higher yield of the foreign bonds made them attractive to the American investor?

Mr. LAMONT. I think in many instances that is perfectly true. You take the question propounded by Senator Walsh, and he mentioned something along that line—take the loans to the Government of France in the early part of the decade, and everybody knew in his heart of hearts that the French people, industrious and thrifty as they are, would ultimately be able to pay the very limited amount of foreign obligations which they were negotiating for in dollars, and if the market were 7 per cent, or even more, it was a very attractive investment. That is, if you had faith in the future of the

country. And if you did not, it would not be attractive on any basis.

Senator LA FOLLETTE. In your judgment, has the volume of these foreign bonds and credits at any time during the period that we have been discussing, conflicted with or impaired the ability of domestic, and especially small domestic corporations, to secure credit?

Mr. LAMONT. Oh, I would answer unquestionably no. Unquestionably no. The interior banks, as you know, have always been, at least during the period of easy money and before we ran into present conditions, ready to grant ample credit. No; I think it would work the other way. I should think the American export trade had been stimulated so much by foreign loans in general that the domestic situation would have been aided.

Senator LA FOLLETTE. I think you may have answered this question before, but I want to make sure that it is in the record: In your judgment, is there a direct relation between these large flotations of foreign securities in this country and the tremendous expansion of the export trade of America during the period preceding the depression?

Mr. LAMONT. Oh, yes. While you can not figure out the exact cause and effect in dollars and cents, I have no doubt it had a very strong bearing; otherwise where in the world would our foreign buyers have gotten money with which to buy our cotton, wheat, copper, meats, and all that sort of thing? I don't know where.

Senator LA FOLLETTE. In your judgment, did that contribute to the excessive expansion of plant facilities in this country during that period?

Mr. LAMONT. I should not think it would be so very much, not a great deal at least, because what the European countries required during that decade, especially in the early part of the decade, was not so much manufactured articles as raw materials and commodities such as we were able to furnish in the way of agricultural products, which helped us enormously in that respect.

Senator KING. But was not our expansion, that is our mechanical expansion, rather during the war, and has there been very much mechanical expansion in our industries since then?

Senator LA FOLLETTE. I do not agree with you.

Senator KING. I do not state it as a fact, but I was wondering if there had been any very great industrial expansion in a mechanical way since the war.

Senator LA FOLLETTE. There has been tremendous expansion in plant capacity since the war, both due to actual expansion of plant and to the technological improvement of industrial processes.

Senator KING. I know that there was during the World War and immediately thereafter, but I did not recall that industrial expansion had been very great during the past five or six years.

Mr. LAMONT. I think Senator La Follette is right—that there has been considerable expansion of plant capacity in the middle part of this decade.

Senator KING. Oh, yes; about that, all right.

Mr. LAMONT. That was due both to foreign and domestic demand, chiefly domestic, I would say, where things, as we all know too well, get to rolling along on a too rapid scale, where people borrow and spend, or borrow and buy, and all that sort of thing.

Senator GORE. That was the very point I was going to ask you about, this policy on the part of European governments to borrow and buy. That, of course, had to come to an end, unless there was a saving from capital.

Mr. LAMONT. When I used the phrase about borrowing and buying I was alluding to the domestic inflation here in the United States, and the expansion of plant facilities, and not to foreign matters.

Senator GORE. I think you stated that our foreign trade, our exports, were augmented greatly on account of the borrowings and purchases abroad.

Mr. LAMONT. I did say that; but you must bear in mind that this borrowing has not been solely responsible for the volume of our export trade. A great part of it has been due to the savings and thrift of the people over there. You can not find any harder working people, any more saving people, than the French, and, in general terms, I guess than the German and Italian.

Senator GORE. One further point in regard to Germany and the question of priority: Now, German bonds issued pursuant to the Dawes plan were expressly given priority, were they not, over all other German obligations?

Mr. LAMONT. That is true.

Senator GORE. Is it true also of bonds under the Young plan?

Mr. LAMONT. They were given general priority subject to the prior lien of the Dawes bonds. I have read into the record the exact status of the security in the case of both of those issues.

Senator GORE. I did not know that and wanted it in the record.

Senator KING. The obligations due from foreign governments are approximately \$5,000,000,000, due from South American and Central American Governments, roughly speaking, are they not?

Mr. LAMONT. My memory does not serve me on that. I should have to refer to some documents of the United States Department of Commerce, which department has made a very careful and complete compilation, but I know it is a very considerable amount.

Senator JOHNSON. In 1925 or thereabouts did you arrange for a credit in this country for the Bank of England?

Mr. LAMONT. Will you state that again?

Senator JOHNSON. Did you arrange for a credit for the Bank of England in 1925 or thereabouts?

Mr. LAMONT. No. We never have had anything to do with the Bank of England credit, Senator Johnson. Great Britain determined in the spring of 1925, as I recall it, to go back to the gold standard, and the British Government approached us for a 1-year credit. Now, that was the British Government. At the same time we were informed without knowing any of the details of the matter, that the Bank of England was arranging for a temporary credit through the Federal reserve banks of this country. We arranged ours and they arranged theirs, and as I recall it there were no drawings under our credit, and upon the maturity of the credit it simply matured and really there was no paying to be done, for it was simply a credit.

Senator JOHNSON. Do you remember how much they desired at that time?

Mr. LAMONT. That they arranged for as a stabilization?

Senator JOHNSON. Yes, sir.

Mr. LAMONT. I have it here somewhere and will find it.

Senator GORE. It was \$300,000,000 that they arranged for, as I understand it.

Mr. LAMONT. With us it was a credit to the British Government of \$100,000,000.

Senator REED. And no part of it did they ever draw.

Mr. LAMONT. My recollection is that no part of it was ever drawn upon.

Senator JOHNSON. You say that was \$100,000,000, arranged by the house of Morgan?

Mr. LAMONT. It was \$100,000,000 by a group of institutions that associated themselves with us.

Senator JOHNSON. And in addition to that, there was a credit by the Federal reserve banks.

Mr. LAMONT. There was a credit which the Bank of England arranged for, as we were informed at the time, with the Federal reserve system.

Senator JOHNSON. Which was \$200,000,000, was it not?

Mr. LAMONT. That is my recollection.

Senator JOHNSON. Did you receive any compensation for the credit that was arranged at that time, and that you say was not drawn upon?

Mr. LAMONT. Oh, our group received what you would call a stand-by commission for promising to let them have the money if they wanted to draw upon it.

Senator JOHNSON. Pardon me, but I do not know exactly what you mean by "a stand-by commission." Explain that, please.

Mr. LAMONT. Oh, that is a commission for granting the credit. The group that we arranged gave the right to the British Government to call upon us at any time within two years to advance them \$200,000,000.

Senator JOHNSON. You meant \$100,000,000, did you not?

Mr. LAMONT. Yes; I meant \$100,000,000. Pardon me. We were paid for that.

Senator JOHNSON. And for that grant of a right to draw on you, you were paid?

Mr. LAMONT. Yes; certainly.

Senator JOHNSON. State the amount, please.

Mr. LAMONT. Well, as I have it here it was a total of $1\frac{1}{4}$ per cent per annum.

Senator JOHNSON. And how long did that offer last?

Mr. LAMONT. Two years.

Senator JOHNSON. So you charged them $2\frac{1}{2}$ per cent then, I take it?

Mr. LAMONT. Well, it would amount to exactly what I said.

Senator JOHNSON. You said it was $1\frac{1}{4}$ per cent per annum and would run for two years, which would be $2\frac{1}{2}$ per cent.

Mr. LAMONT. Two and a half per cent for the privilege, and they had the privilege on their part of surrendering the thing at the end of a year.

Senator JOHNSON. Do you know who arranged the Bank of England credit with the Federal reserve?

Mr. LAMONT. I have not the remotest idea. At the time in question the Bank of England had as its head Governor Norman, and the

governor of the Federal Reserve Bank of New York was Mr. Strong. We had nothing to do with that and no knowledge of it. I mentioned it particularly because Mr. McFadden, in the House of Representatives, was good enough some time ago to credit us with having been active in the arranging of it, and I just wanted to go on record by saying we had nothing to do with it.

Senator BARKLEY. Mr. Lamont, this question may be one that you prefer not to answer. It may be a question about which if you have an opinion you do not wish to give it. But as to this moratorium, upon which this resolution is based, or at least in some way connected, providing for a suspension for one year of the payment to us of the interallied debts by European countries, six months of the time has now been consumed, and it will run only until the 30th of next June. The provision is that over a period of 10 years after that time this amount to be paid this year will be spread out and be paid in addition to the regular annual payment which will come due. Have you any opinion or would you be willing to express an opinion now as to whether the governments involved will be able to meet their regular annual obligations beginning at the end of this one year of suspension, and also one-tenth of the amount they should have paid this year, spread out over that period. Or will they be faced by the same situation then that we are up against now?

Mr. LAMONT. Senator Barkley, I would not dare venture an opinion on that. I would not dare to do it. I think the officials of the United States Treasury have all the information and will be able to get all the information from month to month that is possible and available on those questions. But as to either prejudging or prophesying I would not dare to do it.

Senator REED. Furthermore, what might be true of one government might not be true of all.

Senator BARKLEY. Yes; I realize that.

Mr. LAMONT. Quite true, quite true.

Senator HOWELL. Mr. Lamont, is it not true that some of these governments that will be affected by the moratorium should pay now?

Mr. LAMONT. I am not in a position to answer that categorically, because, as I say, you can study their budgets, you can study what their present economy is. I prefer not to be drawn into a discussion, if you please, on matters that are so strictly pertinent to the Government. I have great confidence in the officials of this country being able to handle the situation adequately.

The CHAIRMAN. Are there any other questions?

Senator REED. Is there anything, Mr. Lamont, that you would like to say before you finish?

Senator JOHNSON. Mr. Chairman, may I ask: Mr. Lamont, have you any knowledge on the subject of industrial loans or loans other than those that are governmental?

Mr. LAMONT. I have no detailed knowledge whatsoever, Senator Johnson, but I take it from what Senator Smoot, the chairman, has said you purpose calling various other bankers here who will be able to give you entirely adequate information on that.

Senator JOHNSON. You have not dealt with the industrials?

Mr. LAMONT. No; we have not dealt with that phase of the situation.

Senator JOHNSON. Nor with short-term credits?

Mr. LAMONT. Not with short-term credits that are outstanding; no. I mentioned a while ago that we had some revolving credits and you just alluded to one with the British Government back in 1925.

Senator JOHNSON. I was speaking of German short term.

Mr. LAMONT. No. As I said this morning, our practice was not to undertake German short-term credits, and the point that I made was that that whole phase, I thought, had been unduly exaggerated in the public mind as to its extent and importance.

Senator GORE. Mr. Lamont, one other question.

Mr. LAMONT. Certainly.

Senator GORE. I notice in the year 1929 foreign loans in this country were greatly reduced. Was that due in part to the pendency of the Young plan and the high money rates in this country?

Mr. LAMONT. Why, I would think so, and because at that time the need was not insistent from possible foreign borrowers. Of course, the moment that the difficulties of the autumn of 1929 arrived the idea of making foreign loans fell very much into the background.

Senator WALSH of Massachusetts. Mr. Lamont, Senator Gore asked you how much of the German foreign bonds your company held and you said you would supply it for the record. Have you any objection—if you have I wish you would state it—to supplying the total amount of foreign bonds which your house now holds or the agencies with which it is connected?

Senator REED. That will be shown in this statement that you are going to send us, will it not, Mr. Lamont?

Mr. LAMONT. Well, so far as that is concerned, Senator Walsh, we have no agencies. I mean—yes; we are by ourselves, as far as that is concerned.

Now, as far as furnishing that information is concerned, we have no objection whatsoever to furnishing it in confidence to the members of the Finance Committee of the Senate. I think it would be probably unwise for detailed information of that kind, representing the portfolios to a certain extent of all the banks, leading banks and banking houses in the United States, to be made public. I can not conceive of what good that would do.

Senator WALSH of Montana. I appreciate that.

Mr. LAMONT. Do you see? But so far as the purposes of this committee are concerned, we have absolutely nothing to conceal.

Senator WALSH of Montana. Of course, if it were a larger sum it would indicate that you had great confidence in these securities and you are willing to assume the responsibility you are asking other banks and private individuals to assume.

Mr. LAMONT. That might be and that might not be, because, Senator Walsh, our business is not to be investors ourselves, in the last analysis, but to be merchants.

Senator WALSH of Montana. I understood that.

Mr. LAMONT. And you can also realize that in times that we are going through in this country it has been especially important for large banks and large banking houses like ourselves to keep as liquid as possible for the purpose of meeting domestic situations.

Senator GORE. Is your organization a firm or corporation?

Mr. LAMONT. We are a partnership with unlimited liability.

Senator BARKLEY. Mr. Lamont, do you think that trade barriers such as tariffs between our country and other countries and among other countries in the world has had any effect on the capacity of our debtors to pay?

Mr. LAMONT. Now, that is a pretty broad question, and I have such a regard for the chairman of the Finance Committee that I do not want to get into argument with him about the tariff, because I am a low-tariff Republican.

Senator BARKLEY. Your answer is yes, then.

Senator KING. I think there are other low-tariff Republicans.

Senator GORE. Don't press him on that point.

Senator BARKLEY. I say, your answer was "Yes."

Senator SHORTRIDGE. Would you cite any agricultural item in the tariff the rate on which should be reduced?

Mr. LAMONT. No; I am not an expert on the tariff. I will trust to Senator Smoot on that, in the last analysis.

The CHAIRMAN. Or any other rates under the conditions as existing in the world.

Senator SHORTRIDGE. Is there any item in that tariff—

The CHAIRMAN (interposing). Raised in California.

Senator SHORTRIDGE. Raised in California or anywhere else that you would have reduced?

Senator COSTIGAN. Mr. Chairman, before we adjourn may I ask a question?

The CHAIRMAN. Certainly.

Mr. COSTIGAN. Mr. Lamont, I was out of the room part of the time, and you may have already spoken on this subject. Has your firm handled municipal German bonds?

Mr. LAMONT. We have never handled any municipal German bonds or any bonds other than two issues of German Government bonds, which I described in the course of the testimony.

Senator COSTIGAN. One more question: It happens that I come from Colorado. On what principle do you allot bonds to particular banks? For example, on what principle would you allot a certain amount of bonds to a Colorado bank for sale?

Mr. LAMONT. We would allot those bonds to the Colorado bank, Senator Costigan, purely on the basis of the amount that they wanted and thought they could dispose of to advantage.

Senator COSTIGAN. Have you determined that amount in advance, or do you write them to ask the particular quantity that they feel that they are in position to handle?

Mr. LAMONT. The practice in handling syndicates, so as to start somewhere, is to say we are able to offer you an interest in this syndicate of a hundred thousand dollars bonds, or whatever the figure may be.

Senator KING. Hundred million?

Mr. LAMONT. No; I am speaking of any one particular house. A hundred thousand dollars bonds, and then the house receiving that determines as to whether it wants a hundred or 50 or none.

Senator COSTIGAN. If a bank declines to take its allotment, or any allotment, is it at a disadvantage with respect to the handling of any future bonds?

Mr. LAMONT. Oh, no; except on a common-sense basis—that is, if a house found itself consistently unable to place any bonds,

eventually we would take that as an intimation that it did not care to have an invitation extended. That is all.

Senator COSTIGAN. In other words, in line with your testimony this morning, you wish us to understand that no compulsion, direct or indirect, is brought to bear upon any individual bank to take a particular issue?

Mr. LAMONT. Absolutely, completely.

Senator JOHNSON. One thing more, if you will pardon me.

Mr. LAMONT. It is all right.

Senator JOHNSON. Is the house of Morgan the financial representative or agent of Italy at the present time?

Mr. LAMONT. As I said in the early part of my testimony, Senator Johnson, we have no fixed financial or fiscal agency arrangements with anybody, with any foreign government. We have undertaken in certain instances to act for such governments in a financial way, and in the absence of any withdrawal of either side those loose arrangements have continued; but as for calling ourselves specifically the financial agents of the Government of Italy, or any other government, we do not do that. We have no right to do it, and they have every right to go anywhere they please.

Senator JOHNSON. Is the same arrangement which you suggest, and only that, in vogue with France?

Mr. LAMONT. Quite.

Senator JOHNSON. Is the same arrangement in vogue with Great Britain?

Mr. LAMONT. It is in vogue with every country.

Senator JOHNSON. Well, has any other country had any other representative in New York besides the house of Morgan?

Mr. LAMONT. Any other country than what?

Senator JOHNSON. Great Britain, France, or Italy.

Mr. LAMONT. In the case of Great Britain, we have since during the war been their chief representative. That does not mean that they may not have had relations with somebody else that we do not know about, but we have been their chief representative in connection with financial matters in America, other than their Government relations.

Senator GORE. What other foreign countries?

Mr. LAMONT. Pardon me, if I may continue to answer Senator Johnson's question. He asked me specifically.

Senator GORE. Yes.

Mr. LAMONT. In the case of France they have had, we thought, considerable relations with other houses. The same is true with Italy. Although any large issues of public loans like this have always been concentrated with us so far as negotiations are concerned.

Senator REED. It is true, is it not, Mr. Lamont, that in recent years Italy has been paying the United States Government through Kidder, Peabody & Co.?

Mr. LAMONT. That has been their practice, as I recall it.

Senator JOHNSON. I did not follow what Senator Reed said. I do not know whether it related to what I asked or not.

Mr. LAMONT. Yes; it has a bearing on that.

Senator REED. I said that in recent years Italy had been making her payments to the United States on her Government debt through the house of Kidder, Peabody & Co.

Mr. LAMONT. I am not aware, Senator Reed, as to how complete that is. I know that they have utilized Kidder, Peabody & Co.'s services at various times. That is as far as I should be able to go.

Senator JOHNSON. Have you an establishment in Paris, Mr. Lamont?

Mr. LAMONT. There is a Paris house called Morgan & Co. which is allied with our New York house.

Senator JOHNSON. Have you a house in London?

Mr. LAMONT. In the same way we have a firm in London that is under the British laws, of course, called Morgan, Grenfell & Co.

Senator JOHNSON. In Rome?

Mr. LAMONT. No. Those are the only two affiliations that we have.

Senator JOHNSON. Now, Senator Reed spoke of Kidder, Peabody. Are you connected in any fashion with them?

Mr. LAMONT. None whatsoever.

Senator JOHNSON. They have been partners in your syndicates?

Mr. LAMONT. In some and not in others.

Senator JOHNSON. That is all so far as I am concerned.

Mr. LAMONT. Senator Reed asked me one question as to whether there were any general remarks, and in reply to that I might permit myself to say very briefly that, while I regard this question of foreign bond issues and the whole relation with foreign finance as undoubtedly an important factor in our whole situation, in all American economy; an important factor in finance and trade, and all that; nevertheless, we do not deem it as of anything like the importance that the domestic situation has, if I may say so.

In other words, we think that all the alarums and excursions that have unfortunately come in the last few months, and have exaggerated in the public mind the extent of American foreign investments, is somewhat unfortunate. It may have been inevitable, but it is somewhat unfortunate.

I alluded this morning to our belief and knowledge that no American banking institution was in the slightest degree embarrassed by its holding of short-term foreign credits. We think—at least I think; I am expressing an individual view in this, of course—I think that if we can address ourselves to certain phases of our domestic situation, our foreign situation will in due course help to take care of itself.

In other words, I think that in this bond market that we were describing, in which we have witnessed a decline in the markets of domestic bonds as well as foreign bonds, we see that the railroad bonds are in a way the backbone of the market. That is to say, the transportation industry of this country is the chief great industry of the country. It is under a cloud to-day, because its earnings are not apparently sufficiently close to its outgo. That is the reason that we have been very much pleased by the report that the workers, the railway workers, were themselves contemplating a voluntary reduction of wages, coming down somewhat in line with the reductions of wages in other industries and on the farms; because we can't see that as the one factor at the present moment, the great factor at the present moment, that will tend to lead to stability in our domestic bond market, which, after all, is the backbone of our investment community. Anything that the American community can do in expressing good will toward getting this negotiation for the reduction

of wages and the rehabilitation of the railways put on a swift and effective basis—that is going to contribute more than any other one thing, outside of sound legislation at Washington.

I may permit myself to thank you, Senator Smoot, and all the other Senators here, for your exceeding courtesy.

The CHAIRMAN. We thank you for coming.

Senator COUZENS. I would like to ask Mr. Lamont one thing, so long as you brought up the railroads: Is it your opinion, Mr. Lamont, that the railroads will need governmental aid, financial aid?

Senator WATSON. Speak a little louder, will you, Senator?

Senator COUZENS. I asked Mr. Lamont if it was his opinion that the railroads would need governmental aid financially.

Mr. LAMONT. Senator Couzens, I am a little puzzled as to just how to answer that, and I will tell you why I am a little embarrassed. I understand that there is pending before the Congress now a recommendation on the part of the administration as to the formation of a so-called emergency finance corporation, and I should not wish to be understood as coming over here and pretending to tell any Members of this Congress what they should or should not do, because, as I say, I have every confidence in the discretion and capacity of this Congress.

If I were to be forced to give a personal opinion, I should say that the bill authorizing the creation of such a corporation was of very great importance at the present moment. I would believe that the earlier such a corporation would be formed the less it would be called upon to perform any functions.

Senator COUZENS. I do not think Mr. Lamont quite got the point. The so-called reconstruction loan fund that the President has suggested proposed to set up \$500,000,000 for refinancing banks and financial institutions and railroads. That proposed to set up an entirely new organization which, obviously, will take considerable time, because it means the election of three or four new directors, which will have to be picked out and confirmed by the Senate, and it also will be devoted to the refinancing of closed banks and other destitute financial institutions.

The railroads, however, have had experience with the Government in going through the Treasury Department with adequate collateral, which has been satisfactory both to the railroads and with the Government.

I was asking the question whether or not, in Mr. Lamont's opinion, the railroads can wait until this so-called reconstruction corporation is set up.

Mr. LAMONT. Well, of course, you never can tell just how long you can keep the patient going, but if there were signs in the Senate and House of early action, prompt action, with reference to this corporation, Senator Couzens, I should say that the railroads would get along until that time. But I do think it would have to be early.

Senator COUZENS. Representations have been made to me that the railroads are in dire need of assistance and that they are unable to borrow it through the New York investment houses; that the New York Central is in need, and other railroads are in great need, and that the New York financial houses have refused to come to their assistance. Is that correct?

Mr. LAMONT. Oh, in that form I would not say it were correct at all, Senator Couzens. Certain solvent railways are financing their immediate needs by means of short-term loans, which the banking houses and the banks have been very ready to grant. They have done everything to keep this situation going in good shape.

But, manifestly, banks and banking houses can not continue to lock up their resources indefinitely in such short-term loans, for in accordance with the practice those loans must be refunded into bonds before very long.

Now, with the existing bond market they can not be refunded. The houses have not refused, but they are not able—if the issues of these highly solvent roads that we know about are selling far below par as they are—it is quite impossible for them at present to market another issue obviously.

Senator COUZENS. May I ask how long these New York houses will be willing to carry these railroads on short-term loans before converting them into long-term bonds?

Mr. LAMONT. There is not any answer that could be made to that. The banks in New York, just like the banks all over the country, are doing everything in the world they can to fulfill the requirements of their customers, everything.

Senator COUZENS. Now, in these short-time loans that you are making to these banks prior to the time of converting them into long-time bonds, how long have you made those loans for?

Mr. LAMONT. Oh, they vary. I do not know. They might be 90 days, might be 6 months. The maturity does not make much difference. The nominal maturity, Senator Couzens, does not make much difference, because if things are going along a bank wants to renew if it can. But I am just pointing out in general terms the state of this very basic industry and the necessity for cooperation along two lines: One, wage reductions so as to enable them to balance their budgets, and the other, possible emergency corporation for use to turn to in the very near future.

Senator COUZENS. How long will that require, in your judgment, this emergency loan from the Government, if such were arranged?

Mr. LAMONT. Oh, that would work out, I suppose. Why, nobody can tell. You know, even better than I, how the War Emergency Corporation functioned, how successfully it functioned. It took in quite a lot of loans at the outset and then began to liquidate it. The same general course would follow, I would think. But the authorization by Congress in the setting of it up in itself will be a very great help.

And as I said at the start on this point, on the point you are inquiring about, the sooner you do it the less you will need it.

Senator KING. Mr. Lamont, the credit corporation which has been organized of \$500,000,000, will that not perform some of the functions and meet some of the exigencies to which you refer?

Mr. LAMONT. You are referring to the emergency banking corporation?

Senator KING. Yes.

Mr. LAMONT. That is doing all it can already, Senator, with the banks. That has no power, of course, to make loans to railroads or industrials.

Senator KING. I understand that, but as I understood one of the questions of Senator Couzens—and I may have misunderstood him—he included in the functions of this organization giving the banks credits.

Senator COUZENS. That is correct.

Senator KING. And I was wondering if the credit corporation, with its \$500,000,000—and I have talked with the President on two occasions—was not in position to give effective aid to banks that have frozen assets and perhaps some banks that are in the hands of receivers.

Mr. LAMONT. Well, so far as the banks whose assets are good and yet are more or less frozen, as I understand it that corporation is already functioning in their favor very decidedly. So far as assets that are in the hands of receivers, I should not think that that corporation would have power to function.

Senator KING. I think that it does. However, it has the right to loan to banks where they have good collateral?

Mr. LAMONT. Yes; that is true. But that is banks. Senator Couzens is asking about railroads.

Senator KING. Yes.

Senator COUZENS. Now, may I ask Mr. Lamont if he knows what rate of interest these financial houses are charging the railroads for their short-time financing?

Mr. LAMONT. Current rates.

Senator COUZENS. What is that?

Mr. LAMONT. Why, darned if I know. I suppose that—

Senator SHORTRIDGE (interposing). Five, 6, 7, 8 per cent?

Mr. LAMONT. No, no. Just before the Federal reserve bank raised its discount rate and before money became a little dearer than it had been the rates were very low. Now they are still in accordance with the current market.

Senator COUZENS. Representations have been made to me that any sound railroad at this time needing money in Wall Street would be required to pay 7 and 8 per cent. Is that your understanding?

Mr. LAMONT. I have never seen any such loans on such a basis, never.

Senator SHORTRIDGE. What would it be, Mr. Lamont?

Mr. LAMONT. I do not follow the details of banking. I am probably culpable, but I do not, very frankly. But I heard a debate the other day as to whether this railroad which was borrowing considerable should pay 4 or 4½ per cent, if that will give you any light.

Senator COUZENS. May I ask Mr. Lamont what railroads his house, the house of Morgan, are fiscal agents for?

Mr. LAMONT. We are not formal fiscal agents for any road, Senator Couzens. Years and years ago we had certain formal fiscal arrangements with two or three roads, but by mutual consent those were wiped out, oh, 10 or 15 years ago, and we are not formal fiscal agents for any of them. But by tradition and practice we act for a number of them.

Senator COUZENS. What are those?

Mr. LAMONT. Well, among them I would mention the New York Central, Northern Pacific, Chesapeake & Ohio.

Senator COUZENS. Does that include all of the Van Swearingen enterprises?

Mr. LAMONT. No; not all of them. The Chesapeake & Ohio happens to be one of the railroads. No; those are divided up, as a matter of fact. Formerly they were in more or less groupings that had separate bankers, and we have not wanted to disturb existing arrangements.

I do not mean by any method of seeming exclusion to make my list limited, but I am just mentioning a few companies that come to my mind.

Senator BARKLEY. Mr. Lamont, it has been stated that of the \$500,000,000 supposed to be available through this credit corporation for assisting destitute banks and others, only \$15,000,000 has been granted or used. Do you know whether that is accurate or not?

Mr. LAMONT. No; I have no information on that at all, Senator. You see, this company has to do with incorporated banks, and we had no part in that except initially to assist; cooperate as we could, in the furtherance of it, and I would say that we would subscribe to some of the capital stock if we were wanted to.

Senator BARKLEY. You do not know anything about the details of its operation?

Mr. LAMONT. Not a thing. That is in the hands of the respective clearing houses in the various financial centers of the country.

Senator COSTIGAN. Mr. Lamont.

Mr. LAMONT. Yes, Senator.

Senator COSTIGAN. If the question is deemed relevant and proper by you, may I ask whether any member of the house of J. P. Morgan & Co. is a director in any of the leading banking institutions in any of the countries, the securities of which have been marketed in this country? For instance, Germany, or Great Britain, if Great Britain be included?

Mr. LAMONT. Let me say first that no question that any Senator of this committee would ask would be anything but proper.

Second, if I understand the question, it is as to whether any member of the firm of J. P. Morgan & Co. is a director in any foreign bank located in any one of the countries whose governments have arranged loans through us in this country. Is that correct?

Senator COSTIGAN. That is the substance.

Mr. LAMONT. The answer is no.

The CHAIRMAN. We thank you.

Senator GORE. Mr. Lamont, not being a corporation, I suppose you have no outstanding stock or capital. Is there any statement showing the capitalization?

Mr. LAMONT. No; there is no published statement at all. Fortunately, or unfortunately, the entire resources of every member of the firm are pledged to the fulfillment of all our obligations.

Senator REED. Mr. Lamont, I think you made a slip of the tongue when you said that the Paris and London firms were the only other firms with which you knew your house was connected. Isn't there a connection with Drexel & Co.?

Mr. LAMONT. He asked me foreign.

Senator REED. You did not answer in that way.

Mr. LAMONT. Oh, pardon me. I am glad you reminded me of that, Senator. Oh, yes; Drexel & Co., at Philadelphia.

Senator JOHNSON. I was not referring to any domestic companies.

Senator REED. His answer did not indicate that.

Senator JOHNSON. You state the connections in this country are very numerous?

Mr. LAMONT. No, Senator Johnson. I am very glad you brought that up. Drexel & Co. are the only affiliate we have; Drexel & Co., of Philadelphia.

Senator JOHNSON. "The only affiliate." Just what do you mean by that?

Mr. LAMONT. I mean a firm in which we are interested.

Senator JOHNSON. Oh, yes. But you have firms, however, that are representatives, agents, and the like, and of which you are agents and representatives, of course?

Mr. LAMONT. No; we have not; if I may differ from you radically.

Senator JOHNSON. Pardon me?

Mr. LAMONT. If I may differ from you radically, we have not.

Senator JOHNSON. Oh, gracious; I am sure you differ from me radically, and we differ radically on many things, and always pleasantly.

Mr. LAMONT. Always pleasantly.

Senator JOHNSON. You have—what do you call them, correspondents?

Mr. LAMONT. You see, we are a private banking house, Senator Johnson, and we do not solicit actively the accounts of interior banks and banking houses. We leave that in general terms to the incorporated institutions. I mean to say, the National City Bank, the Chase, the Guaranty, all have large lists of the interior depositors and correspondents running, I suppose, to two or three thousand. We have a few—some personal acquaintance or something like that, but very few.

Senator GORE. How many members of your firm?

Mr. LAMONT. Excuse me. Senator Johnson has one thing more.

Senator JOHNSON. When a loan is allocated to houses, what list do you take? How do you determine the houses to allocate it to?

Mr. LAMONT. To determine the make-up of the syndicates, Senator Johnson; that is to say, the list to whom we shall extend an invitation to join a particular syndicate, by the previous record we have in the office. Naturally, we keep a careful catalogue of the houses and banks that have been members of previous syndicates, and we utilize that.

Senator JOHNSON. However tentative the connection may be, there are houses with which you are connected, of course, in the United States, and many of them, and that goes without saying, I take it, and so I did not inquire about local establishments or establishments in the United States with which in any degree you were connected.

Mr. LAMONT. Well, there is no use in getting into an argument about that. The connotation, in my thought, of your inquiry was to the effect that we had very intimate relations through other houses to the extent of our being able to indicate to such houses what our wishes were or what our judgment was, and I wanted to negative that idea.

Senator JOHNSON. Then, you do not indicate what your wishes are to the various other houses?

Mr. LAMONT. If we invite them in to take a part in the syndicate, that means that we think that we are inviting them to take a part in a sound enterprise.

Senator JOHNSON. Of course.

Mr. LAMONT. And they have the privilege of joining or not joining.

Senator JOHNSON. And, of course, you invite those with whom you are familiar and with whom you have had dealings before?

Mr. LAMONT. Quite right.

Senator JOHNSON. I do not think there is any disagreement between us in that respect.

Mr. LAMONT. Probably not.

Senator GORE. How many members are there of your firm?

Mr. LAMONT. I guess there are about 12 in New York now, 12 or 13.

Senator GORE. Is there a published list?

Mr. LAMONT. Oh, yes, certainly; it is a matter of public record.

Senator GORE. I should be glad if you would turn it in when you are correcting your statement.

Mr. LAMONT. Very well, sir.

The CHAIRMAN. We thank you for your statement.

(Witness excused.)

TESTIMONY OF CHARLES E. MITCHELL, CHAIRMAN NATIONAL CITY BANK, NEW YORK, N. Y.

The CHAIRMAN. You are associated with the National City Bank, New York?

Mr. MITCHELL. I am chairman of the National City Bank of New York.

The CHAIRMAN. How long have you held that position?

Mr. MITCHELL. I became the president of the National City Co., which is the investment affiliate of the National City Bank, in 1916 or 1917; and I became president of the National City Bank in 1921 and I have been chairman and chief executive officer of the bank and of the affiliate company for something over three years.

The CHAIRMAN. Are you associated in any way with J. P. Morgan & Co.?

Mr. MITCHELL. Only in business relationships.

The CHAIRMAN. Not as an owner or an officer?

Mr. MITCHELL. No, sir.

The CHAIRMAN. Mr. Mitchell, you have listened to the testimony of Mr. Lamont. You know about the trend of information that this committee desires to secure from you. If you have a statement that you desire to make, we should be very glad to hear it at this time and have you tell the committee as near as possible what the National City Bank has done by way of loans in any connection whatever with foreign countries.

Mr. MITCHELL. Senator Smoot, I have prepared no statement for your committee, but I have been most interested in the line of questioning of Mr. Lamont, and I think perhaps it might be helpful, before we go into the detail of our own operations, that I discuss with you some of the questions in which, within the last hour, you have shown a direct interest.

The CHAIRMAN. I am quite sure that the members of the committee will be interested in your statement along that line.

Mr. MITCHELL. One point has particularly impressed me. A question was introduced as to what happened to the money that was raised by virtue of these foreign loans. These loans produce dollars to the credit of the borrower, and except as those dollars are used in the payment of already existing debts in America, they must be used in the purchase of American products, American goods and services. Many of us have found a real inspiration in the fact that in the issuance of this large volume of foreign loans we were playing a part in the development of American trade and industry. That is our first motive always.

We maintain branches of our bank the world around, at the cross-roads of commerce, always for the benefit of American manufacture and American trade, and in our foreign security issues we look to the same result.

If I may bring this one step forward in the discussion, I have had prepared a statement of the international payments, the balance of the international payments of the United States for the period from 1923 to 1930. It is very short, and if I may give it to the committee in its few items, I would like to have their attention.

On the credit side we have, first, the excess of exports; that is, the excess of exports over imports, which runs to a figure of \$4,850,000,000 during this period. Interest received, \$4,100,000,000.

Foreign investments in the United States, \$1,722,000,000.

War debt payments, which of course include miscellaneous government transactions, \$1,196,000,000.

Discounts and commissions, \$746,000,000.

Freight and shipping, \$586,000,000.

Miscellaneous items, \$545,000,000; a total of \$13,646,000,000.

The CHAIRMAN. What period of time?

Mr. MITCHELL. From 1923 to 1930, inclusive. Of course this figure is small by virtue of my taking into the credit side only the excess of exports over imports.

On the debit side we have foreign investments, \$6,293,000,000.

Tourist expenditures, \$4,233,000,000—

Senator KING. You are speaking of Europe only, are you?

Mr. MITCHELL. I am speaking of the entire world.

Immigration remittances and charity, \$2,193,000,000.

Ocean passenger traffic, \$474,000,000; and the balancing item is gold, \$453,000,000.

Now I ask you, gentlemen, what would happen if we were to remove the item of \$6,293,000,000, covering the foreign investments? In the balancing of the account it would have to be covered by a reduction of some of these items that are on the credit side. It is my opinion that it will show itself particularly in an elimination of the item of excess of exports, which has been \$4,850,000,000.

Foreign investments, in other words, very largely control the volume of the export business of the United States. They should have, therefore, a sound basis of desirability to the most critically patriotic of Americans; and the fact that the banking interests of this country have floated foreign loans in America is something which should have the praise rather than the criticism of any body of men.

That is a general statement with respect to this phase of foreign investments.

Senator COUZENS. Do you mind if I interrupt you at this point?

Mr. MITCHELL. No, sir.

Senator COUZENS. You say we invested in foreign countries \$6,000,000,000?

Mr. MITCHELL. Yes.

Senator COUZENS. I assume that the investment was made for the purpose of manufacturing goods in those countries?

Mr. MITCHELL. I do not think, Senator, that that is a safe conclusion. To some extent it has been used to increase the productivity of other countries.

Senator COUZENS. Do you know to what extent?

Mr. MITCHELL. With respect to our loans to Germany, we have always endeavored to bring them within the requirement that the avails shall be used for productive purposes.

Senator COUZENS. Yes; but what I was trying to get at was this. You say \$6,000,000,000 has been invested in foreign countries, and I was wondering what proportion of that amount was used to produce goods that had heretofore been made in America.

Mr. MITCHELL. That I can not answer, sir.

Senator COUZENS. Would you say that a large proportion of the \$6,000,000,000 was invested there by producers in this country to avoid the tariff over there?

Mr. MITCHELL. No; a very small portion of it, Senator Couzens.

Senator COUZENS. Is it not a fact that American industries have gone to foreign countries, including Canada, Great Britain, Germany, and France, to manufacture, in order to avoid having to pay the current tariff there?

Mr. MITCHELL. That is quite true; yes.

Senator COUZENS. You do not know what percentage that is of the \$6,000,000,000?

Mr. MITCHELL. No, sir; that I can not answer from these figures.

Senator BARKLEY. That does not represent our total foreign investments; that covers the 8-year period from 1923 to 1930?

Mr. MITCHELL. That is right.

Senator BARKLEY. And if there have been any removals of American industries resulting from recent tariffs, it has been since these figures were compiled?

Mr. MITCHELL. You are quite right, Senator.

Senator GEORGE. You were asked if that \$6,000,000,000 represents a mere removal of capital or loans or investments—

Mr. MITCHELL. It represents entirely capital loaned which should come back through our taking of foreign goods and services. If it does not come back in that way, it will either stay out or come back in the form of gold.

Senator GEORGE. I meant, though, did that \$6,000,000,000 item represent the mere removal of an industry, for instance, from this country into Canada?

Mr. MITCHELL. Oh, yes; now I understand your question.

Senator GEORGE. That is what I thought.

Mr. MITCHELL. That represents capital that went into the hands of foreigners enabling them to buy our cotton and our copper and our manufactured goods.

Senator LA FOLLETTE. Is that sum exclusive of the foreign governmental obligations that have been floated in this country?

Mr. MITCHELL. No; it includes that.

Senator LA FOLLETTE. Can you tell us what proportion of the 6,000,000,000-figure you have used in foreign governmental obligations? And by that I mean to include either the central governments or political subdivisions thereof.

Mr. MITCHELL. No; I can not. I can give you the figure of our own business from which you maybe could possibly get some inkling.

Senator LA FOLLETTE. Of course, in so far as any portion of that is foreign governmental obligations, those loans did not necessarily result in any orders for American goods placed in this country, did they?

Mr. MITCHELL. Senator La Follette, as I said at the very outset, that is the only way such moneys can be used, except as they may be used for the payment of debts to America already existing. In other words, they must be used for the purchase of American goods or for the payment of debts.

Senator La Follette. I understood Mr. Lamont to say that in making these governmental loans it was often impossible to tell what purpose the proceeds were to be used for; that where the loan was made to a governmental entity it might be used for balancing the budget or, in other words, as I understood it, it was lost in the economy of the governmental entity to whom the loan was extended.

Mr. MITCHELL. Senator La Follette, I fear we are mixing two questions. One is the purpose of the loan. That might be for one thing or another, but it does not affect the particular question of how the exchange is used. May I illustrate in an attempt to clarify?

Senator LA FOLLETTE. If I understand you, what you mean is that when these obligations are ultimately paid off it must be done by either a balance of trade established in this country by the foreign government, or it must come in the form of gold.

Mr. MITCHELL. No; I am sorry, Senator La Follette, that I failed to make myself clear. Let me illustrate simply. Let us say foreign country X causes a loan to be floated in this market, and the avails of that loan are put on deposit with the National City Bank. That country has dollars at that time. That country may have no need for dollars. It may be that they are going to use that money for the purchase of something in England or the payment of a debt in England. What they do then is to sell the dollars to somebody that wants them, and buy sterling. But that dollar credit that was made for them is then passed to somebody else, and it will always stand out as a dollar credit until it is used by somebody; and the only way in which the dollar credit can be used is in the purchase of American goods or in the payment of some debt that is already existing in America.

Do I make myself clear? Has my illustration clarified it?

Senator GORE. I am anxious to arrive at what Mr. Mitchell includes in his \$6,000,000,000. The Department of Commerce in its handbook puts our total foreign loans and investments, including those publicly and privately taken, and direct investments, at about \$15,000,000, and the amounts are about equal. Those publicly offered and privately taken are in the neighborhood of \$7,000,000,000, and the

direct investments, so called, are about \$7,000,000,000. Just what do you include in your \$6,000,000,000?

Mr. MITCHELL. I include the amount of foreign issues made during the period from 1923 to 1930, which figures are revealed in the report of the Department of Commerce. Those figures are drawn from their report, sir.

Senator SHORTRIDGE. Floated here in America?

Mr. MITCHELL. Floated here in America during that period.

Senator SHORTRIDGE. By private concerns as well as Government issues?

Mr. MITCHELL. Yes, sir.

The CHAIRMAN. That does not include all we have, does it?

Senator SHORTRIDGE. I do not understand it.

Mr. MITCHELL. Senator Smoot, of course it does not include those issues made prior to 1923. Those that are still outstanding will add to the amount.

The CHAIRMAN. And that is about \$9,000,000,000?

Mr. MITCHELL. I notice that Congressman McFadden made the statement the other day in the House that \$17,000,000,000 in private foreign securities, including those of South America, were held in the United States. The facts as revealed by the report of the Department of Commerce are that there were still outstanding at the end of 1930 \$7,836,000,000 of foreign securities. In addition to that, of course—

Senator SHORTRIDGE. Pardon me. Foreign securities held here in America, you mean?

Mr. MITCHELL. Foreign securities held here in America. In addition to that, of course, there is a large amount of American capital directly invested abroad by American corporations.

The CHAIRMAN. That is what I had reference to.

Mr. MITCHELL. That has to be added, naturally.

The CHAIRMAN. I was going to ask you if in this \$6,000,000,000 that you speak of there is not included the amount of money that Americans have invested in Czechoslovakia for the manufacture of goods. It does not cover any part of that investment?

Mr. MITCHELL. It does not. It includes only those publicly issued offerings that have been made in this country. It does not include investment of private corporations. In addition, it does not include about \$125,000,000 for long-term capital employed by financial institutions in exchange and what not.

Senator CONNALLY. I want to see if I caught Mr. Mitchell's answer correctly when he replied to Senator La Follette.

You take the position that a foreign government makes a loan here and gets dollars credit and that that money can then be expended for buying American commodities in the final analysis?

Mr. MITCHELL. That is certainly so, sir.

Senator CONNALLY. That credit is on the books of your bank. But suppose that government wants gold. Would you not have to send your gold abroad? Suppose they say, "We don't want to buy any American goods; we don't want to buy anything in America; we want the gold." Then you would have to ship it to them?

Mr. MITCHELL. Yes.

Senator CONNALLY. Then it would not be put into the buying of American goods or the payment of debts, would it? They could buy

their goods wherever they wanted to, or pay their debts wherever they wanted to?

Senator SHORTRIDGE: They would buy shoes in Czechoslovakia rather than here in America?

Mr. MITCHELL: What is that, Senator?

Senator SHORTRIDGE: In a word, they would have the right to call for gold, would they not?

Mr. MITCHELL: Yes.

Senator SHORTRIDGE: But it is not customary for it to go abroad in that manner?

Mr. MITCHELL: I do not recall any case, Senator, where that has been done.

Senator BARKLEY: In case of country X borrowing \$100,000,000 from your bank or from any other bank in this country, the object of which ultimately was to pay somebody they owed in England, they convert these dollars into pounds, or if they want to pay somebody in Switzerland they may convert them into pounds and then convert the pounds into the circulating medium of Switzerland, and so on, until they finally get to the fellow to whom they owe the money, and they pay him out of this loan that they have obtained here. And it may be that the country into whose circulating medium the money is transferred uses that to buy goods in this country or to pay somebody in this country whom they owe. So that in that roundabout way your original statement is practically correct, although it is possible that it might be subject to modification in case any country demanded gold instead of the credit.

Mr. MITCHELL: Quite so. You never can destroy the credit being used in that way. It must be used by somebody.

Senator SHORTRIDGE: Much of this loan went to Czechoslovakia, did it not?

Mr. MITCHELL: We have had several loans there.

Senator SHORTRIDGE: To develop their shoe industry there, chiefly, which is in competition with ours?

Mr. MITCHELL: It went to the government, however.

Senator SHORTRIDGE: Hence our tariff, and rightly.

Senator COUZENS: Are you going ahead on the same lines of showing foreign loans as Mr. Lamont did?

Mr. MITCHELL: I have the data here.

Senator CONNALLY: Before you get off that subject: Then you would wish to modify your first statement?

Mr. MITCHELL: Why, yes; if they take gold, it is modified to that extent.

Senator CONNALLY: That is what they want when they come over here to borrow. They want gold; they do not want greenbacks, do they?

Mr. MITCHELL: As you will clearly see, they have not taken the gold.

Senator CONNALLY: I know; but you said it could not be done in any other way, and I just wanted to get the facts.

Mr. MITCHELL: I grant that it can be taken out in gold, but it is seldom done.

Senator LA FOLLETTE: Is it possible that if any of these credits were used to purchase American securities of corporations in this

country it thus would be an investment rather than a purchase of goods?

Mr. MITCHELL. It might easily be so, yes; where there were substantial repurchases, especially in Europe, of American securities.

Senator LA FOLLETTE. In other words, there was a certain amount of participation in our own stock-market operations during this period on the part of borrowers in this country?

Mr. MITCHELL. Probably not by the borrowers. The dollar exchanged may have worked around into the hands of an investor who perhaps sold sterling and bought the dollar and that dollar bought American securities.

Senator COUZENS. Do you discern a difference between an investor and a speculator?

Mr. MITCHELL. They often change from being one to the other so rapidly that it is quite impossible, Senator Couzens.

Senator GORE. A great many of these foreign debts payable in this country are actually paid in gold, Mr. Mitchell, are they not, and that is one reason for the accumulation of gold in this country now, is it not?

Mr. MITCHELL. I would say that very few payments are made in that way, Senator.

Senator GORE. What draws gold here, Mr. Mitchell? We hear a good deal about the payment of these international balances either in goods, the transfer of credits, or gold. We have been given to understand that the exchange of goods was not as free as it might be, and that a good many of these obligations had actually been paid in gold. Why does it come here if it does not come in payment of debts?

Mr. MITCHELL. The gold comes here and accumulates to make up this international balance of payments, especially—

Senator GORE. That is the point.

Mr. MITCHELL. We get balances created in this country because of the confidence of the world in this country, and those are very often converted into gold which is earmarked and held here; but that does not change the quantity. The quantity of gold comes as the result of this international balance of payment.

Senator GORE. Paying in gold instead of goods?

Mr. MITCHELL. Yes, sir.

May I revert to Senator Couzens's inquiry as to the difference between an investor and a speculator, because I fear that I was a little facetious in the answer to it. I think I should say that where one buys for the purpose of receiving interest or dividends for income over a period, his future income to take care of his future requirements, he is obviously an investor. Where one buys with the idea that what he buys is going up in price quite promptly and he is prepared to sell the minute it moves up, that man is a speculator.

Senator COUZENS. But you say they change very rapidly from one to the other?

Mr. MITCHELL. I said that simply for this reason, Senator, that we often find, as perhaps many of you know, that one may buy something thinking that the security will have an early rise, and when it fails to do so, he continues to hold it and becomes an investor.

Senator BARKLEY. There are a great many investors of that kind in this country now.

Mr. MITCHELL. Yes; there are a great many.

Senator SHORTRIDGE. You have read the resolution introduced by Senator Johnson, have you not?

Mr. MITCHELL. I have; yes, sir.

Senator SHORTRIDGE. Have you prepared a statement responsive to that resolution as far as you grasp its purpose?

Mr. MITCHELL. I have.

Senator SHORTRIDGE. I suggest, Mr. Chairman, that Mr. Mitchell be permitted to present to us his statement, and then perhaps suffer cross-examination or further inquiry.

The CHAIRMAN. Very well. You have an hour and 20 minutes.

Mr. MITCHELL. May I be permitted for just a moment to carry on the figures that I was giving, because I think it will round out what I wanted to say, and it will take but a moment, sir?

The CHAIRMAN. Very well.

Mr. MITCHELL. I wanted to add that of this figure of \$7,841,000,000 which the Department of Commerce estimates as the total amount of foreign securities here, the member banks of the Federal reserve system as of June 30, this year, held \$643,000,000. Of that total, \$339,000,000, or somewhat more than half, was held by country banks, banks in the central reserve cities of New York and Chicago held \$154,000,000, while banks in other reserve cities held \$150,000,000.

As to life-insurance holdings of foreign securities, the latest report for 52 legal reserve companies as of December 30, 1930, shows total foreign stocks and bonds of \$581,000,000, of which it is interesting to note \$517,000,000 were Canadian securities and \$64,000,000 other foreign securities.

Thus by far the greater part of the foreign issues outstanding in this market are distributed among individuals or institutions other than banks and life-insurance companies.

How numerous the individual holders are is very difficult to estimate. If we use the figures that Senator Dwight Morrow presented in the article referred to in Mr. Lamont's testimony, of \$3.269 as the average holding per individual of foreign securities, and divide that into the \$7,836,000,000, we would deduce that the total number of investors in foreign securities in this country aggregates 2,400,000. That figure is obviously much too high.

When we look at the income-tax figures, we find that in 1930 there were returns from 3,376,000 individuals; 2,613,000, or 77 per cent, had incomes under \$5,000, and would not be a very prolific field for foreign security sales.

Perhaps the best figure one can get is an estimate published in 1927 by Mr. McCoy, a Government actuary of the Treasury Department, that the number of individual holders of domestic bonds at that time amounted to 1,300,000. How many of those individuals held foreign bonds is anybody's guess.

Senator WALSH. Much less, of course.

Mr. MITCHELL. It is a guess.

Senator SHORTRIDGE. That was in 1927?

Mr. MITCHELL. Yes. Of course, there have been large issues of foreign securities since then. I should say that probably the figure of foreign security holders in this country would probably be in excess of a million and a half in number.

Senator SHORTRIDGE. Individual holders?

Mr. MITCHELL. Yes. Just one other point along this line. In view of what I sense as perhaps a criticism of publicly issued long-term foreign loans, I call attention to the fact that the Federal Farm Board, a Government body, extended in September unsecured long-term loans to the German and Chinese nationalist governments which financed the export of wheat. Those loans covered seven and a half million bushels of wheat to Germany to be paid for December 31, 1934, with an interest rate of $4\frac{1}{2}$ per cent, and about 15,000,000 bushels to China to be paid for in three installments, in 1934, 1935, and 1936, with an interest rate of 4 per cent.

Of course there can be no vital difference between the flotation of a money loan made by American investors with which those countries could buy that wheat, and an extension by the United States Government of credit in the form of the wheat itself.

Senator GORE. They took Chinese bonds for those, did they not?

Senator SHORTRIDGE. Mr. Chairman, this resolution calls for information as to—

whether or not any banks, banking institutions, corporations, or individuals engaged in the banking business in the United States have, as representatives or fiscal agents of any foreign governments, or otherwise, sold, floated, or allocated in the United States securities—

And so forth. That is the information we are seeking.

Senator REED. I think Mr. Mitchell has given us very interesting information about the relatively small holdings of banks in these foreign securities.

Senator SHORTRIDGE. That may well be.

Senator REED. I think that is especially significant at this time.

The CHAIRMAN. I know it is in opposition to what the general opinion has been, and I think it ought to be clear.

Senator SHORTRIDGE. I have no objection to that.

Senator WALSH of Massachusetts. This is all part of the general statement that you asked the witness to make, that he thinks will be helpful.

The CHAIRMAN. I think it will.

Mr. MITCHELL. I introduced this purely on the theory that from your questioning of Mr. Lamont these figures might be of interest, sir.

Senator GORE. Mr. Mitchell, the Farm Board took Chinese bonds for that wheat, did they not?

Mr. MITCHELL. I have no information as to just what they took.

Senator GORE. That is my understanding. Your bank has not any of those Chinese bonds?

Mr. MITCHELL. No. My point was that there is no difference between issuing Chinese bonds to our public and furnishing them with dollars with which they could buy the wheat and having the Government itself make them a wheat loan.

Senator GORE. Or a gift, as the case might be?

Mr. MITCHELL. As it might be.

Senator COUZENS. I think there is a distinction there, Mr. Mitchell.

Mr. MITCHELL. I have here, gentlemen, all of the issues handled by the National City Co. directly as manager from 1919 to date, and I shall be glad to go through any part of this, if you desire me to start and give you the details.

The CHAIRMAN. How many countries are there?

Mr. MITCHELL. I have not had this made up by countries. It is made up chronologically by dates of issue. I can start and go through on that basis, if desired.

The CHAIRMAN. You have no objection to having it all printed in the record, have you?

Mr. MITCHELL. Well, for the same reason that Mr. Lamont spoke of—no; I see no objection to having this published in the record.

Senator REED. What items of information does it give with regard to each issue, Mr. Mitchell?

Mr. MITCHELL. It starts out with the name of the issue, the date it was offered, the amount of the issue, the rate of the issue, the maturity of the issue, payments that have been made to date through sinking funds, the cost price, the offering price, the number of dealers that were associated with us, the number of dealers on original terms, and the profits to them—

Senator REED. The gross profit?

Mr. MITCHELL. The spread to them—profit spread, we call it.

The CHAIRMAN. Do you mean gross or net profit?

Mr. MITCHELL. That is the gross spread. Then, wherever there has been an intermediate group, the number interested therein, the spread and the profit in each case; then the banking group, the number of dealers participating therein, the profit spread, and the amount; then the selling group, the number of dealers interested therein, the profit spread, and the amount. The total expenses directly charged to the issue, which would be advertising, legal expense, telegraph, perhaps the traveling expenses of a negotiator—not the expenses of our own organization, which in general are expenses of our administration, clerical, statistical, and selling. Those would be the general expenses that are directly chargeable to the syndicates, and then there is drawn up the total net profit in the particular issue.

Then I have taken the National City Co.'s retailing of each one of these issues, showing the participation that they had in the selling group, the amount of profit, what part they took in the intermediate group and in the banking group, and the profits there; the selling group, and the participation in profits there. The gross profits of the National City Co. are then aggregated from which the deductions are made of the discounts and the general expense, and thus we arrive at the net profit. Then there is shown the number of the National City Co.'s retail sales in each issue. Then I have produced, in addition to that, sheets referring to the issues of others in which the National City Co. has participated, which cover the same information as in the case of the directly managed issues. Much of this latter has been covered by Mr. Lamont already; but my sheets show the amount of our interest, and the sales and gross profits.

Senator WALSH of Massachusetts. Can you state from that table the total face value of the foreign securities that you have merchandised?

Senator REED. First, the total in which you were the syndicate managers.

Mr. MITCHELL. This total runs to \$1,071,955,000.

Senator WALSH of Massachusetts. How much is outstanding?

Mr. MITCHELL. There have been retired of that \$222,866,000.

Senator SHORTRIDGE. Government obligations, or Government and private concerns?

Mr. MITCHELL. Government and corporate.

Senator THOMAS of Idaho. Mr. Mitchell, you are now speaking of the operations of the National City Co.?

Mr. MITCHELL. Where they were the originators of the issue.

Senator THOMAS of Idaho. Did the National City Bank handle issues aside from the National City Co., or did the National City Co. handle all the issues?

Mr. MITCHELL. They handled all of the issues, sir.

Senator REED. Mr. Mitchell, necessarily your second tabulation, which includes other people's offerings in which you participated, must to some extent overlap with the figures given us by Mr. Lamont.

Mr. MITCHELL. It does.

Senator REED. That is, wherever you are interested in a Morgan issue, it would occur in both his statement and yours. Is that right?

Mr. MITCHELL. Not in the first list of which I have spoken.

Senator REED. But in the second?

Mr. MITCHELL. In the second list it does.

Senator BARKLEY. Mr. Mitchell, that tabulation has no relation to, nor any information concerning, the present holders of those bonds, does it?

Mr. MITCHELL. No, Senator.

Senator BARKLEY. Does it show what percentage of the amount of it your institution still holds, if any?

Mr. MITCHELL. No; but I am perfectly ready to tell you that our institution—for instance, the National City Co., that has floated this very large amount of bonds, having been interested in the flotation outside of the first list of \$3,260,000,000 of other issues—I think we have in our portfolio at the present time \$350,000 worth of bonds.

Senator GORE. In the National City Co. or in the National City Bank?

Mr. MITCHELL. In the National City Co.

Senator GORE. How many in the National City Bank?

Senator REED. Mr. Chairman, I have no doubt Mr. Mitchell is perfectly willing to answer this for his own company. We are getting into the present-day private portfolios of these banks, and I do not think we ought to ask for public answers. The present witness is perfectly willing to answer.

Senator WALSH of Massachusetts. Do you not suppose they will show in the returns of the banks?

Senator REED. No; only in the gross totals.

Senator SHORTRIDGE. Mr. Mitchell, let me ask you a question.

Mr. MITCHELL. May I correct a figure, the figure as to the present holdings of the City Co.? Since I have already mentioned an amount, Senator Reed, I am going to take the liberty of a correction by saying we have \$334,000 worth of foreign government bonds and \$525,000 of foreign corporate bonds—that is, at par value.

Senator SHORTRIDGE. Mr. Mitchell, let me ask you one or two questions.

Have you data before you which would enable you to tell us how many French Government bonds and how many French corporate bonds your house has handled as manager, if that be the proper phrase; and similarly, if so, as to German and as to English bonds?

Senator WALSH of Massachusetts. The first table shows everything he has.

Senator SHORTRIDGE. Is that all there?

Mr. MITCHELL. It would have to be picked out as to countries.

Senator SHORTRIDGE. Have you it grouped together?

Mr. MITCHELL. The issues are listed here chronologically.

Senator SHORTRIDGE. You have not grouped it together, then, showing the French issues, the German issues, or other national issues?

Senator REED. We can have a clerk do that in an hour.

Senator SHORTRIDGE. That is what I wanted to know, if that could be done.

Senator REED. I ask that the two statements produced by the witness be put into the record at this point.

Senator JOHNSON. Mr. Chairman, I am not a member of this committee, and I have not the right, of course, to indulge in any objection, but it is a perfectly silly idea to put long statements of this sort in the record without the committee or anybody knowing what they are, and then, I presume, prevent any cross-examination respecting them.

Senator REED. I am not conscious, Mr. Chairman, of having suggested that the committee should not have them, or that it should not cross-examine, or that it should not now know everything that is in them. I think it will be convenient to have the statements appear in the record now, before we go any farther with the witness in the discussion of the statements.

Senator JOHNSON. I have not any objection to that; but you were predicating it originally upon the statement that certain things the witness had volunteered ought not to be stated in his own interest or in the interest of his financial institution, and I assumed from that that you did not desire publicity concerning the particular statements, or concerning any cross-examination upon these matters.

Senator REED. No; not at all. It is merely the details of the present portfolios, which, with most institutions, are their private business, and I do not think we ought to make them public, although we ought to get the information for ourselves. But these statements showing the issues they have managed and put out I think ought to appear in the record now; and I was going, for myself, to ask Mr. Mitchell to take up that matter and give us an analysis of these different issues that he has managed.

The CHAIRMAN. I asked Mr. Mitchell to put them in the record, Senator Johnson, in the first place.

Senator WALSH of Massachusetts. Are they in the record now?

The CHAIRMAN. Without objection, they will be put in the record. (The statements referred to will appear in the appendix.)

Senator GORE. I wish to ask a question now.

A few minutes ago I propounded a question as to how many of these bonds are now held in the portfolio of the National City Bank. You stated the amount in the National City Co. If you have any objection to stating the amount in the portfolio of the bank, of course I will not insist on it. Now, Senator Reed, did your question include that as private information for the committee? I did not understand.

Senator REED. Oh, yes. As soon as these statements have been ordered printed, then I wanted to follow it up by asking Mr. Mitchell to send to the committee in writing a statement showing the present

holding of foreign bonds by the National City Co. and the National City Bank.

Senator WALSH of Massachusetts. In other words, you are giving him the same protection Mr. Lamont had?

Senator REED. Exactly.

Senator GORE. That will meet my desire.

The CHAIRMAN. Mr. Mitchell, how long will it take you to send that information?

Mr. MITCHELL. Oh, I can give you that very promptly.

Senator REED. By Monday?

The CHAIRMAN. I should like to have that information follow this, so that we will have the whole picture at once.

Senator REED. We are not going to print it. We are going to print this, of course.

The CHAIRMAN. That is what I say.

Senator WALSH of Massachusetts. What?

The CHAIRMAN. The confidential information.

Mr. MITCHELL. For the confidential information of this committee, I can give the information before I leave Washington.

The CHAIRMAN. That is all right.

Senator SHORTRIDGE. Will you indulge my asking this? Then I am quite through.

Let me ask you this question: Has your house acted as representative or fiscal agent for any foreign government? Has it or not?

Mr. MITCHELL. "Fiscal agent" is a very vague term, Senator.

Senator SHORTRIDGE. Representative, then. Is that as indefinite?

Mr. MITCHELL. "Representative" is not a term that would seem to me to be a proper one. We have relations with countries that are that close that we have done all of their financing in America.

Senator SHORTRIDGE. You have managed the disposal of certain foreign bonds of certain foreign governments? Is that right?

Mr. MITCHELL. Yes, sir.

Senator SHORTRIDGE. All right. With a view to distributing them out to the ultimate purchasers in America; is that right?

Mr. MITCHELL. Yes, sir.

Senator SHORTRIDGE. What I should like to get at is, have you handled any for the French Government, for example—the government as such?

Mr. MITCHELL. Not for the Government directly; no, sir.

Senator SHORTRIDGE. All right. For corporations or municipalities in France?

Mr. MITCHELL. I think not. We have handled, I think, directly, a railroad issue.

Senator SHORTRIDGE. Very well. Now, what I should like to have put into the record in simple, straight, understandable shape is, what Government bonds or corporate bonds of French issue your house has handled in the way you have indicated; similarly as to all other foreign governments, so that we can have it clearly, simply before us; for we are plain, simple men, and want to have the matter put in simple, plain manner. That is what I want to know. That is what this resolution calls for.

Senator REED. Senator, I have just been looking over the statement that the witness has given us, and it shows exactly that information in plain, simple, comprehensible language; but I suggest,

to make it clear, that you take that list now, Mr. Mitchell, and give us the details with regard to each French issue that appears on that statement, if there are any.

Mr. MITCHELL. Just the French issues?

Senator REED. Yes; start with the French issues.

Senator SHORTRIDGE. That is what I want. Then go on down.

Senator REED. Just pick out the French issues from that statement.

Senator WALSH of Massachusetts. Would you like to proceed chronologically? That would save time.

Senator SHORTRIDGE. I was about to suggest that. If there are any from Austria or Estonia or Belgium, go down alphabetically.

Mr. MITCHELL. I am taking them up chronologically, which is the basis upon which this report is made.

June, 1919, Swedish Government, an issue of \$25,000,000. The rate was 6 per cent. The issue matures in 1939. It was called for payment and paid 102 on June 15, 1929. The cost of that issue to us was 96½. The offering price was 99½—in other words, a gross spread of 3 points.

On original terms we had 12 houses with us. They took a spread of 1 per cent.

Then a banking group was formed, consisting of 422 dealers. Their spread was one point and a quarter.

Then a selling group was formed of 341 dealers, with a spread of three-quarters of 1 per cent.

The total expenses directly chargeable against that issue were \$43,077; and the gross profit after these particular expenses incident thereto was a total of \$711,000.

The National City Co. participated in the selling group on the original terms to the extent of \$5,500,000. In the banking group it participated to the extent of \$4,570,000. In the selling group it participated to the extent of \$5,726,000.

Its total profit on the deal, after these expenses, was \$111,448.25. The number of its own retail sales was 962.

This is the information that I can give as I go right through this list.

Senator REED. The profit in that transaction amounted to about 2 per cent of the liability incurred by your company, then? Is that right?

Mr. MITCHELL. Yes. Our original-terms liability was \$5,500,000. Our profit was \$111,000.

I ask in connection therewith, however, to call your attention to the fact that we have a large organization, very far spread, the expenses of which—which do not enter in in my statement of expenses here—run from a low of \$6,000,000 to a high of \$10,000,000 per year.

Senator REED. Is any of that included here?

Mr. MITCHELL. None of that is included.

Senator REED. All that has to be paid out of these profits?

Mr. MITCHELL. That all has to be paid out of these and other profits.

Senator REED. Have you deducted from these profits any salaries of your salesmen or any commissions taken?

Mr. MITCHELL. None.

Senator REED. Just to complete the story about that issue, what part, if any, of that issue has been paid by the obligors?

Mr. MITCHELL. It has all been paid. It was sold to the American public at par and has all been called at 102.

Senator COUZENS. What is the next?

Mr. MITCHELL. The next issue was September 23, 1920, Kingdom of Norway, \$20,000,000. These were 8 per cent bonds, due in 1940. This issue has since been called at 110, though offered to the American public at par.

Our purchase price of that issue was $91\frac{1}{4}$ —in other words, $5\frac{3}{4}$ per cent spread. Five houses participated with us on original terms in that issue, and had a spread of three-quarters of 1 per cent. We formed an intermediate group of houses before coming to the so-called banking group—an intermediate group of 15 houses that took 1 per cent spread.

Our banking group in this case was large—529 in the banking group. They had a spread of $2\frac{1}{2}$ per cent.

Then we formed a selling group, 464 houses being in that group. They took a spread of $1\frac{1}{2}$ per cent.

The total expenses directly charged to the issue were \$19,294. The total profit was \$1,130,705.08.

The National City Co. had a participation on original terms in this issue of \$6,750,000. They had a participation of \$4,809,000 in the intermediate group, a participation of \$2,655,000 in the banking group, and a participation of \$2,715,500 in the selling group. Our own organization, at retail, made 1909 separate sales. Their net profit, after deducting discounts and general expenses, was \$165,085.31.

The next issue was Solway et Cie, which is a Belgian company. They are a chemical company in Belgium.

Senator COUZENS. Do we care to go into those private corporations? I do not see what we have to do with that.

Senator REED. It will all be in the record. If the committee wants it, we might as well go ahead.

Senator COUZENS. Why not confine it to the foreign loans?

Senator REED. This is a foreign company.

Senator COUZENS. It is a foreign company, but it is not a foreign government.

Senator SHORTRIDGE. I think it would be well to confine it to the foreign governments; and then if we want this additional information given in detail, that can be furnished.

Senator LA FOLLETTE. The resolution calls for information concerning industrials as well.

Senator COUZENS. But that is all going to be in the record.

Senator SHORTRIDGE. All right.

Senator COUZENS. Why not confine it to the countries, Mr. Chairman?

The CHAIRMAN. I should think it would be better to do that, because every one of them will be in the record.

Senator COUZENS. Then if we want to go back to it afterward, we can do so.

Senator WALSH of Massachusetts. What percentage are countries and what percentage are industrials, approximately?

Mr. MITCHELL. I have not the loans so separated, sir.

Senator REED. Clause C of the resolution calls for industrial loans. Let us hear about this one.

Senator BARKLEY. Of course, this will all be in the record, anyway.

Mr. MITCHELL. This loan to Solvay et Cie. was made October 4, 1920. The issue was \$10,000,000.

Senator SHORTRIDGE. What was that corporation?

Mr. MITCHELL. A chemical corporation in Belgium. The loan was \$10,000,000. The rate was 8 per cent. It matured in 1927. It was called, however, in 1924 at 104, though issued at 100. The issue was bought by us at 94, giving a total of 6 points spread.

We had six houses with us on original terms, and they took a spread of $1\frac{1}{2}$ per cent.

There was no intermediate group.

Our banking group consisted of 44. Their spread was $1\frac{1}{2}$ per cent.

A selling group was formed of 123 houses. Their spread was 3 per cent.

The National City Co. had a participation on original terms of \$2,000,000; in the banking group a participation of \$2,475,000; in the selling group a participation of \$2,804,500.

After deductions for expenses we had a profit in this deal of \$100,869.50; and we ourselves made retail sales of that issue to 503 separate investors.

The next is Kingdom of Denmark, which we issued in October, 1920. The issue was one of \$25,000,000, and carried 8 per cent coupons, due in 1945. The issue was offered at par, but was called in 1925. I can not give you the call rate on that without referring to my papers. I can do that quite promptly, if I may.

Senator REED. Mr. Mitchell, when you say "the issued was called," you mean, of course, that it was called, paid, and extinguished? Is that right?

Mr. MITCHELL. That is right, sir.

Senator CONNALLY. Mr. Chairman, it is not important as to whether they paid 104 or 105. It has been paid. Why should we kill a lot of time over that?

Mr. MITCHELL. It has been paid. I can not tell you the call price on it, but it was probably at a premium.

That issue cost us 95. In other words, there was a 5-point spread. There were three houses associated with us on original terms. There was a 1 per cent spread on original terms.

Thirty-four houses were associated with us in the banking group. The spread there was $1\frac{1}{2}$ per cent.

Four hundred and seventy-two houses participated in the selling group; and the spread was $2\frac{1}{2}$ per cent.

The National City Co. participated on original terms to the amount of \$16,188,000. It participated in the banking group to the extent of \$12,000,000. It participated in the selling group to the extent of \$5,858,000. The total profit to it on this transaction, after deducting discounts and general expenses, was \$416,000.

Senator REED. How much were the expenses?

Mr. MITCHELL. The expenses were \$35,000.

The CHAIRMAN. Let me say to the members of the committee that all of this is going to be printed in the record. Do you think it is necessary to have all of these items read here? You have a sample of them now. Why not let us put the details in the record, and have the matter complete? We will have to refer to it anyhow if we ever want to make a statement; and, if there is no objection on the part of the members of the committee, I ask that that be printed in the record without further reading.

It will be done, Mr. Mitchell. You may proceed now with the next matter.

Senator JOHNSON. In any of those sales were there any losses?

Mr. MITCHELL. Do you mean any of these syndicates—any of these particular issues?

Senator JOHNSON. Yes, sir.

Senator SHORTRIDGE. Suffered by whom?

The CHAIRMAN. The syndicates.

Mr. MITCHELL. Not in this particular list. I see two issues where others were managers where there was a loss.

Senator JOHNSON. Some other institution made some loss?

Mr. MITCHELL. Yes; they doubtless made a loss. Other institutions would have made a loss there if we did, without question.

Senator SHORTRIDGE. The purchasers of the bonds have made some loss; have they?

Mr. MITCHELL. Just as the purchasers of American bonds have made some loss; yes, sir.

Senator JOHNSON. You have spoken of two institutions, Mr. Mitchell, and I am not familiar with them. You say "the National City Bank" and "the National Co."? Is that right?

Mr. MITCHELL. The National City Co.

Senator JOHNSON. Are they affiliated institutions?

Mr. MITCHELL. The stock of the National City Co. is owned by trustees who hold it for the beneficial interest of holders of the shares of the National City Bank of New York.

Senator REED. And the transfer of the stock of the bank carries with it a proportionate interest in the trust?

Mr. MITCHELL. Quite so.

Senator JOHNSON. We may say they are affiliated, at least, then?

Mr. MITCHELL. Yes, sir.

Senator SHORTRIDGE. But separate corporations?

Mr. MITCHELL. Separate corporations; yes, sir.

Senator GORE. Mr. Chairman, in connection with the question I asked about the amount of foreign bonds held by the National City Bank, I should like to get in the record at this point the statement that I think this entire investigation grew out of a popular belief in this country, or a suspicion, if you please to call it so, that a group of New York banks commonly referred to as the international bankers have to-day large holdings of foreign-government securities, and that they are fostering an agitation to cut down, cancel, or reduce the debts owing by the foreign governments to this Government in order to enhance the value of their holdings.

I think that is why this investigation is being held; and, so far as I am concerned, I want to put in the record an expression of my regret that the committee will not be able to advise the Senate or the country as to whether or not that is true. I do not think anything is

more unfortunate than to have a belief or suspicion of that sort pervading the public opinion of the country if it is not true, particularly if it is contrary to the facts.

The CHAIRMAN. Up to the present time, of course, nothing has been presented here that would show that that is true.

Senator GORE. That is true; and I think it is equally important to the banks and to the country to have the truth known about this matter. What I have in mind is this: The information will be available to the committee under Senator Reed's request; but I am not certain that we will be in a position to make use of it, as it comes in confidentially.

Senator REED. Why can we not ask Mr. Mitchell right now whether he is agitating or participating in any agitation for the reduction or cancellation of the intergovernmental debts due to this country?

Mr. MITCHELL. I am not.

Senator REED. I think that settles it, Senator Gore.

Senator GORE. You think that settles it? I do not think that quite settles it. It might settle it so far as Mr. Mitchell is concerned. I make no allegation that it is true, Senator Reed; but you know that that belief does prevail. It may be entirely unfounded. If it is, I do not think the public ought to be left with any ground on which to base such a suspicion.

Senator SHORTRIDGE. Mr. Mitchell, may I ask this question: Do you regard as confidential the holdings of foreign bonds by American banks and their several amounts? Is that the information which is considered as confidential?

Mr. MITCHELL. It would be confidential; yes; and I think it would probably be unwise to have that become public property. I have no objection to giving this committee as it sits to-day the position of the National City Bank with regard, let us say, to German Government bonds. I think it would perhaps be unwise to ask all of the banks for their holdings and have that become public property.

Senator SHORTRIDGE. I fully agree with Senator Gore that it would be wise to disabuse the public mind as to the holdings of the several banks.

Senator JOHNSON. Why would it be unwise, Mr. Mitchell?

Mr. MITCHELL. If you would permit me just to make this statement: The holdings of the National City Bank of German Government bonds to-day aggregate \$1,556,000, and the holdings of the National City Co. of German issues of every name, nature, and description aggregate a par value of \$631,000.

Senator SHORTRIDGE. That information would not be hurtful to the bank or hurtful to the holders of like bonds; would it?

Mr. MITCHELL. No, indeed; and I am of the opinion that with respect of these large banks whose portfolios are so often talked of lightly and carelessly by the rumor-mongers, perhaps it will not do them any harm to have some of these things known. The amount that is held by large New York banks, for instance, is in no case enough to influence their judgment with respect to cancellation of debts one iota; nor is the amount that is held by them of such a size as in any way to affect their essential liquidity or their soundness.

Senator JOHNSON. Then what is the objection to telling it?

Senator SHORTRIDGE. That is what I want to develop. Why consider it as confidential?

Senator GEORGE. As an illustration, what are the resources of the National City Bank?

Mr. MITCHELL. I think our last statement showed about one billion eight hundred and odd million.

Senator GEORGE. And your German holdings are only a million and some?

Mr. MITCHELL. That is as stated.

Senator CONNALLY. With reference to foreign bonds, you are like the saloon keeper who never drank. His whiskey was made to sell, not to drink.

Mr. MITCHELL. With respect to bonds generally, we are merchants.

Senator CONNALLY. That is what I mean.

Mr. MITCHELL. We are merchants.

Senator CONNALLY. And the bonds of these foreign countries are to sell, and not to keep?

Mr. MITCHELL. Yes, sir.

Senator GORE. And the German Government, of course, owes our Government nothing.

Senator JOHNSON. Do I understand, then, that such objection as has been voiced here as to the publicity of the amount of German securities held by New York banks you do not concur in?

Mr. MITCHELL. Obviously. I have no objection to it from our own standpoint. I should hesitate to speak on the general subject of the properties. I think your committee is quite able to determine that without my assistance.

Senator JOHNSON. That is not the point. The point is, it has been suggested here that the matter ought to be kept secret and ought not to be divulged because, I presume, of the effect that it would have upon certain banks. I understood you first to confirm that view, but subsequently I took it that you reached a different conclusion.

Mr. MITCHELL. Senator JOHNSON, I thought that the first question had to do with the making public of the portfolios of banks generally. I think that would be unfortunate.

Senator JOHNSON. Why? I mean as to German securities. I am not speaking of anything else. Why would it be unfortunate?

Mr. MITCHELL. I was speaking to the question of their entire portfolios. With respect to their German securities, I do not think it would be harmful; and if your committee were to conclude that it would be helpful—which I think is a very real problem for you to determine—then I can not see any objection on the part of the banks, because, in my opinion, they have nothing to hide.

Senator JOHNSON. All right. Then I can not understand what the object is of the discussion.

Senator REED. It ought to be very plain, it seems to me, Senator JOHNSON, if I may say so. I think this committee ought to see the figures first before it decides whether it is going to make them public or not. If it will not do any harm to make them public, then let us make them public.

Senator JOHNSON. I do not want to rest upon the statement that the figures can do no harm, and that is the situation we are in now. This gentleman says, and doubtless accurately, from his information,

that there is not anything the disclosure of which publicly would affect anybody.

The CHAIRMAN. As far as his institution is concerned.

Senator JOHNSON. No; he says so far as all banks are concerned. If he be correct in that, then there is not any use of our pussy footing in respect to the particular proposition as to whether the amounts should be made public or they should be asked concerning them.

I want to be just as delicate concerning the banking situation as anybody at this table; but when a gentleman qualified to speak, as Mr. Mitchell is, says there are not any such amounts of securities as would affect any bank at all, then we ought to know the facts.

The CHAIRMAN. Senator Johnson, Mr. Mitchell has already reported his; so let us go on.

Senator GORE. I think the matter of German bonds is least important, because they do not owe us anything.

The CHAIRMAN. Then when we reach the others we can decide.

Senator COUZENS. The Senator from Oklahoma is mistaken about Germany not owing us anything.

Senator GORE. Oh, \$250,000,000 for the army of occupation; yes, and I think we ought to remit that.

Senator BARKLEY. I should like to ask Mr. Mitchell, in that connection, whether any banker or any witness coming here can testify as to the portfolio of any bank except his own.

Mr. MITCHELL. He can not.

Senator BARKLEY. So that in order to get that information we would have to bring all the bankers in the country here?

Mr. MITCHELL. That is quite true.

The CHAIRMAN. Proceed, Mr. Mitchell.

Mr. MITCHELL. Let me see. Where were we?

The CHAIRMAN. You may go on to another subject, because the one we had is already settled.

Mr. MITCHELL. The Senator calls my attention to the fact that we had concluded with the issues of which the National City Co. was manager.

Senator COUZENS. At that point, let me ask you this question: You were not manager for any of the Italian loans, were you?

Mr. MITCHELL (after a pause). We were not; no. I take this time for thought because there was one industrial issue that I am inclined to think J. P. Morgan & Co. did bring out, and that perhaps was not on Mr. Lamont's list, and I thought we might be the ones that brought that out; but it is possible that it was brought out by another company and we participated.

Senator COUZENS. You were not the original managers of any British loans?

Mr. MITCHELL. No; we were not, Senator Couzens.

Senator COUZENS. And you were not the managers of any German loans?

Mr. MITCHELL. Not any German Government loans.

Senator COUZENS. That is what I mean. So that so far as this committee is concerned, we can understand that Mr. Lamont gave us the testimony with respect to the bringing out of the Italian and British and German loans?

Mr. MITCHELL. That is correct.

Senator COUZENS. And French loans?

Mr. MITCHELL. So far as he handled them. Of course, there were many corporate issues.

Senator COUZENS. But I mean as to governmental loans; and you were not managers of any French loans?

Mr. MITCHELL. We were not managers of any French Government loans.

The CHAIRMAN. What else is there to ask this witness?

Senator JOHNSON. Have you any short-term credits of Germany?

Mr. MITCHELL. In the National City Bank?

Senator JOHNSON. Yes.

Mr. MITCHELL. Yes, Senator Johnson; we have.

Senator JOHNSON. In the past six months, have any of your short-term credits been paid?

Mr. MITCHELL. Oh, yes. We are having some payments right along, Senator Johnson.

Senator JOHNSON. Do you know the amount of short-term credits that have been paid by Germany in the past six months?

Mr. MITCHELL. I can not give you that with any accuracy.

Senator JOHNSON. I speak in approximate figures only. I do not expect absolute accuracy.

Mr. MITCHELL. I am speaking now for the short-term credits that are under the stillhalten agreement.

Senator SHORTRIDGE. Government loans?

Mr. MITCHELL. No; I refer to that group of short-term loans that were put under the stillhalten agreement last August.

Senator SHORTRIDGE. Paid by the government?

Senator GEORGE. Are they industrials?

Mr. MITCHELL. No; they are not all industrials.

Senator SHORTRIDGE. What are they?

Mr. MITCHELL. They are bank loans and short loans of varied character maturing within a period of six months; and the agreement was for six months, and with respect thereto all nations came into that so-called stillhalten agreement.

Senator COUZENS. But none of them were governmental?

Mr. MITCHELL. No; I think that none of them were governmental. There are outstanding some of the Gold Discount Bank's short notes. As of course you know, that is a governmental bank. They are not the obligation of the Reich directly, however.

Senator SHORTRIDGE. That is the point I want.

Senator JOHNSON. That is the obligation of the Reichbank, is it not?

Mr. MITCHELL. These particular obligations I speak of are obligations of the Gold Discount Bank. That is different still.

Senator JOHNSON. Can you state approximately how much of those short-term credits have been paid in the last six months?

Mr. MITCHELL. In America, roughly, I think, Senator Johnson, 15 per cent.

Senator JOHNSON. Well, what is the outstanding amount of the short-term credit? Oh, just approximately. I do not ask you for accurate figures or do not want to give you the trouble of going through your detail there.

Mr. MITCHELL. Well, between \$600,000,000 and \$700,000,000.

Senator JOHNSON. Between \$600,000,000 and \$700,000,000?

Mr. MITCHELL. Yes, sir.

Senator JOHNSON. How much of short-term credits do you hold?

Mr. MITCHELL. You understand, I had to get up this data very rapidly. Here are the last figures I have, which, incidentally, were as of the 1st of November.

Mr. Chairman, here again is data that I have a feeling should be confidential with this committee.

The CHAIRMAN. That is, it does not refer to your bank?

Mr. MITCHELL. If I understand correctly, the question is asked of me at this moment as to how much our bank has in short-term credits, coming under the stillhalten.

Senator SHORTRIDGE. What does that term mean—"short"?

Mr. MITCHELL. Those credits are all due within a 6-month period; some of them have become due and been renewed. They are, for the most part, revolving credits. To the extent of, generally, I would say, 80 per cent, they are self-liquidating in character.

Senator SHORTRIDGE. I do not know what that means.

Senator COUZENS. That means bills that were due.

Mr. MITCHELL. I mean this: When a merchant in Germany ships a lot of Christmas bulbs to this country, an X corporation here, the importer, owes him for them, and that is represented in a bill that is drawn for, say, 90 days and accepted, and we become holden to collect; we are the collecting bank as it comes due. Now, when that is paid, the amount comes to us and the account is wiped out.

Senator SHORTRIDGE. That is called self-liquidating?

Mr. MITCHELL. Yes; that is called a self-liquidating credit.

Under the stillhalten agreement, however, there was a provision that where a lender had on September 1 outstanding and in use a line of credit to a borrower in Germany aggregating, say, \$100,000, the borrower should be permitted for the 6-month period of the stillhalten to use the credit to the extent of that full amount of \$100,000, regardless of any payments on account in the interim. If by payments it is reduced, let us say, to \$80,000 at any time, the borrower has the right to replace all matured items to the extent of \$20,000 during this 6-month period, or even to run an overdraft in such amount, so that he has available to him a credit line throughout of \$100,000. Even where covered by bills which are matured and paid during that time, they can be replaced. Do I make myself clear?

Senator SHORTRIDGE. I think I understand you.

Senator JOHNSON. Now, I repeat my question, and you may make your statement to the chairman, if you care to.

How much of short-term credits does your banking institution hold; German short-term credits?

Senator COUZENS. Mr. Chairman, I understand the witness does not desire to answer that, and I suggest that we give him the same courtesy that we did to Mr. Lamont, and let him file it with the committee.

Mr. MITCHELL. I would be very glad to do that.

The CHAIRMAN. Will that be satisfactory, Senator Johnson?

Senator JOHNSON. I am sorry, Mr. Chairman, I did not hear it.

The CHAIRMAN. To extend the same courtesy we extended to Mr. Lamont, to allow him to file it with the committee?

Senator SHORTRIDGE. And it remains with the committee to determine hereafter what is to be done with the information.

The CHAIRMAN. You can do that, can you, Mr. Mitchell?

Mr. MITCHELL. Yes; I can do it, and will be glad to do it; or, if you desire me to, Mr. Chairman, I should be willing to make the statement at this time.

The CHAIRMAN. I think we had better follow the same course we did with Mr. Lamont.

Senator CONNALLY. I do not want to interrupt, Mr. Chairman, but Mr. Lamont said he did not have the information available. I do not want to press it, but why should we not go through with it now and get the information?

The CHAIRMAN. It will do if we get it later, will it not, Senator?

Senator CONNALLY. Some of the Senators may want to cross-examine Mr. Mitchell about it. I am not interested in it myself, but Senator Johnson may want to cross-examine on it. If we are to have it, why not have it now?

Senator SHORTRIDGE. I think they should all be treated alike.

Senator CONNALLY. Mr. Lamont did not have the information available. Mr. Mitchell has the information.

Senator JOHNSON. I think you have forgotten what Mr. Lamont said. He said his bank did not have any short-term credits. He spoke of another bank, and he said he did not think it should be told concerning that bank. That was his statement.

Senator SHORTRIDGE. He did not want to speak of the other bank.

The CHAIRMAN. I would like to follow the same course as we did with the other witness.

Senator JOHNSON. If the chairman would like to let it pass, I do not want to press it. I think it is important.

Did you read Mr. Dawes's statement the other day?

Mr. MITCHELL. I have read several statements of his, Senator Johnson.

Senator JOHNSON. Did you read his statement that Germany had paid \$260,000,000 of short-term credits?

Mr. MITCHELL. I do not remember the statement, but I think that is about correct.

Senator JOHNSON. You think that is about correct?

Mr. MITCHELL. Yes, sir.

Senator JOHNSON. We forgave Germany \$246,000,000 by our moratorium, did we not?

The CHAIRMAN. That was an extension of time.

Mr. MITCHELL. You have delayed the payment of it.

Senator JOHNSON. Extended the payment of it; and short-term credits that was held in banks was paid, presumably, in practically the amount we forgave.

Mr. MITCHELL. You have raised a question which, I think, it is only fair to me to give me an opportunity to answer to a greater length than by yes or no.

Senator JOHNSON. I am very glad to give you the opportunity to answer it, because I want simply the facts and nothing more; and what the facts show, whether one way or the other way, is perfectly satisfactory to me.

Mr. MITCHELL. I think that the words "cancellation" and "priority," which your question involves, are extremely unfortunate and misleading. If we were to speak of the foreign debt of the United States being something that should be canceled and were to include in that, all of the debt of individuals and corporations, of every kind

and description, we would be following a course similar to that which we follow when, in our thinking, we talk about German debts as one global thing. Business differentiates as to the character of credit and the shade of merit of the borrower with respect to his credit position. For instance, it is just as though we were to take the city of Washington and talked about its debt as something that is global. It might be that the city is not paying its debts, but we have corporations, good, bad, and indifferent, that, regardless of what may happen to the city itself are not affected and the best of them are going to pay their debts. We have, let us say, a little trader down on Pennsylvania Avenue. It may be that he has a debt created for goods that he is putting on his shelf to-day and is going to sell to-morrow. That is a commercial debt that is good. It may be he has a little mortgage on his establishment. That debt may be slow but it is probably good. We can view German debts and business debts in that same way. Commercial debts, which constitute the bulk of these short-term debts, are mostly incurred in the operation of German economy. Now, German economy is, if I may use the expression, "the goose that lays the golden egg." That is what will produce the profits, that is what will produce materials by which other debts of other characters can be paid.

How can we talk about priority? "Priority" was introduced in common parlance as a word having to do with transfers, and it is too often now, in our daily conversation, used as a word applicable to the debt itself. I feel that it is a great mistake to view all of these debts as global, or to attempt to treat them as global, or to break them down into classes by some rule of priority. Of course, commercial debts have to go on. We have millions of dollars that are owed to us by Germans on short term that we are delighted to have on our books. We do not want them paid. The debtor is good and the obligation is represented by commercial credits and we want them to revolve. We are prepared to extend new credits as the amounts come due, because the debtor is good. The so-called political debts, reparations, if you please, are in a different category. Whether it is desirable or undesirable that the creditor forces the debtor to pay, is something that has to do with the political or international situation as it may exist from time to time. That is something you gentlemen in Congress must determine, and you will determine it on the basis of what is best for the American people. That is the only yardstick you can use in connection with this matter. This applies to England and France and any other government that owes money to the United States Government. But I have faith that in the ultimate you will do that which will mean a continuation of the healthy economy of the countries of those debtors, and if I am right in that faith, then these short-term commercial debts that are so much the discussion of the day are good, provided the debtor himself is a good risk.

Senator JOHNSON. Is not the whole discussion abroad to-day full of priority talk?

Mr. MITCHELL. That, too often, is the discussion. If you tell me that the political debt of Germany must be paid before anything is paid on her commercial debts, I will tell you that you have a closed German economy, and if you have a closed German economy, then

you have a closed English, a closed French economy, and you have a situation in America that is very nearly closed, if not closed.

Senator JOHNSON. Now I am not going to attack that subject with you at all, but that is exactly the position that France takes, is it not?

Mr. MITCHELL. Now, Senator Johnson, should I be brought into a discussion of that?

Senator JOHNSON. No; I do not think you should, but you brought yourself in, if you will pardon me.

Mr. MITCHELL. I brought myself into a discussion of this because you have attempted, in your question, to link short commercial credits made to German industry with the question of other reparations payments on which there was a moratorium given, saying that the money—

Senator JOHNSON (interposing). I have done that solely because Germany and France have done it, and that is the subject of conversation abroad.

Let me ask you the question, and you can answer it or not, as you please. Are you in favor either of scaling down the debts that are due us from foreign governments, or in favor of a cancellation direct?

Mr. MITCHELL. That is a question that I am prepared to leave absolutely in the place where it belongs for its settlement, which is the United States Congress. I do not believe in cancellation, as that word is generally used. I believe that those debts should be forced in payment, or should be scaled, as seems best in the minds of Congress, actuated always by what is best for the American people.

Senator SHORTRIDGE. Certainly.

Mr. MITCHELL. And I am inclined to believe that here and there, at least, it will be determined that there should be some scaling. Where and how much is a matter I feel I can not say. It will depend on circumstances. That is a matter that will need serious consideration of the men who are elected to determine those things.

Senator SHORTRIDGE. We scaled down, did we not, over 50 per cent? Now take these little countries. I think we loaned little Latvia, on the Baltic, \$5,000,000. Latvia said she would pay. We gave her a long time. Now if we stand, not unkindly, but firmly, relying on the legal obligation, is it not your opinion that Latvia, which represents a high state of civilization, will pay us? There is no necessity of scaling, or cancellation, or anything of the sort.

Mr. MITCHELL. Senator, I am a banker, and I would like to tell you how we figure it. Bankers figure it on the basis of what is best for themselves.

Senator SHORTRIDGE. Certainly.

Mr. MITCHELL. And very often we take a credit that perhaps we could force the full payment of and adjust it in one way or another, believing that it is in our interest to do so; believing that we will get more out of it by taking some other course than by forcing the full and complete payment of the obligation. And I assume that in the ultimate you are going to do just exactly that with these interallied debts to America.

Senator SHORTRIDGE: I have never known any bankers to scale down anything that I owed him. But I am on the gold basis, you understand.

Senator HARRISON: May I ask a question?

Mr. MITCHELL: Certainly.

Senator HARRISON: Is it your opinion that the extension of these large credits to foreign countries has in any way influenced the contraction of credit by the American bankers to the American people?

Mr. MITCHELL: At no stage. I think I might enlighten you on that, if I can lay my hands on some figures.

Senator GORE: While he is looking for that may I say that I think Mr. Mitchell is right when he says Germany is the goose that lays the golden egg. The question is, who is going to get the yellow of the egg. That is the point.

Mr. MITCHELL: If I may address myself to your question, Senator Harrison, the sales of the National City Co.—and I think it is only fair that I take out all those acceptances and other things than securities proper—in 1927, out of a total of \$2,068,000,000, the direct security sales that would be applicable to this question were \$1,412,000,000. That year we sold all together \$356,000,000 of foreign government and foreign corporation securities.

Senator HARRISON: What year was that?

Mr. MITCHELL: 1927.

Now the next year—

Senator HARRISON (interposing). I mean up to date, there is some contraction of credit; a great many people believe, in the country by the American bankers. Have these large outstanding foreign credits influenced that condition in this country?

Mr. MITCHELL: We have been going through a period where lack of confidence and fear was controlling. The public, skeptical of the banking situation as a whole, and fearful perhaps of particular banks, have withdrawn deposits in volume, and as they have withdrawn those deposits there has been less money for banks to loan, and therefore there has been a contraction that has incensed the public and made them more fearful. It is one of those vicious circles. Now, so far as the new security issues during this period are concerned, there have been practically none.

Senator HARRISON: You mean foreign issues?

Mr. MITCHELL: Foreign or domestic.

Senator BARKLEY: Has this contraction been any greater than it would have been if the foreign nations did not owe us this money?

Mr. MITCHELL: Only in that the American public, having bought to the extent that they did of foreign securities, have become to a certain extent internationally minded, and when there is trouble in this or that part of the world they feel it; it attacks their confidence and it plays its part, of course, in the development of this great destructive force that puts fear in the king's seat.

The CHAIRMAN: That applies to our own country as well as other countries?

Mr. MITCHELL: Certainly. It is simply by reason of our people having become to a great extent internationally minded.

Senator HARRISON: What is about the approximate amount of foreign credits outstanding; do you know?

Mr. MITCHELL: Foreign credits in this country?

Senator HARRISON. Yes. How much American money is invested abroad and how much at home? I have seen figures stating as much as \$14,000,000,000 or 15,000,000,000.

Mr. MITCHELL. Now, you are taking foreign securities that are in this country plus foreign credits plus investments in foreign corporations. I would hesitate to guess at that figure. We know that in securities it amounts to \$7,800,000,000. We know that the amount invested by American corporations abroad is about \$150,000,000; or it is so estimated. I have that estimate here.

The CHAIRMAN. It is more than that.

Mr. MITCHELL. \$125,000,000. Now, to that you have to add the amount that is invested by banks and financial institutions in the exchanges and in the short-term credits of one sort or another that they hold covered by the stillhalten. Then you have an amount in excess of that that is not covered by the stillhalten, because there are short credits that are maturing beyond the 6-month period of the stillhalten.

The CHAIRMAN. It is understood as between \$14,000,000,000 and \$15,000,000,000.

Senator SHORTRIDGE. That includes what?

The CHAIRMAN. Everything.

Senator SHORTRIDGE. Henry Ford, for instance, is building automobiles in Ireland, is he not?

Mr. MITCHELL. I understand that he is. Incidentally I have here, and you would be interested to see the Irish Free State loan, which we managed, and which, I am glad to say, has enjoyed one of the finest positions of credit in this market.

Senator SHORTRIDGE. I am glad to hear you say that. Take Ireland, for example, what is her outstanding government debt, if you know?

Mr. MITCHELL. It is very small. She hesitated to borrow from England; she preferred to borrow from America.

Senator SHORTRIDGE. She is quite right.

Mr. MITCHELL. Senator, Mr. Lamont said to-day that which is quite true, that most of these government loans depend upon the good faith of the people of the country that is borrowing the money. There is something more than good faith, however. There is the character of the people; their ability to work; their ability to produce; their insistence upon production. It is not only good faith. It is that desirable kind of a people that we find in the German workman.

Senator SHORTRIDGE. Well, you find it in other places, too?

Mr. MITCHELL. And we find it in many other places.

Senator SHORTRIDGE. Have you data showing the amount of Irish bonds that have been disposed of here in America?

Mr. MITCHELL. Yes; I have.

Senator SHORTRIDGE. I would like to know that.

Senator BARKLEY. Well, is Ireland asking for any moratorium?

Senator JOHNSON. Yes; she asked England for a moratorium, and was declined.

Senator SHORTRIDGE. I am asking that for an interest I have, and do not want to disclose.

Senator JOHNSON. Mr. Mitchell, did your institution float the Polish loan?

Mr. MITCHELL. No, sir; we have never had anything to do with Poland.

Senator JOHNSON. Could you tell me who did?

Mr. MITCHELL. I think it was Dillon, Reed & Co.

Senator JOHNSON. Could you state the amount of German acceptances that are held in Federal reserve banks, approximately?

Senator SHORTRIDGE. Do not lose track of that question of mine.

Mr. MITCHELL. I can not; no, Senator Johnson.

Senator JOHNSON. Can you give me any idea? I do not care for the accurate figures.

Mr. MITCHELL. No; I can't do that. I can do a quick calculation on it, but it would not necessarily be accurate. [After a pause.] No, Senator, I regret that I can not tell you, because the Federal reserve take in these bills, and they are sold with their guarantee to foreign governments who have deposits with the Federal reserve bank, and what proportion of those bills have actually been sold into the market and got into the hands of the Federal reserve bank as against the portfolios of the commercial banks and then what portion has been sold by them to foreign government accounts is too much of an enigma for me to work out. I regret that I can not give you even roughly the information that you ask.

Senator HOWELL. Mr. Mitchell, you started to give us the total, and you have already, but if you would repeat it—the total of the foreign securities that are held in this country—seven billion eight hundred and some-odd million.

Mr. MITCHELL. That is correct, sir.

Senator HOWELL. Then you gave us the amount of money invested in foreign corporations by Americans, \$125,000,000?

Mr. MITCHELL. \$125,000,000.

Senator HOWELL. \$125,000,000. Now, then, you were about to give us approximately the amount of short-time credits. Could you give the total of the short-time credits?

Mr. MITCHELL. I can not do that. I know what came in and probably is in the stillhalten agreement. But there are other short credits that did not mature during the 6-month period of the stillhalten, and just how much those are I do not know. Those are figures that will come into the so-called Wiggin report when that committee, which is now sitting in Berlin, has completed its task.

Senator HOWELL. Would you give us your opinion as to what the short-term credits would approximate?

Senator COUZENS. Probably a billion dollars. Is that not right?

Mr. MITCHELL. I would not think it would be very far from that, Senator Couzens.

Senator HOWELL. Then as I see it we would have about \$8,925,000,000, the sum of those three items, that represents the foreign investments of Americans; is that correct?

Mr. MITCHELL. You still have some items, one of which I think of forthwith. You will bear in mind that the Federal reserve bank, for instance, has a credit to the Reichsbank. A matter that is public knowledge. That would not be in my figures. There still might be some other items that would throw the figures off somewhat.

Senator HOWELL. Another billion?

Mr. MITCHELL. Oh, no; I do not think any such sum.

Senator HOWELL. No such sum?

Mr. MITCHELL. No.

Senator HOWELL. In other words, that would be about something over nine billion?

Senator COUZENS. How long are you going to run, Mr. Chairman?

The CHAIRMAN. We are through now.

Senator SHORTRIDGE. Before we adjourn I would like to have my question answered.

Mr. MITCHELL. The Irish Free State, Senator, borrowed from us \$15,000,000 in December, 1927. Now the larger part of those bonds have been bought back by the Irish people. So that there is owned in this country to-day a small amount. If I were to guess I would say probably not more than two or three million of those bonds are held in America now.

Senator SHORTRIDGE. And her credit is good?

Mr. MITCHELL. I beg your pardon?

Senator SHORTRIDGE. Her credit is good?

Mr. MITCHELL. Her credit is very excellent.

The CHAIRMAN. Mr. Mitchell, can you be here at 10 o'clock in the morning?

Mr. MITCHELL. I can.

Senator SMOOT. I wish you would. It may take us a little time, though, before we want you to go on the stand, as I want to bring the moratorium legislation up tomorrow morning. I can not tell you how long that would be, but if it will not inconvenience you we would like to have you here at that time.

Mr. MITCHELL. It won't at all, Senator.

The CHAIRMAN. The committee will stand adjourned until 10 o'clock to-morrow morning.

(Thereupon, at 5.05 p. m. Friday, December 18, 1931, an adjournment was taken until 10 o'clock a. m. the next day, Saturday, December 19, 1931.)

SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

SATURDAY, DECEMBER 19, 1931

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

The committee met at 10 o'clock a. m., pursuant to adjournment on Friday, December 18, 1931, in the committee room, Capitol, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Reed, Shortridge, Couzens, Thomas of Idaho, Harrison, King, George, Barkley, Connally, and Gore.

Present also: Senators Johnson and Howell.

The CHAIRMAN. Mr. Mitchell, we closed last night while you were testifying, and beginning at that point I would like very much now if you would proceed, and we will get through as quickly as we can.

TESTIMONY OF CHARLES E. MITCHELL, CHAIRMAN NATIONAL CITY BANK, NEW YORK, N. Y.—Resumed

Senator JOHNSON. Mr. Mitchell, have you these statements that were put in the record before you there? Or do you have them, Mr. Chairman?

Mr. MITCHELL. Senator Smoot took these last night, Senator Johnson, and he has just handed them back to me. Last night by telephone I asked that these statements be completed, because they do not include the Canadian and Cuban issues, which we did not class in the foreign list, and I judged from the discussion of the committee yesterday that they would prefer to have these submitted by countries rather than chronologically. If that is desired, I can have these reshaped, and Canada and Cuba added, and have them back here in the committee's hands by Monday morning.

The CHAIRMAN. I think that would be the proper thing and the best way to do, and then we can have them printed as an appendix to the report so that they will all be together.

Senator JOHNSON. Yes. The only reason I was speaking of them, Mr. Chairman, was that I was going to take the lists before me and indulge in some examination or cross-examination concerning them. Now, I will await the convenience of Mr. Mitchell, or as the chairman may wish in that regard.

The CHAIRMAN. If you are going to do it, I would like to have you do it now.

Senator JOHNSON. Yes. Let me have the papers then.

Mr. MITCHELL. These are the issues in which we were manager, Senator Johnson [handing a sheet to Senator Johnson], and these are the issues in which we were participants [handing another sheet to Senator Johnson].

Senator JOHNSON. All right, sir. Have you the total, Mr. Mitchell, of the amount of profit or remuneration that you received in regard to these various loans? I do not mean as to specific items, but a general total?

Mr. MITCHELL. I think that the totals are drawn off here, sir.

Senator JOHNSON. Net profit? Follow me on this, if you will, please.

Mr. MITCHELL. Maybe I can help you to clarify this whole thing in another way, Senator [referring to a third sheet]. There are all the German issues, South American issues, and all others simplified. Would that help you?

Senator JOHNSON. Well, first I am reaching now the total net profit of the issues for which you were the agent embraced in these two pages that you have just given me, being the first of the statements that have been handed to the chairman by you. I see a total there of \$13,392,502.21. Is that correct?

Mr. MITCHELL. That is correct, sir.

Senator JOHNSON. That was the net profit on those particular issues that are thus tabulated by you?

Mr. MITCHELL. That is correct; yes, sir. And represents the profit.

Senator GEORGE. That is, in which the National City Co. was manager; is that correct?

Mr. MITCHELL. That is true.

Senator COUZENS. That does not include the overhead expense?

Mr. MITCHELL. That does not include the overhead expense.

Senator JOHNSON. Well, it deducts the general expense here, does it not?

Mr. MITCHELL. I explained to the committee yesterday, Senator Johnson, that that was the general expense incident to these particular issues that could be charged to these particular issues.

Senator JOHNSON. Exactly.

Mr. MITCHELL. It does not cover our expense of—

Senator JOHNSON. Doing business?

Mr. MITCHELL (continuing). Our expense of doing business.

Senator JOHNSON. I realize that. But you have here an item of general expense, \$2,378,398.68.

Mr. MITCHELL. That is the item that is specifically charged against these items, and is not an item that enters into our general expense that I gave you yesterday, that is, the City Co.'s expense of operation.

Senator JOHNSON. And the item of net profits, \$13,392,000, is, as its name indicates, net profits after the deduction of that expense, \$2,378,000?

Mr. MITCHELL. It is the profit as best we can figure it on these particular issues, but does not cover our general expenses of operating our business, nor any of our sales expenses.

Senator JOHNSON. All right, sir.

The CHAIRMAN. Those amounts should be deducted from the \$13,000,000?

Mr. MITCHELL. Well, we can not definitely allocate.

The CHAIRMAN. Well perhaps you can not definitely allocate, but what I wanted to know was: Does that cover all your expense in every form?

Mr. MITCHELL. No; it does not.

The CHAIRMAN. That is what I wanted to know.

Mr. MITCHELL. No; it does not.

Senator JOHNSON. Well, you do a great deal more business than merely the representation of these particular issues, do you not?

Mr. MITCHELL. Quite so.

Senator JOHNSON. Why, of course.

The CHAIRMAN. If they did not, Senator, there would not be any credit there at all, because of the fact that the expenses are more than that.

Senator JOHNSON. I realize that. But I thought it was perfectly plain. Let us have no mistake about it. Here is a statement that shows certain expenses connected with certain bond issues or issues of securities, and which shows certain net profits in connection with these security issues. Now the expenses are stated here in relation to each, and the total amount of expenses thus stated is deducted from the gross profits, and the net profits are as stated in this particular statement.

Mr. MITCHELL. May I amplify it to this extent, Senator? The expenses that we show here as general expenses are such expenses as counsel expense on these particular issues. Expenses of telegrams and cables that go out not only as the issue is originated, but go out as the issue is distributed to various syndicates and groups. It would cover the expenses of particular negotiators that were sent out on any particular issue. Their traveling expenses. And study by the experts in connection with any particular issue. They are the expenses, in other words, that apply only to that particular issue. And in that item of general expenses is not, for instance, any part of the expense of the organization for my employment, for instance, for the employment of those officers who are overseeing this business, or for the expenses of our clerical organization.

Senator GEORGE. Nor taxes?

Mr. MITCHELL. Nor for the expenses of our rents nor taxes nor the salaries of our sales organizations.

Senator COUZENS. Just as you said, that run anywhere from \$6,000,000 to \$10,000,000?

Mr. MITCHELL. Yes, sir.

Senator GEORGE. In other words, that general item there goes into your general profit and loss account to be further affected by all of your business?

Mr. MITCHELL. Yes.

Senator GEORGE. General business?

Mr. MITCHELL. Yes.

The CHAIRMAN. Just the same as with the interest on a note.

Senator JOHNSON. Why, no; not the same as with the interest on a note, because you do not charge up to the interest on a note the expenses of maintaining a business.

The CHAIRMAN. Well, the interest that is collected there is all credited to the profits, and expense attached to that and all the other incidental expenses of the bank are charged against that, as

against the profits. What I want to do, Senator, is to find out definitely whether the \$13,000,000 here was clear profit or not. That is all I wanted to develop. Now it is clear profit as far as the expense connected with the certain work required to place this amount of loans here in the different parts of the country, or to sell it to the different institutions. But what I wanted to find out was this: Was the rent account, the taxes, the expenses of the president, the expenses of the clerks included in that amount, or its proportion?

Senator COUZENS. The witness testified to that.

Senator HARRISON. It is all very clear.

Senator GEORGE. He went over that fully yesterday.

Senator JOHNSON. Take this specific item, Lautaro Nitrate Co. (Ltd.). Do you recall that?

Mr. MITCHELL. Yes, Senator.

Senator JOHNSON. On that particular item I observe the expenses were \$181,541.16. Have you it before you, or do you wish this statement?

Mr. MITCHELL. No; I do not care for that. But I would like to refresh my mind on the issues. If you give me the date, I can refer to it here.

Senator JOHNSON. June 18, 1929.

Senator COUZENS. \$32,000,000.

Mr. MITCHELL. I have the record.

Senator JOHNSON. All right, sir. Turn if you will to the item, "Expense, \$181,541.16."

Mr. MITCHELL. Yes, sir.

Senator JOHNSON. Your net profit is stated to be \$809,485?

Mr. MITCHELL. Yes.

Senator JOHNSON. Yes, sir. Can you tell me what that issue was originally taken for and what subsequently it was sold for?

Mr. MITCHELL. The cost price of that issue was 93¾. The offering price was 99. On original terms there were three associates. The spread for that group was 1 per cent. The City Co. participated to the extent of \$21,600,000 in the issue. There was an intermediate group consisting of five dealers, with a spread of 1 per cent. The City Co. participation in that group was \$26,000,000. There was a banking group of 76 dealers, having a spread of three-fourths of 1 per cent. The participation of the City Co. was \$18,357,000. There was a selling group of 488 dealers. The spread to that group was 2½ points. The City Co. participated to the extent of \$24,684,000. The sales made by the City Co. numbered 5,032. These sales are all retail sales. There were \$1,000,000 of the bonds sold in Europe.

Do you wish me to go on to give the purposes of the loan, or anything of that sort, Senator Johnson?

Senator JOHNSON. Well, not for the moment, unless you wish to.

Mr. MITCHELL. No. I merely wish to satisfy your inquiries.

Senator JOHNSON. First, the profit of your institution was \$809,485. That is net?

Mr. MITCHELL. Yes, sir.

Senator JOHNSON. The expense, \$181,000. That is practically \$1,000,000 gross. I will take round numbers. It is \$990,000, but practically \$1,000,000 gross profit.

Mr. MITCHELL. Yes. The gross profit before the discount that came off was \$1,059,000. There was \$68,000 discount.

Senator JOHNSON. That was the profit alone of your particular establishment?

Mr. MITCHELL. Yes, sir.

Senator JOHNSON. How many others were interested and profited by that transaction?

Mr. MITCHELL. I thought I had made that clear. I can not tell from this record how much duplication, but there were 488 dealers. There were 76 in the bank group, 5 in the intermediate group, and 3 on original terms. There are some duplications in those items.

Senator JOHNSON. Did the three that were on the original terms make a profit commensurate with yours?

Mr. MITCHELL. They made a 1 per cent spread on the amount in which they participated.

Senator JOHNSON. Pardon me. That was not what I asked. What I asked was, Did they make a profit commensurate with your profit?

Senator COUZENS. May I suggest, Mr. Mitchell, that it was in relation to the volume, was it not?

Mr. MITCHELL. Entirely to the volume.

Senator COUZENS. If they took half as many bonds as you have, why, they probably would make half as much profit.

Mr. MITCHELL. Well, the larger profit here came through our selling organization. In other words, we had a gross profit here in the selling of these at retail through our organization of \$466,000. Now, of course, to obtain that selling profit we had to have all of the expense of our own selling staff, our officers, our telegraph wires, our overheads everywhere, our traveling expenses, and so forth. So, while that appears as \$466,000 as our profit in selling, out of that has to come our entire so-called overhead. Regular expenses. Which would include taxes and every conceivable kind of expense.

Senator JOHNSON. All right. Now, what I am driving at is: I want to find out what was the gross profit of the whole transaction to everybody.

Mr. MITCHELL. The gross profit to everybody would be the difference between the cost price of 93¾ and 99, less the expenses directly chargeable, and the discounts that they get.

Senator JOHNSON. Can you state approximately the gross profit to all of the houses concerned in that particular issue?

Mr. MITCHELL. I can figure it, Senator.

Senator COUZENS. Mr. Mitchell, would it not roughly be 5 per cent on \$32,000,000?

Mr. MITCHELL. Yes, roughly.

Senator COUZENS. About \$1,500,000.

Mr. MITCHELL. It is 5¼ per cent on \$32,000,000.

Senator COUZENS. Yes.

Mr. MITCHELL. That is the gross. I am just multiplying it out here for the benefit of the Senator. Total, \$1,679,000.

Senator JOHNSON. That was the gross profit accruing to everybody?

Mr. MITCHELL. Accruing to everybody before any expenses of any name or nature had been deducted.

Senator JOHNSON. Yes. Was your profit larger than that of any of your associates?

Mr. MITCHELL. It was larger than any of our associates, for two reasons. One, the risk that we accepted in these intermediate syndicates, and because we sold through our organization by all odds the largest portion of the bonds.

Senator JOHNSON. Well, what are the expenses of \$181,000 going to? You rather minimize them in what you say.

Mr. MITCHELL. Senator, I do not mean to minimize anything. And expenses of lawyers I have never been able to minimize.

Senator JOHNSON. Well, you are very fortunate. Few of them can collect their accounts these days.

Mr. MITCHELL. Lawyers' expenses, study of the operations on the ground, telegrams—

Senator COUZENS. Negotiators?

Mr. MITCHELL. Negotiators.

Senator SHORTRIDGE. Lawyers are generally underpaid, are they not?

Mr. MITCHELL. They usually say so.

Senator JOHNSON. By the way, where is the Lautaro Nitrate Co., Ltd., located?

Mr. MITCHELL. That was incorporated under the English Companies Acts.

Senator JOHNSON. Well, it was a British corporation?

Mr. MITCHELL. It was a British corporation. But it had to do with—

Senator COUZENS. Where are its physical operations?

Mr. MITCHELL. In Chile. It has to do with nitrate.

Senator SHORTRIDGE. They produce products which come into competition with American-produced products? Doesn't that company produce products which come into competition with American-produced products?

Mr. MITCHELL. Yes; it produces nitrates which are sent the world over. It is the largest producer of natural nitrates in the world. And Chilean nitrate has been standard the world over for—

Senator SHORTRIDGE. Yes; I know that. It has been imported into our country extensively.

Mr. MITCHELL. Yes; it has been imported into our country extensively.

Senator KING. Used by the farmers.

Senator HARRISON. Mr. Mitchell, do you have a loan that was made to the American I. G.?

Mr. MITCHELL. Yes.

Senator HARRISON. The American I. G. is a subsidiary of the German I. G., is it not?

Mr. MITCHELL. The control of the stock of the American I. G. is in the hands of the I. G. Farbenindustrie of Germany.

Senator HARRISON. And how much was loaned on this list to the American I. G.?

Mr. MITCHELL. I will have to look that up.

Senator HARRISON. Well, was that money used in this country or was it used in Germany?

Mr. MITCHELL. It is used quite completely in this country. They started to use it for the building of plants in this country. It is

used in part in two or three properties operating in this country. In addition they have a very liquid position. Before that company really got into operation with respect to this country the depression started, and their liquid position has been very largely maintained as the result thereof.

Senator HARRISON. But you do loan money to the German I. G. also?

Mr. MITCHELL. If I remember, we have never floated any loan for the I. G. Farben. It is a company that we have relations with and have had over a long period of years.

Senator COUZENS. Well, why would they, the American I. G., appear on this list? They are not a foreign company.

Mr. MITCHELL. They would not appear on this list.

Senator COUZENS. No.

Mr. MITCHELL. You are quite right.

Senator HARRISON. I understood you to say that they did appear on this list.

Mr. MITCHELL. No.

Senator COUZENS. No; he said he was mistaken.

Senator HARRISON. I was under the impression that this money was loaned to the American I. G., but perhaps used by the German I. G. in the making of products, as suggested by Senator Shortridge, and sold in competition with the American-manufactured products.

Mr. MITCHELL. Senator, they may have at the present time—I can not say with positiveness—they may have money loaned in one way or another to I. G. Farbenindustrie of Germany subsidiaries or direct. As I said, they are in a substantial cash position, and they are lending their money where they can obtain substantial rates on it.

Senator HARRISON. Well, are you in a position to have knowledge of that fact, if money was loaned to the American I. G., say, and then the American I. G. loaned it to the German I. G.? If that was done, would you know about it?

Mr. MITCHELL. Yes, sir; I would, because I happen to be a director of the American I. G. But it is not a particularly active company. It is a holding company. It holds the securities of two or three chemical and allied industries in America in which the I. G. is interested. Their reports are quite complete, and I would be glad to furnish you with a copy of their latest statement, if you desire to see it.

Senator HARRISON. Well, now, carrying out that idea—money loaned to Germany. Have you any knowledge of Germany within the last two years loaning to Russia some \$400,000,000?

Mr. MITCHELL. Well, I do not personally have any direct knowledge of specific loans, but it is common understanding that the Germans have made advances to Russians.

Senator HARRISON. And in all probability that was done on the credit that they received in America?

Mr. MITCHELL. Well, it is very difficult to trace the credits.

Senator HARRISON. Yes; but it had its influence, of course?

Mr. MITCHELL. Undoubtedly had some influence. Though the amount that they have loaned I am of the impression is not large in the light of the whole economy of Germany.

Senator HARRISON. I understood it was \$400,000,000. I thought perhaps you could answer that.

Mr. MITCHELL. I can not answer that.

Senator HOWELL. I understood they were private loans.

Senator HARRISON. Well, I do not know. I have seen something about it in the papers.

Senator HOWELL. I understood they were private loans.

Senator KING. Would you have any knowledge, Mr. Mitchell, whether or not German industrialists had made loans to Russia with the view of securing trade in Russia?

Mr. MITCHELL. I think, Senator, that they have made the same character of loan, if you wish to call it that, that has been made by so many of the American companies. They sold goods with some advance payment and accepted deferred payments for the balance. It is the common practice not only of German companies but of many American companies as well.

Senator KING. Do you think that any of the loans which may have been made to private corporations in Germany, if any have been made through your bank, or by Americans, in turn were loaned to Russia by the German industrialists?

Mr. MITCHELL. That is a very difficult question for me to answer. I would concede the possibility, in this way. Just as the General Electric Co. in the United States has sold to Russia on terms of part cash and part deferred payments, so the Allgemeine Elektrizität Gesellschaft, which is the General Electric Co. of Germany, generally known as the A. E. G., which we have financed to some extent, has made similar arrangements in Russia. Now, I can not say that none of the money that we have loaned to the A. E. G. has not found its way thus in one way or another into those smaller credits to Russia. It may have.

The CHAIRMAN. Mr. Mitchell, was there anything else that you desired to submit to the committee?

Mr. MITCHELL. Nothing at all. I am completely at the pleasure of the committee.

Senator GEORGE. Mr. Mitchell, you did not take up the second list there yesterday. Did you cover that?

The CHAIRMAN. I think he covered that.

Mr. MITCHELL. The second list being the list in which we participated?

Senator GEORGE. Yes.

Mr. MITCHELL. No. I submitted it with the other list, that is all.

Senator GEORGE. The second list is the list in which the National City Bank participated?

Mr. MITCHELL. No, sir; the National City Co.

Senator GEORGE. The National City Co.?

Mr. MITCHELL. Yes. In which the National City Co. participated where others than the National City Co. were the managers.

Senator GEORGE. I see.

Mr. MITCHELL. For instance, you will find in that list, I think, practically all of the loans mentioned by Mr. Lamont yesterday. It will show exactly our interest in those particular loans. I will submit it or not as the committee elects.

The CHAIRMAN. Well, those were all shown in the companies submitted by Mr. Lamont yesterday.

Mr. MITCHELL. Yes.

The CHAIRMAN. That is, your interests in them were all shown in his report?

Mr. MITCHELL. No; they are not shown in his report, Senator Smoot. He did not show in his report what the interest of any other banking house was. This shows completely what our interest was in each one of the Morgan issues, for instance. And what our interest was in other issues that were managed by others.

The CHAIRMAN. In other words, you are showing all of your transactions in detail?

Mr. MITCHELL. Quite so.

Senator BARKLEY. Mr. Mitchell, has there been any default on the part of either the nations who owe money to your institution or other banking institutions, or to the industries, or others that you know of, during the last year?

Mr. MITCHELL. Are you speaking of the Germans?

Senator BARKLEY. No; I am speaking of all of the debtor nations. But I will, for the moment, limit it to Germany.

Mr. MITCHELL. As to Germany no default.

Senator BARKLEY. In other words, they have kept up their payments on all these private loans?

Mr. MITCHELL. Yes.

Senator BARKLEY. To what extent has there been any default—I do not mean by default the mutual arrangements to renew an obligation, like most of us have to do these days, outside of you gentlemen in New York—

Mr. MITCHELL. We ask no exception.

Senator BARKLEY. Whether there has been any default, as we understand that term, on the part of either the industries or the Government of Europe that owe the United States money, and to whom this moratorium will apply?

Mr. MITCHELL. Now you are speaking of Europe?

Senator BARKLEY. Yes, sir.

Mr. MITCHELL. We have had no defaults from Europe.

Senator BARKLEY. You speak of "we" Do you mean your institution, or do you mean generally the banking institutions of this country?

Mr. MITCHELL. Well, I am speaking of our institution. Whether there have been defaults on some issues with which I am not familiar—some of these municipal or other issues—I can not say, Senator, but with respect to our own experience, no defaults.

Senator BARKLEY. This moratorium is supposed to apply for only one year and it expires on the 30th of next June, at which time the status quo will be resumed unless some further action is taken, except that this period of payment is to be spread out over ten years and paid with the payments under the annual contracts. Are you able to say, or are you willing to express an opinion whether the nations of Europe will be able to pick up and go on at that point without further extensions from us? Or will we be faced with the same conditions at the end of next June that we were last June and are now?

Mr. MITCHELL. Of course, I could have but an impression at best, Senator, and my impression would be that this is a matter upon which you, very likely, may conclude it wise, in the interest of

America, to make some further extensions or adjustment; but, as I tried to make clear yesterday, it is not the kind of thing regarding which I would care to express an opinion without the careful study that you gentlemen are bound to give it.

Senator BARKLEY. Of course, the rapidity and the shortness of the space of time in which the status quo might be resumed under the debt arrangements will depend largely on the situation in the future, economically, in this country and the countries of Europe.

Mr. MITCHELL. Of course, I think we have plenty of signs before us as to the trend.

Senator JOHNSON. If you will permit me, Mr. Chairman, I will run very hastily over these matters.

Senator GORE. Senator Johnson, if you will permit me to ask one question. Will you indicate your idea of the trend, if you do not object?

Mr. MITCHELL. The trend is not good, Senator Gore, or so it seems to me. We have had no political or economic happenings in the last few months in Europe that have been particularly encouraging.

Senator BARKLEY. In other words, it would be a miracle if within the next six months there would be a sudden change in the trend which would lead us to hope that at the end of that time we might not have to do this same thing over?

Mr. MITCHELL. I think I will agree with that.

Senator KING. Are you through, Senator?

Senator BARKLEY. Yes.

Senator KING. Mr. Mitchell, have you been sufficiently in touch with the loans that have been made and the credits extended to know whether they are applied for the benefit of the State—I am speaking of Germany—or whether some of those loans were used in their military operations in strengthening the army of 100,000 soldiers, or arming them, or building 10,000-ton battleships, or any other naval craft?

Mr. MITCHELL. With respect to the issues that we have made, we have been meticulous in analysis prior to the issue that those issues were for productive purposes. And for your information, so long as Mr. Parker Gilbert was in Berlin, a man who held to the principle that America should not loan except for productive purposes, to the best of my knowledge and belief we never proceeded with an issue until we had informally talked with Mr. Parker Gilbert, if he was available.

Furthermore, as you doubtless know, Doctor Schacht has been, as a German, an exponent of Germany accepting loans from foreign countries only as that money was used for productive purposes. And so far as it was possible for us to do, we submitted to Doctor Schacht the proposed business and acted only as we had his favorable opinion.

Now as we made these loans, we demanded regular reports from these companies. We have men in Germany who are in touch with officials of these companies, and I think I can say, without fear of contradiction, that the moneys that we have given to German industries and have been covered by our loans to various entities, have been used for the purposes set forth in our prospectus.

Senator KING. Have you any information as to the disposition which would be made of the several hundred million dollars which

would be paid if there were no moratorium; the disposition which would be made of that by Germany? That is to say, if Germany has a moratorium under which she is freed from the payment for one year of her obligations under the reparations, have you any information as to the use which Germany would make, assuming she has the money, of that money which would not go in reparations?

Mr. MITCHELL. I have no positive information on that, Senator.

Senator KING. Has Germany made any indication as to whether or not she desires to use any of that money, if she has a moratorium and if she has the money—has she indicated for what purpose she wants to use it?

Mr. MITCHELL. Not so far as I know.

Senator KING. Did France make any indication with respect to the utilization of the money if the moratorium were granted? That is, use by Germany?

Mr. MITCHELL. I am not in touch with the French Government.

Senator KING. Then, so far as you know, it is no purpose of the German Government to be freed from the payment of the \$400,000,000 or \$500,000,000 to use that for military purposes?

Mr. MITCHELL. I have no knowledge of that at all, Senator.

Senator KING. Have you any information—and I concede that it would be only a guess or prophecy—as to the effect of granting the moratorium; that is to say, do you think it will encourage Germany to ask a further moratorium? Will she in the future regard this as a breakdown of the wall, so that at the end of the year she will ask for a further breaking down of the wall?

Mr. MITCHELL. I do not know, of course, Senator.

Senator KING. No.

Mr. MITCHELL. But I think we should all recognize that possibly there was set up by the original Dawes Commission a principle that since has been violated by all nations, a principle that appealed to me then, and still appeals to me, to be a sound one, to wit, that debts created as a result of the war should be established in such amount as can be paid by that nation operating under all of the burdens that their creditors may be operating under during the life of that generation that had to do with the war. Now the Dawes Commission established that in the most direct way that they were permitted to, it seems to me, under the limitations that were upon them, by setting up 35 years as the term of payment for the railway and industrial debentures which secured the first Dawes loan.

Now that 35-year period became 62 years when the English came here and with their laudable pride said to America, "We owe so much, and England always pays her debts and to pay this it will take us 62 years." Therefore, 62 years became the general yardstick, instead of 35 years, if you please, by which we measure the capacity to pay and the ability to transfer of these various nations.

It may seem to be going a long way around, but I am stating this in order to come back to your question directly, because my mind operates from these basic facts. Here we have in Germany to-day young men going into the universities of Germany who were not born when the great war started. Those young men see that not only must they pay but their progeny, and the progeny of their progeny must pay and go on for these generations in paying a debt for which they, as individuals, were not responsible. They feel that they are under a

heavy yoke, and my impression is that there is growing, as a result thereof, rebellion against the payment of the debt. I think it is something that is readily understandable, and if you ask me if it is my opinion that Germany will go through this entire period and pay off the amount of debt that has been set up under these various plans for her to pay, I can not conceive it to be possible, because I think that it will bring rebellion.

Senator KING. Then this moratorium is permitting the camel to put its nose under the tent, and it will force itself into the tent, and it will result in a further demand for the complete extinguishment of the obligation; is that your philosophy?

Mr. MITCHELL. I would not go so far as to say that, but all of this leads me to the conclusion that nationally the countries involved in this question have found a problem that is political and psychological and that they must so consider and handle it. I do not believe that it can be taken quite on the simple base that the debt was contracted, and the debt must be paid.

Senator REED. May I ask you at that point, Mr. Mitchell. Were you through, Senator King?

Senator KING. Just a moment, please, Senator Reed. I was about to observe, Mr. Mitchell, that some—and I am not sure that I am not in that category—would be willing to help Germany and vote for this moratorium; but if it is merely to be a foundation upon which Germany will build a psychology or another mentality that will demand the extinction of the debt in the future, then some of us would hesitate to vote for this moratorium itself.

Mr. MITCHELL. I am not preaching Senator, in what I am saying, any doctrine of cancellation. I want that to be clear. I am trying to develop a thought as to the psychology of the people that may have a direct bearing upon this question.

Senator WATSON. Would not that apply to every other nation that owes us debts? Would it not apply to France and England who owe this debt and who are to pay during the 62 years, quite as much as to Germany?

Mr. MITCHELL. Yes; I would say so.

Senator WATSON. It has been currently stated that Germany has not directly taxed herself to raise reparations but has borrowed all the money to pay, and mostly in this country. How true is that?

Mr. MITCHELL. Germany has been under a severe tax—German individuals and industry. I think a study will show that all of those taxes, in return, have not been sufficient to build up and keep healthy her economy and at the same time pay these reparations. That would seem to be an obvious fact.

Senator WATSON. How much has she borrowed to pay reparations; have you any way of telling?

Mr. MITCHELL. I do not carry that figure in mind.

Senator BARKLEY. I understand that outside of the two Dawes and Young loans, they have not borrowed any money.

Senator GORE. I would like to ask Mr. Mitchell, if I may be permitted, whether a distinction does not exist as between the two characters of obligations: The reparations now being paid by Germany are in the nature of a fine for an alleged war guilt; they are punitive payments. The allied debts owing to the United States are for money had and received and represent value that passed

from this country to those countries. Does not that distinction exist both in law and in morals?

Mr. MITCHELL. I should say that it did. Senator Gore. At the same time, I think if reparations were not received by those allied countries who owe us, that we would have developed the same character of thought and argument, to wit, that these interallied debts are debts which, in reality, resulted from the war.

Senator GORE. That is just the point. There is no legal and moral identity between the two, but in a practical way I get your point, that others, and France at least, makes a very definite act, her act ratifying the Mellon agreement, and made statements to the effect that she would not pay her debts owing to the United States unless she collected the debts owing her from Germany. I am inclined to agree with you that there is nothing more fatuous than the thought that these governments will be paying 50 years from now. I think that is fatuous, and a dream.

Senator COUZENS. Why not let the witness testify?

Senator GORE. I am sorry. I apologize

Senator REED. In the first place, Mr. Mitchell, the Dawes plan was 25 years? Was it not, 1949? A 25-year term?

Mr. MITCHELL. Yes; I think so. My recollection is that. But my recollection is distinctly that the railway debentures and the industrial debentures that were built up by the Dawes Commission to secure any loan that might be made, were 35 years in term. The 25-year term was not one, if I recall, that was established by the Dawes Commission.

Senator REED. The Dawes plan was made, however, for 25 years, and secured by these debentures, and the German liability was fixed at that time as 25 years, and not 35. That is the question.

Mr. MITCHELL. Yes. But I am trying to get at what I regard as an attempt upon the part of the Dawes Commission, which made a very exhaustive study of this situation, to set up a principle which they were not permitted, by virtue of the limitations which were upon them, to set forth in words, but I have always, myself, considered that they did set that principle forthwith by the term of the railway and industrial debentures which were developed to secure the reparations payments of Germany.

Senator REED. Yes. All right. Now you say that there is growing up in Germany a psychology on the part of the younger people which leads them to want to accept all of the benefits created by preceding generations, without any of the obligations. That is understandable. Young people enjoy getting benefits and do not enjoy bearing burdens. But is it not reasonable to think that the same psychology will grow up over here that very large war debts were created, and that this money is going to be paid by a generation of Americans that had nothing to do with this war? Now, why should the progeny of Americans who had nothing to do with the war, the progeny of Americans who were not even alive, pay this war debt, and the progeny of the people who started it go scot free? I confess I can not see that, Mr. Mitchell.

Mr. MITCHELL. I grant with you, Senator Reed, that that is quite unanswerable as an argument within itself.

Senator REED. Then why is not the psychology that is going to grow up in this country by refusing to cancel these debts going to be

a complete checkmate to the psychology abroad that wants to have these debts forgiven?

Mr. MITCHELL. It is an impasse that will retard the time of world recovery with respect to economy and exchanges and understandings for a long time to come.

Senator REED. Do you not think that the repeated speeches of Mr. Wiggin, of the Chase Bank, advocating the complete cancellation, make the task of this Government very much harder in collecting these eminently just debts?

Mr. MITCHELL. I have not any question but that Mr. Wiggin, in making that expression, feels that that is the only way out. I think that any expression of that sort makes it more difficult for governments to sit down and view this question in all of its phases and reach an answer that, in itself, is sound. That is why I say to you, as I said yesterday, that I am not in favor of a cancellation program. Our institution has never taken the standpoint that we were for cancellation.

Senator REED. I hope it never will do that.

Senator JOHNSON. I want to emphasize one fact. Why mention Mr. Wiggin alone? Are you not aware that Mr. J. P. Morgan has said that he believes in the cancellation of these debts?

Senator REED. I mentioned Mr. Wiggin alone.

Mr. MITCHELL. I meant the speech in which he cited it.

Senator JOHNSON. I understand. But are you aware of that fact?

Mr. MITCHELL. I do not not know that I recall exactly Mr. Morgan's statements.

Senator JOHNSON. All right.

Senator SHORTRIDGE. Do you hold to the theory that future generations in a given government may rightfully repudiate the legal obligations of an indebtedness previously incurred? Do you hold to that theory?

Mr. MITCHELL. I do not.

Senator SHORTRIDGE. Well, is there any intelligent, civilized man in the world to-day that would hold that a given government may repudiate the debts legally incurred by their predecessors? Is there any man who holds to that doctrine?

The CHAIRMAN. I would like Senator Johnson to proceed.

Senator JOHNSON. If you will give me 15 minutes, I can conclude with this witness.

Senator GORE. Mr. Chairman, one question.

The CHAIRMAN. It is 5 minutes past 11 now. Senator Johnson can have 15 minutes.

Senator JOHNSON. That is all I ask.

Senator GORE. Mr. Chairman, with the consent of the Senator from Michigan, I would like to say I am not for cancellation. Thank you.

Senator JOHNSON. I am reading to you now and calling your attention to certain items which are on the sheet which you filed with this committee, sheet No. 1, in which the National City Co. was manager. The first item I call your attention to is an item under date of January 26, 1925, the A. E. G. (General Electric Co. of Germany), the amount of issue was \$10,000,000, and the profit upon which, according to that sheet, is \$222,236.83.

Mr. MITCHELL. Yes, sir.

Senator JOHNSON. That is correct?

Mr. MITCHELL. Yes, sir.

Senator JOHNSON. The next one I direct your attention to is the Central Bank for Agriculture, Germany, October 16, 1925, in which the issue was \$25,000,000, and upon which your profit, according to the sheet, was \$354,516.58.

Mr. MITCHELL. Correct. But it is September 16.

Senator JOHNSON. You are correct. It is a "9." September 16, 1925.

Mr. MITCHELL. Profit, \$354,516.58.

Senator JOHNSON. The next one is Rhine Westphalia Electric Power Corporation, November 12, 1925, a \$10,000,000 issue, upon which your profit was \$236,521.04.

Mr. MITCHELL. Correct.

Senator JOHNSON. The next one, if you please, is A. E. G.—General Electric Co., Germany—December 9, 1925, an issue of \$10,000,000, upon which your profit was \$292,231.43.

Mr. MITCHELL. Correct.

Senator JOHNSON. The next one is Saxon State Mortgage Institution, January 15, 1926, an issue of \$5,000,000, upon which your profit was \$150,551.16.

Mr. MITCHELL. Correct.

Senator JOHNSON. The next one is the Ilseder Steel Corporation, April 29, 1926, an issue of \$7,500,000, upon which your profit was \$225,964.96.

Mr. MITCHELL. Correct.

Senator JOHNSON. What is the location of that particular steel corporation?

Mr. MITCHELL. In Germany.

Senator JOHNSON. The next is Saxon Public Works (Inc.), June 30, 1926, an issue of \$15,000,000, upon which your profit—have you it there?

Mr. MITCHELL. The profit was \$250,834.75.

Senator JOHNSON. Correct. Thank you. The next one is the Saxon State Mortgage Institution—

Mr. MITCHELL (interposing). What is the date of that?

Senator JOHNSON. November 22, 1926, an issue of \$4,000,000, upon which your profit was \$108,015.96.

Mr. MITCHELL. Correct.

Senator JOHNSON. Now, this is outside of Germany, but I call your attention to it because of our interest in copper—Chile Copper Co., December 13, 1926, an issue of \$35,000,000, upon which your profit was \$273,480.18?

Mr. MITCHELL. Correct.

Senator THOMAS of Idaho. Senator Johnson, where was that copper company located?

Senator JOHNSON. Chile.

Mr. MITCHELL. This is a subsidiary of the Anaconda Copper Co., and this represents the only outstanding public debt of the Anaconda group.

Senator JOHNSON. The next is the Central Bank for Agriculture, Germany, July 17, 1927, an issue of \$30,000,000, upon which your profit was \$223,631.92; is that correct?

Mr. MITCHELL. Correct.

Senator JOHNSON. The next is Rhine Westphalia Electric Power Corporation, August 10, 1927, an issue of \$15,000,000, and the profit was \$210,788.45?

Mr. MITCHELL. Correct.

Senator JOHNSON. The next is Saxon State Mortgage Institution, September 8, 1927, \$2,000,000, upon which your profit was \$49,283.26?

Mr. MITCHELL. Correct.

Senator JOHNSON. The next is Central Bank for Agriculture, Germany, October 14, 1927, an issue of \$50,000,000, upon which your profit was \$359,279.93?

Mr. MITCHELL. Correct.

Senator JOHNSON. The next one is Chile—

Mr. MITCHELL (interposing). What is the date of that?

Senator JOHNSON. January 24, 1928. It is a refunding debt, I assume?

Mr. MITCHELL. Yes; it is a railway refunding loan, called railway refunding sinking fund 6 per cent gold external bonds.

Senator JOHNSON. Your profit was \$547,957.63?

Mr. MITCHELL. You failed to state the amount.

Senator JOHNSON. The amount of the issue was \$45,912,000. And the profit I stated correctly, did I not?

Mr. MITCHELL. Correct.

Senator JOHNSON. Now, the next is Central Bank for Agriculture, Germany, May 2, 1928, an issue of \$25,000,000.

Mr. MITCHELL. That is correct.

Senator JOHNSON. Will you state the profit on that?

Mr. MITCHELL. Profit of \$137,740.32.

Senator JOHNSON. Thank you. General Electric Co. of Germany, May 22, 1928, an issue of \$10,000,000, upon which your profit was \$187,557.38.

Mr. MITCHELL. Correct.

Senator JOHNSON. General Electric Co., Germany, June 7, 1928—

Mr. MITCHELL (interposing). Wait a minute. Is that the same one?

Senator JOHNSON. That is a second one. The first one is \$10,000,000, and the next one is \$5,000,000.

Mr. MITCHELL. Let me have the date.

Senator JOHNSON. June 7, 1928.

Mr. MITCHELL. I will have to take that from your record.

Senator JOHNSON. Well, that is \$5,000,000 here. It says "See above" at one place, and that is the only place it says "See above," and it gives you a profit of \$134,803.31.

Now, the next one of Rhine Westphalia Electric Power Co., September 26, 1928, \$20,000,000, and gives you a credit of \$227,745.93.

Mr. MITCHELL. Correct.

Senator JOHNSON. What is "R. W. E. Common Stock"?

Mr. MITCHELL. That is the Rhine Westphalia Electric Power Corporation.

Senator JOHNSON. Another of these Ilseeder Steel Corporation issues, October 31, 1928, an issue of \$10,000,000, upon which there is a profit of \$117,814.89.

Senator JOHNSON. That is correct. That is the Ilseder Steel Corporation.

Senator JOHNSON. Yes. I see another Chile loan here of September 4, 1928. Do you remember what that was?

Mr. MITCHELL. September 4?

Senator JOHNSON. Yes.

Mr. MITCHELL. \$16,000,000. The profit was \$170,134.62. I do not know whether you have covered that before or not, Senator.

Senator JOHNSON. I do not think I did.

Mr. MITCHELL. I do not recall.

Senator JOHNSON. Another is City of Antwerp, December 10, 1928, an issue of \$10,000,000, and a profit of \$84,254.01.

Mr. MITCHELL. Correct.

Senator JOHNSON. And the Rhine Westphalia Electric Power Co., March 20, 1930, an issue of \$20,000,000, and a profit of \$226,582.

Mr. MITCHELL. Correct.

Senator JOHNSON. The next one is the Republic of Chile, an issue of \$25,000,000, April 24, 1930, upon which there is a profit of \$218,071.25.

Mr. MITCHELL. Correct.

Senator JOHNSON. The next one is Saxon Public Works, July 30, 1930, an issue of \$10,000,000, and a profit of \$68,149.87.

Mr. MITCHELL. Correct.

Senator JOHNSON. The next one is February 20, 1931, Rhine Westphalia Electric Power Co., an issue of \$7,500,000, with a profit of \$8,205.

Mr. MITCHELL. Correct.

Senator COUZENS. Are they guaranteed by the German Government?

Mr. MITCHELL. No.

Senator JOHNSON. Were any of these loans that were loaned to German companies, the obligations of the Government?

Mr. MITCHELL. They were not.

Senator JOHNSON. They are all the obligation of the particular corporations to whom you made the loans?

Mr. MITCHELL. That is true.

Senator JOHNSON. Have you in your possession any of the circulars or advertisements that you sent out with reference to these loans?

Mr. MITCHELL. I have here all the circulars having to do with each and every one.

Senator JOHNSON. Will you leave, say, with the chairman certain of the advertisements, two or three, that you sent out in regard to the German power lines?

Mr. MITCHELL. When you speak of advertisements, I suppose you refer to the usual circular?

Senator JOHNSON. The usual circular that is sent out under those circumstances.

Mr. MITCHELL. I will be glad to.

Senator JOHNSON. Two or three sorts, if you please.

Mr. MITCHELL. Very well.

Senator JOHNSON. You say here, of course, in your list that certain others have participated finally in the distribution. Were those banks to whom or to which were allocated parts of the list?

Mr. MITCHELL. Those, for the most part, are dealers. They may be banks that have distributing staffs who were distributing some one or another of the issues.

Senator JOHNSON. Did you select those dealers or those distributors?

Mr. MITCHELL. Yes, sir.

Senator JOHNSON. And when you select them do you allocate to them certain specified parts of the loans?

Mr. MITCHELL. We handle them in different ways. Sometimes we make it a participation of a set amount; sometimes, under a different plan of syndication, we ask them how much they would like; we do it both ways.

Senator JOHNSON. That is, you follow one plan in which you allocate the sum, and another in which you ask them how much they would like?

Mr. MITCHELL. That is right.

Senator JOHNSON. Can you leave a form of letter in which you allocate specific sums to specific banks?

Mr. MITCHELL. I have not any here.

Senator JOHNSON. Can you send one?

Mr. MITCHELL. Decidedly.

Senator JOHNSON. I wish you would.

Senator REED. Is that very often done by telephone, Mr. Mitchell?

Mr. MITCHELL. Yes; it is very often done by telephone, but the confirmation would be of a general type.

Senator BARKLEY. Where you make allocations, to what extent is there any compulsion connected with it, or any pressure brought to bear to force the bond house, or whatever it may be, to take the full sum allocated?

Mr. MITCHELL. There is no pressure whatsoever. Of course, I heard the questioning of Mr. Lamont yesterday. My answer would be exactly his, absolutely no compulsion. You realize, however, that a merchant does the largest amount of business with those who can be regarded as best customers, and it is only natural for a merchant in securities, who is a wholesaler, to allot generally to specific dealers who are his best and most constant customers.

The CHAIRMAN. You do not force him to do it?

Mr. MITCHELL. No forcing at all.

Senator JOHNSON. You would not continue your correspondence long if he declined to buy?

Mr. MITCHELL. He would not be a good customer.

Senator JOHNSON. I am hastening through in order not to delay the committee and you, Mr. Mitchell. I refer now simply to the sheets you furnished where you were not managers, but were a part of a syndicate, when foreign securities were sold in this country, and I ask you if there the amount of net profit to your house in this second list, where you were not managers but merely a part of the syndicate, is shown to be \$11,363,501.26.

Mr. MITCHELL. That is correct.

The CHAIRMAN. All of the reports in all the sheets, then, are correct, are they?

Mr. MITCHELL. Yes, sir. I call your attention, as I did yesterday, that I still have to add here the Canadian and Cuban loans, which, in making up these sheets, I did not include as foreign.

Senator THOMAS of Idaho. Mr. Mitchell, you have given the committee the operations over a period of years. What is the period of years; do you remember?

Mr. MITCHELL. It starts with 1919, if I recall rightly. You have the chronology there.

Senator JOHNSON. It starts with June 12, 1919, and on the other list it began on February 18, 1919.

Senator THOMAS of Idaho. And runs to 1930?

Mr. MITCHELL. It runs to date.

Senator THOMAS of Idaho. And do you recall about how many loans altogether you have made?

Mr. MITCHELL. They are on the list. I have not counted them up.

Senator THOMAS of Idaho. The total amount.

Mr. MITCHELL. The total amount is stated here. I can give you that from a sheet I have here. The issues listed here in which we were the sole managers aggregate \$1,171,955,000. The other list, of syndicates in which we participated but which were managed by others, ran to a total of \$3,260,407,000.

Senator THOMAS of Idaho. Now, every loan listed here, furnished the committee, shows a profit; is that correct?

Mr. MITCHELL. No; I think there are one or two in the syndicates managed by others that show red figures.

Senator THOMAS of Idaho. Then you have really never made a loss in the flotation of any one of these loans?

Mr. MITCHELL. I should say by and large that was so. We have had, naturally—

Senator THOMAS of Idaho (interposing). Is that an unusual record for a bonding house to show or a usual record?

Mr. MITCHELL. I do not think I would care to generalize on that.

Senator THOMAS of Idaho. The public certainly made a lot of losses.

Mr. MITCHELL. The public made a great many losses, as they have in all bonds and securities of any kind, Senator. But in this connection I would like to call your attention to the fact that the public has also made very large profits. I have here a group of 22 issues of foreign bonds which have been retired. These issues ran to the aggregate of \$425,000,000 principal account; they were sold to the public for \$416,015,000. In return, upon redemption, the holders received a total of \$460,550,000, or a net profit of \$44,535,000, equivalent to 10.705 per cent upon their original investment; and while they held that investment, as long as those issues were outstanding, they had a weighted average return of 7.85 per cent in current interest, which was punctually received by those investors. In other words, we must not get the idea that investors in those foreign bond issues have universally made losses.

Senator THOMAS of Idaho. But they are now making losses.

Mr. MITCHELL. Just as they are with respect to domestic bonds.

Senator THOMAS of Idaho. Any greater losses?

Mr. MITCHELL. I would be glad to give you some comparisons here of the shrinkages.

Senator GEORGE. Are they greater or less, Mr. Mitchell?

Mr. MITCHELL. By and large I would say they were less in foreign bonds than they were on domestic bonds. But if you care for quotations, I have quotations here I will be glad to give you.

Senator THOMAS of Idaho. Mr. Mitchell, I do not care to take up the time of the committee to go into that. I am wondering about the policy of your bond house. Those bonds, when floated, are then put on the exchange and have a daily quotation and market. Do you do anything to support that market in times of distress?

Mr. MITCHELL. No; generally speaking, the practice is never to support. Of course, many of those so-called sinking funds are what we term market funds. In other words, the amounts payable into the sinking fund are used for the purchase of bonds in the market at any figure that the market offers below par or below the call price.

Senator THOMAS of Idaho. Who gets the profit made on the purchase of the bond below the call price, the sinking fund or the banking house?

Mr. MITCHELL. Neither. The borrower gets that.

Senator THOMAS of Idaho. The borrower gets it?

Mr. MITCHELL. The borrower gets that.

Senator THOMAS of Idaho. I did not know whether that had been brought out clearly or not.

Senator GORE. Mr. Chairman, I wish Mr. Mitchell would print in the record the comparative list of bonds that he mentioned a moment ago, including a list of all defaulted bonds.

The CHAIRMAN. That has already been ordered to be printed in the record.

Senator GORE. The comparison between the foreign bonds and domestic bonds?

The CHAIRMAN. No, not that, but the bonds which have been referred to to-day by Senator Johnson, and also others that we did not refer to.

Senator COUZENS. Senator Gore wants the list put in the record that Mr. Mitchell has just said he could make up, showing the comparison of decrease in value in domestic and foreign bonds.

Senator GORE. Yes, I would like for him to include a list of defaulted bonds too.

The CHAIRMAN. How soon could you furnish that list?

Mr. MITCHELL. Well, of course, I can give you quotations on any particular bonds that you wanted. Bear in mind that to date you have not asked me to give the comparison of the prices of domestic and foreign bonds. I will be glad to give you that.

The CHAIRMAN. You can send it and have it here by Monday, can you not?

Mr. MITCHELL. Let me ask you if this will satisfy the committee. Here is a representative list of foreign bonds; also a list of domestic bonds, which shows the high for 1929, 1930, 1931, and the present price. If the committee would glance at this and see if that would satisfy, I would be glad to submit it at this time.

The CHAIRMAN. I think that is just what the Senator is asking for, and that will be ordered printed in the record.

Senator GORE. That is what I wanted, and you could put in the record later a list of defaulted bonds, Mr. Mitchell. Could you do that?

Senator KING. Do you mean defaulted on the interest or defaulted in any part of the payment?

Senator GORE. Either or both.

Mr. MITCHELL. Of course, this involves quite a lot of study. You are referring now to the entire list, Senator Gore, are you, so far as I can follow you, of foreign bonds that are in default?

Senator GORE. Yes. We can probably obtain that otherwise.

Mr. MITCHELL. I would be very glad indeed to develop it for you if I can save you that trouble.

Senator GORE. Mr. Chairman, perhaps that is unnecessary. I see this morning a schedule of those bonds, and I think it ought to be in the record, and I will consult with the chairman about printing it in this record.

The CHAIRMAN. I want to say to the Senator and members of the committee that all of these requests that lists be put into the record would be best answered by appending them to the hearing so they will be all together. I will instruct the Public Printer to do that.

(The lists of representative domestic and foreign bond issues furnished by Mr. Mitchell will be found at the end of this day's proceedings.)

Senator THOMAS of Idaho. Mr. Mitchell, just one other question. You state that you think that the depreciation in domestic bonds has been more than in foreign bonds. Do you care to answer the question as to what your judgment will be as to the ultimate payment of the foreign bonds, as to whether the foreign bonds will have a better chance to be paid than the domestic bonds?

Mr. MITCHELL. No; I would not care to make a comparison. It would be unfair to attempt to make such a comparison.

Senator THOMAS of Idaho. I wondered what your judgment was.

Senator JOHNSON. Can you tell whether any members of the Federal reserve banks have any of these securities that we have read off that were included in your list; foreign?

Mr. MITCHELL. You mean member banks?

Senator JOHNSON. Yes, sir.

Mr. MITCHELL. Oh, yes; of course they have. They have many. Of course, the Federal reserve banks themselves have none.

Senator JOHNSON. I mean member banks.

Mr. MITCHELL. Member banks?

Senator JOHNSON. Yes, sir. There are about 8,000 member banks?

Mr. MITCHELL. I think so.

Senator JOHNSON. How many that are not members?

Mr. MITCHELL. I can not recall, but I should say there are perhaps—

Senator KING. You have stated that.

Senator JOHNSON. There are about, I think, 20,000 nonmembers, but I am not clear on that.

Mr. MITCHELL. The figure has escaped me for the moment.

Senator JOHNSON. But many of the banks that are members of the Federal reserve have the securities that are in your list that have been submitted here?

Mr. MITCHELL. Most decidedly.

Senator GEORGE. Mr. Mitchell, I was about to ask you the same general question that had about the same purport. Take, for instance, the first issue of bonds there, the National City Co.; I believe it is the Swedish Government.

Mr. MITCHELL. Yes.

Senator GEORGE. The banking group here is listed under No. 422?

Mr. MITCHELL. No. That means that the number of dealers—

Senator GEORGE. Yes; exactly.

Mr. MITCHELL. Participating in the banking group were 422.

Senator GEORGE. Were they banks of deposit, any of them?

Mr. MITCHELL. There would be, yes; a number of banks of deposit.

Senator GEORGE. In that group?

Mr. MITCHELL. Yes.

The CHAIRMAN. If there are no other questions, Mr. Mitchell, you may be excused.

I would like to have the committee now take up Joint Resolution 38.

Senator REED. We better go into executive session.

Senator CONNALLY. Mr. Chairman, may I ask the witness one question, very briefly?

The CHAIRMAN. Yes.

Senator CONNALLY. Mr. Mitchell, has your company handled any Cuban Sugar bonds?

Mr. MITCHELL. Yes, Senator.

Senator CONNALLY. Are any of those bonds now in default that you know of?

Mr. MITCHELL. Yes; the Cuban-Dominican sugar bonds went into default, and there has been a reorganization.

Senator CONNALLY. Were those sold out over the country in the same method that you pursued with reference to these other issues?

Mr. MITCHELL. Same way; yes.

Senator CONNALLY. Banks and others?

Mr. MITCHELL. Yes.

Senator CONNALLY. How long have they been in default, do you remember?

Mr. MITCHELL. My recollection would be that they went into default in the early spring. There has now been a reorganization, which I think has been completed.

Senator CONNALLY. Well, is that covered in the list that you have submitted?

Mr. MITCHELL. Yes. It will be. You see, I have omitted Cuba and Canada, but they will appear.

Senator CONNALLY. They will appear?

Mr. MITCHELL. Yes, sir.

Senator COUZENS. Is this in executive session?

The CHAIRMAN. It will be just as soon as we are ready.

(Thereupon, at 11.35 o'clock a. m., the committee proceeded to executive session.)

DOMESTIC BONDS

Security	High			Present
	1929	1930	1931	
American Rolling Mills 4½'s, 1933.....		101	97	69
Alleghany Corporation 5's, 1944.....	112	105	87½	28
Alleghany Corporation 5's, 1949.....	111½	104½	85½	23
Alleghany Corporation 5's, 1950.....		99½	85	15
American & Foreign Power deb. 5's, 2030.....		87	86	34
Associated Gas & Electric conv. 4½'s, 1949.....		86½	80½	37
Associated Gas & Electric conv. 5's, 1950.....		104½	95½	60
Baltimore & Ohio conv. 4½'s, 1960.....		100	100	60½
Canadian Pacific coll. 4½'s, 1960.....		105½	100	20½
Central of Georgia Ry. ref. and gen. 5's, 1959.....	100½	101½	100½	7½
Chesapeake Corporation coll. 5's, 1947.....		84	50	25
Chicago & Eastern Illinois 5's, 1951.....	55½	96½	78	6½
Chicago, Milwaukee, St. Paul & Pacific mortgage 5's, 1975.....	94½	94½	75	25
Chicago, Milwaukee, St. Paul & Pacific adj. 5's, 2000.....	80½	78½	96	25
Chicago & North Western first and ref. 4½'s, 2037.....	97½	100½	92	24
Chicago & North Western conv. 4½'s, 1949.....	101½	103	95½	35½
Chicago, Rock Island & Pacific sec. 4½'s, 1952.....	85½	98	92½	25
Chicago, Rock Island & Pacific convertible 4½'s, 1960.....		101½	95½	50½
Cible Copper Co. 5's, 1917.....	97	98½	71	30
Central States Electric 5's, 1948.....	90½	84	82½	42½
Cities Service Co. convertible 5's, 1950.....		128	85	32½
Denver & Rio Grande ref. and imp. 5's, 1978.....	93½	95	84½	27
Erie R. R. ref. and imp. 5's, 1967.....	98	97½	84½	5
Florida East Coast 5's, 1974.....	50	61½	30½	3½
General Theatre Equip. 6's, 1940.....		100½	78	34
Goodrich Co., E. F., 6's, 1945.....		79	99½	59½
Great Northern Ry., gen. 4½'s, 1977.....		101½	90	26½
Gulf States Steel 5½'s, 1942.....	99	100½	63	37½
Hudson Coal 5's, 1962.....		73	100	47½
International Match convertible 5's, 1941.....		99½	99½	43
International Match convertible 5's, 1947.....	96½	102	69½	30
International Paper ref. 6's, 1955.....	95½	94	84½	38½
International Telephone 4½'s, 1952.....		84	90½	40½
International Telephone 5's, 1955.....		86½	99½	42½
Middle West Utilities, conv. 5's, 1933.....		86½	97½	41½
Middle West Utilities, conv. 5's, 1934.....		89½	97½	46
Middle West Utilities, conv. 5's, 1935.....		86½	97½	40
Paramount Famous Lasky 6's, 1947.....	100½	103½	97	36½
Paramount Public 5½'s, 1950.....		84½	89½	15½
Paramount Public 5½'s, 1950.....		98½	78	33½
Pan American Petroleum of California 6's, 1940.....		110	83	50½
Philadelphia & Reading Coal & Iron 6's, 1949.....		97½	92½	23½
Phillips Petroleum 5½'s, 1939.....	94	96½	74½	34½
Postal Telegraph & Cable Co. 5's, 1953.....	95	101	81	16½
Remington Rand 5½'s, 1947.....	99	95½	96	15
St. Louis & San Francisco 4½'s, 1978.....	91½	102	97½	3
St. Louis Southwestern First term. 5's, 1952.....	101½	90½	20½	3
Seaboard Air Line ref. 4's, 1959.....	63½	78	20	1½
Seaboard Air Line 6's, 1945.....		85	72	12½
Seaboard All Florida 6's, 1935.....	81	96½	84	48
Skelly Oil Co. 5½'s, 1939.....		96½	89½	9
Wabash R. R. ref. 4½'s, 1978.....	92	102½	96½	10
Wabash R. R. 5's, 1976.....	100½	102½	96	29
Wabash R. R. 5's, 1980.....		113½	74½	18½
Warner Bros. Pictures 6's, 1939.....		103½	74	39
Waldorf Astoria Hotel 7's, 1954.....			91	62½
Warren Bros. conv. 6's, 1941.....		106½	104½	61
Western Union Telegraph 5's, 1951.....		105½	104½	57
Western Union Telegraph 5's, 1960.....		104½	103½	
Youngstown Sheet & Tube 5's, 1978.....				

SALE OF FOREIGN BONDS OR SECURITIES

Representative list of foreign bond issues

Issue	Approximate amount outstanding	1929 high	1930 high	Dec. 16, 1931
Austrian 7's, 1923-1943	\$19,506,000	105	106	80
Belgian 7's, 1925-1955	47,397,000	110	115½	87
Denmark 6's, 1922-1942	30,000,000	104½	106½	66
Finland 5½'s, 1928-1958	14,468,000	92	92	38½
French 7's, 1924-1949	74,741,000	113½	121	111½
Paris-Lyons Med. R. r. 6's, 1922-1958	38,954,000	102	105½	91½
German 7's, 1924-1949	81,960,000	108	109½	48½
Berlin 6's, 1928-1958	14,512,000	92	94½	15½
Dutch East Indies 6's, 1922-1947	38,367,000	104½	103½	79
German Central Bank for Agriculture 6's, 1927-1960	48,380,000	88	90	30
Japanese 6½'s, 1924-1954	134,321,000	103	105½	83½
Chile 6's, 1926-1960	40,440,000	94	94½	11½
Argentine 6's, 1923-1957	36,545,000	101	90½	41½
Australian 4½'s, 1928-1956	46,738,000	88½	85½	42½
Italy 7's, 1925-1951	91,373,000	97½	101	83
Peru 6's, 1927-1960	48,585,000	90	84	6½
Brazil 6½'s, 1926-1937	96,921,000	96½	88½	15
Hungary 7½'s, 1924-1944	7,646,000	101½	104½	33½

SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

MONDAY, DECEMBER 21, 1931

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

The committee met at 10 o'clock a. m., pursuant to adjournment on Saturday, December 19, 1931, in the committee hearing room in the Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Reed, Shortridge, Couzens, Bingham, La Follette, Jones, Harrison, George, Walsh of Massachusetts, Barkley, Connally, Gore, and Costigan.

Present also: Senators Johnson and Brookhart.

The CHAIRMAN. The committee will come to order, and we will proceed with the hearing.

Mr. Kahn, will you be sworn, please?

**TESTIMONY OF OTTO H. KAHN, MEMBER OF THE BANKING HOUSE
OF KUHN, LOEB & CO., NEW YORK, N. Y.**

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Kahn, have you read the resolution authorizing the investigation?

Mr. KAHN. Yes, Senator; I have.

Senator JOHNSON. For the purposes of the record, will you state just exactly what house you represent, and whether it is a corporation or a copartnership?

Mr. KAHN. I am a member of the house of Kuhn, Loeb & Co., which is an unlimited copartnership.

Senator JOHNSON. In business where?

Mr. KAHN. In business in New York.

Senator JOHNSON. And the character of its business, if you please, sir?

Mr. KAHN. The character of the business is primarily wholesale investment banking.

Senator JOHNSON. Pardon me, Mr. Chairman. How long has it been in business there if you please?

Mr. KAHN. About 60 years.

The CHAIRMAN. Have you a statement of the foreign loans that you have made within the last few years?

Mr. KAHN. Yes, sir; I have such a statement. Owing to the shortness of the notice given, it is not exactly in the shape in which I would like to file it with the committee, but it contains all essential facts, and I am in position from it to give you all the facts

you might wish to inquire into, but I should like the permission of the committee to get it in a little more presentable shape and have it checked before it is placed on the records of the committee. I ask that permission merely owing to the fact that my notice was so short. I only heard Saturday forenoon, when the office was about to close, that I was wanted here on Monday.

The CHAIRMAN. Will you take up each loan and tell the committee the amount of the loan, the rate of interest, and any other information that you have in relation to the same? And I would like to have you follow it up with each of the loans that your company has made.

Mr. KAHN. The first loan is a Swedish Government loan amounting to \$25,000,000, made on the 11th of June, 1919. I should like to say, with respect to that, that quite possibly the same loan was mentioned by Mr. Mitchell, of the National City Bank, as being among his loans. Amongst the loans which I am going to read there are three as to which we really joined with other houses, but we were the managing issuing house, and that is why they appear in this list, although it is quite possible that those particular three loans which I shall designate may also have appeared in the list of Mr. Mitchell or may appear in the list of the Guaranty Trust Co., thus constituting an apparent duplication.

This particular loan was \$25,000,000. The price paid to the Government was 96½. The issue price was 99½. The purpose of the issue was the purchase of commodities in the United States.

Is that all you wish me to say on each issue?

The CHAIRMAN. Yes; at this time.

Senator JOHNSON. In order to shorten the examination, may I ask you just what profit your establishment made out of that loan?

Mr. KAHN. Yes; the originating group—and I believe my predecessors have explained what the term "originating group" means; it means the originating banker or leader of the issuing group, the manager of the issuing group, and the house that is primarily responsible toward the Government with which this particular transaction is made—

Senator JOHNSON. Your house was the originator?

Mr. KAHN. Our house was the originator, the leader of this particular issuing group, and, as I said, primarily responsible both in dealing with the Government and in having the responsibility for this loan in case we should not be successful in forming an underwriting group, and in case the underwriting group should not have succeeded in forming the distributing group. As you know, there is usually a tripartite affair: First, the originating, issuing, and managing banker who frequently associates other bankers with him; secondly, the underwriting group; and, third, the distributing group.

Senator JOHNSON. In this instance you were the primary issuing house?

Mr. KAHN. We were the primary issuing house. The compensation of the originating associates was 1 per cent.

Senator JOHNSON. That is, there was a profit of 1 per cent to the primary issuing house?

Mr. KAHN. Yes, sir.

Senator JOHNSON. And that was Kuhn, Loeb & Co.?

Mr. KAHN. That was for Kuhn, Loeb & Co. and associates.

Senator JOHNSON. What associates?

Mr. KAHN. There were several other houses associated with us. The National City Bank was principally associated with us; there was quite a long list of coissuers, but the leading associates were Kuhn, Loeb & Co. and National City Co., followed by the First National Bank, the Guaranty Trust Co., and a number of others.

Senator JOHNSON. They were the primary distributors, then, of this particular loan?

Mr. KAHN. They were primary underwriters.

Senator JOHNSON. I thought you said that your establishment was the first or primary house in dealing with the issue.

Mr. KAHN. We and, in this instance, the National City Co.

Senator JOHNSON. You and the National City Bank dealing with the particular loan, then, then transfer or take into partnership, however you wish to designate it, a larger group?

Mr. KAHN. Yes, Senator.

Senator JOHNSON. You and the National City Bank, being the primary individuals dealing with the loan, received 1 per cent?

Mr. KAHN. Yes.

Senator JOHNSON. Then when you formed your first syndicate, if it may be so termed, at what price were the bonds given to them?

Mr. KAHN. One per cent advance.

Senator JOHNSON. What was it that you took them at?

Mr. KAHN. We took them at 96½ and we passed them on to the underwriting group at 97½.

I should like to make plain, Senator, if I may, that the function of the originating house is not merely that of managing a syndicate, but it actually does stand in the breach as toward the government or corporation with which it deals until it has succeeded in forming an underwriting syndicate; the reason for that being that a corporation or a foreign government when wishing to place a loan here can not afford to say, "Will you try to form a syndicate?" They must be assured that the loan they are negotiating to place is actually taken, because if it were not their credit would be greatly affected. If they failed, if they had to go from one to another and did not succeed in one case and tried it in another case, it would be highly detrimental to their credit. They must be sure when dealing with a banking house that in the first instance the loan which they wish to place is actually and responsibly contracted for, as far as they are concerned, without waiting for distributing groups to be formed.

Senator JOHNSON. Do you guarantee that in the first instance?

Mr. KAHN. Yes.

Senator JOHNSON. Suppose you were unable to place it?

Mr. KAHN. Then we are stuck.

Senator JOHNSON. You are stuck for the loan?

Mr. KAHN. Yes.

Senator JOHNSON. So you started in this instance with a \$25,000,000 loan at 96½, you and the National City Bank?

Mr. KAHN. Yes.

Senator JOHNSON. You received 1 per cent, you and the National City Bank, first?

Mr. KAHN. Yes.

Senator BARKLEY. Is that 1 per cent the net profit, or out of that is there anything to be taken?

Mr. KAHN. Out of the 1 per cent ordinarily there is nothing to be taken but our overhead, our natural and actual expenses. Sometimes in rather rare cases expenses are incurred on the foreign side which must be taken out, in instances where you engage a lawyer or other intermediary to help along in the negotiations.

Senator BARKLEY. In that case can you give the actual net profit in dollars to these two banks?

Mr. KAHN. In this case I have not got the actual percentage of Kuhn, Loeb & Co.'s interest as compared with the National City Bank's interest, but between us the actual profit would be \$250,000.

Senator JOHNSON. That is, on the 1 per cent?

Mr. KAHN. Yes.

Senator BINGHAM. You sold the issue to the underwriting group at 97½?

Mr. KAHN. Yes.

Senator BINGHAM. What price did the underwriting group, in selling it to the distributing group, receive?

Mr. KAHN. One and a quarter per cent profit for its services.

Senator BINGHAM. And they sold it to whom?

Mr. KAHN. And they sold to the underwriting group at 98¾.

Senator BINGHAM. And the underwriting group then sold it to the public?

Mr. KAHN. At 99½.

Senator BINGHAM. Making a little less than—

Mr. KAHN. The total commission being 3 per cent.

Senator BINGHAM. Making a little less than 1 per cent?

Mr. KAHN. Yes. The total commission as between the manufacturer, in this case, the Government, and the public to whom the bonds are ultimately offered, being a spread of 3 per cent; that is to say, as between the raw product and the completed article by the time it reaches the public.

Senator BINGHAM. Was the reason why the final distributor received such small percentage the relative ease of selling Swedish bonds to the public?

Mr. KAHN. Yes.

The CHAIRMAN. Take up the next loan, please.

Mr. KAHN. The next loan was also a Swedish Government loan, a 30-year loan, at 5½ per cent; the amount being \$30,000,000. The price paid by the originating bankers was 96⅝ and 1 per cent, or 96.62, on the 22d of October, 1924. We paid 96.62. The issuing price to the public was 99½, which means a total spread of 2⅞ per cent. The originating bankers made a commission of one-half of 1 per cent. The underwriting syndicate made three-eighths of 1 per cent. The selling commission was 2 per cent.

Senator JOHNSON. In all of those profits your house participated?

Mr. KAHN. Our house participated in the originating banker's profits, meaning the originating responsibility; yes. In the underwriting syndicate usually—not necessarily always, but usually—in the distributing syndicate sometimes, and sometimes not. My house is not a distributing house. It is a wholesale house, and as a rule the distributing syndicate consists to the largest extent of retailers or houses that are in contact with the public and have their salesmen all over the United States.

Senator JOHNSON. Who selects those houses?

Mr. KAHN. We select them on the basis of our experience, on the basis of activities in the field of investment, and we know pretty well which are the desirable houses to deal with.

Senator JOHNSON. Do you select the amount that will be allocated to each of those houses?

Mr. KAHN. That varies. Sometimes we telegraph or telephone them that we have reserved for them such and such an amount of dollars of participation—"Do you wish to take them?" Sometimes we say, "We are about to make such and such an issue. Will you telephone or telegraph us how much you would like to have?"

It is a matter of psychology, how eager we think they are going to be to participate.

Senator JOHNSON. And you anticipate their eagerness at times?

Mr. KAHN. I hope, frequently.

Senator JOHNSON. Can you say in dollars and cents, Mr. Kahn, what was the amount of profit derived by Kuhn, Loeb & Co. on these two Swedish loans, either or both?

Mr. KAHN. As I said before, Senator, I am not quite sure from this list, which was gotten up in a hurry, what was the exact proportion of our interest in the originating group's commission, and, therefore, I am not able to say precisely what our definite profit was.

In the case of the second loan, to which I have referred, our originating margin was one-half of 1 per cent, which means that our profit was \$150,000.

Senator BINGHAM. That is not net profit; that is your commission out of which you must pay all your expenses?

Mr. KAHN. When I say "profit" the more correct word would always be "spread" or "margin," inasmuch as this is all our business feeds on. We have no other business except the business of buying and selling securities. Therefore all our overhead, all our expensive staff, all our taxes have got to come out of that spread.

Senator BINGHAM. You used the word "manufacturing" a while ago. There is this difference between the manufacturing business and your business, that the manufacturer, when he charges a 10 per cent profit writes off all his costs and then adds 10 per cent?

Mr. KAHN. Yes.

Senator BINGHAM. Whereas in your business, with a 3 per cent commission you do not write off anything. All your expenses have to come out of the 3 per cent?

Mr. KAHN. Yes, Senator.

Senator BINGHAM. I notice that Mr. Lamont was very careful not to use the word "profit" because it was misleading.

Mr. KAHN. Yes; it would be misleading, inasmuch as primarily we have no other business but the buying and selling of securities. Therefore, against everything that comes to us in the way of compensation we must set off our total expense.

Senator REED. Can you tell us whether either of these issues has been paid off?

Mr. KAHN. The first issue has been paid off. The \$25,000,000 issue has been paid off. The second issue is due in 1954. The purpose of the issue was capital expenditures for railways, posts, telegraphs, telephones, and for agricultural aid.

Senator REED. Has it been reduced by a sinking fund at all?

Mr. KAHN. I am afraid that my list does not show it. It is not callable until 1934.

Senator COUZENS. Are you trustees under the sinking fund?

Mr. KAHN. No; the National City Bank is the trustee under the sinking fund.

Senator COUZENS. Do you at times act as trustee for the bonds that you issue or underwrite?

Mr. KAHN. We never act as trustee for the bonds we issue; no.

Senator COUZENS. Do you or not handle the sinking fund?

Mr. KAHN. We do sometimes, in fact, not infrequently, handle the sinking funds, if our clients so desire. After all, the handling of the sinking fund means nothing, Senator, but the buying of bonds in the market and the cancelling of them, and the publishing of lists as to bonds that have been drawn. It is purely a ministerial function. It involves no discretion on the part of the bank or banker who administers the sinking fund. It also involves no particular profit to him. It does save to the government or corporation concerned the necessity of paying a commission to a trust company for handling this particular function which, as I say, involves no discretion on the part of the sinking fund administrator.

Senator COUZENS. You have no discretion as to whether you will go on the market and buy up these securities or whether you will draw them by lot?

Mr. KAHN. No. That is determined by the provisions of the sinking fund instrument.

Senator BARKLEY. Is your bank in the ordinary sense a bank of deposit?

Mr. KAHN. No, sir; we are not. We are essentially an issuing house, purely and simply.

Senator COUZENS. Do you not receive any deposits from any one at all for safe keeping for investment purposes?

Mr. KAHN. In the ordinary sense, no. It happens from time to time that in transacting a negotiation for a corporation or for the Government some money is left over for which they have no immediate use and they ask us to keep it until it is used, in which case we are perfectly willing and glad to do so. But we do not solicit deposits. We have no private deposits and are not a bank of deposit.

Senator WALSH of Massachusetts. Do you issue a prospectus on every one of those issues of foreign securities?

Mr. KAHN. Yes, Senator.

Senator WALSH of Massachusetts. Is that the form of prospectus used among the trade [handing a paper to the witness]? This prospectus refers to an issue of 175,000 American shares for common stock of the North German Lloyd. It has several subtitles, such as "American shares," "Agreement," "Business and properties," "Purpose," and then the offering and by whom offered; these particular shares being offered November 16, 1928, at \$69 per share.

Mr. KAHN. Yes.

Senator WALSH of Massachusetts. Then it also has a memorandum of the earnings of each of the companies for which stock and securities are issued. Then there is a general statement.

Several hundred of such memorandums have been handed to me, giving the names of various banking houses that handled these

securities. Can you not give for the committee a memorandum or a prospectus which you have issued on all the foreign securities that have been handled by you in this country?

Mr. KAHN. Certainly Senator. We have them here, but inasmuch as I am not quite sure that they are entirely complete, and inasmuch as in some instances they are the only ones we have left, I would like to be permitted to send you photostatic copies rather than the originals.

Senator WALSH of Massachusetts. Who are the Bankers Bond Digest, of 206 Fulton Street, New York?

Mr. KAHN. I am told by my associate that it is a statistical service that reprints those prospectuses.

Senator WALSH of Massachusetts. These must be available for anybody who wants them, of course?

Mr. KAHN. Surely.

Senator WALSH of Massachusetts. And they are issued each time a foreign or domestic security is placed on the market?

Mr. KAHN. I presume so. Of course, that is not an official organization. They are doing this, I understand, purely as a statistical service.

Senator WALSH of Massachusetts. They perhaps formulate this from the prospectus which you yourselves prepared.

Mr. KAHN. Oh, yes; no doubt.

Senator WALSH of Massachusetts. Will you let the committee have a copy of all the prospectuses you issue?

Mr. KAHN. I shall be very glad to do so.

Senator JOHNSON. Will you let us have the particular paper, Senator Walsh, concerning which you are examining the witness, so that it may be put into the record?

Senator WALSH of Massachusetts. There are several hundred, almost a thousand, indicating that there have been a tremendous number of securities floated in this country in the last two or three years.

(The prospectus referred to and submitted by Senator Walsh of Massachusetts is here printed in full, as follows:)

175,000 AMERICAN SHARES FOR COMMON STOCK NORTH GERMAN LLOYD (NORD-DEUTSCHER LLOYD) BREMEN

American shares will be issued by Guaranty Trust Co. of New York as depositary under a deposit agreement dated November 25, 1928, each such American share representing 200 reichsmarks (Rm. 200) par value of the common stock of the North German Lloyd (Norddeutscher Lloyd) Bremen, deposited thereunder.

AGREEMENT

The company has agreed, among other things, that dividends after deduction of German income tax (Kapitalertragsteuer) now amounting to 10 per cent will be remitted by the company to the depositary at the cable rate for dollars current in Berlin on the day of payment of the dividend; such dividends or any other distributions due to the shareholders will, after deduction of the depositary's fees and expenses as set forth in the deposit agreement, be paid to the registered holders of American shares by check in dollars.

The deposit agreement will provide that after July 1, 1929, or prior thereto, with the consent of Kuhn, Loeb & Co. and Lee, Higginson & Co., as depositors, any owner of common stock may deposit it at the agency of the depositary in Bremen and receive therefore from the depositary in New York an equivalent amount of American shares and vice versa, the holder of American shares may deposit them with the depositary in New York and receive from the agency

of the depositary in Bremen in exchange therefor the amount deposited with the depositary in New York, under the terms of and upon payment of the charges set forth in the aforementioned deposit agreement.

BUSINESS AND PROPERTIES

The North German Lloyd, incorporated in 1857, operates through its own vessels and those of subsidiary companies 31 different passenger and freight lines serving more than 200 ports in all parts of the world. As of November 1, 1928, the aggregate tonnage of the 132 ocean-going vessels of the company and its wholly-owned subsidiaries was over 694,000 gross registered tons including such well-known ships as the *Columbus*, *Berlin*, *Dresden*, *Munchen*, and *Stuttgart*. These 5 ships, in addition to 18 other smaller vessels, constitute the company's present passenger and freight service between New York, Boston, other United States and Canadian ports, and Bremen, Germany, and the English, Irish, and French ports which the company serves. The company's tonnage devoted to the North Atlantic passenger service will be practically doubled in the spring of 1929 by the entry into this service of two of the newest and fastest liners in the world, the quadruple screw, turbine driven, oil burners, the *Bremen* and the *Europa*, each of about 46,000 gross registered tonnage.

PURPOSE

Provision having already been made for the cost of construction of the *Bremen* and the *Europa*, none of the proceeds of the sale of these shares will be required for this purpose. The proceeds will be used to reimburse the company's treasury for expenditures heretofore made for other construction, for further additions to the company's fleet including 6 first-class, modern, cargo liners, 2 of which are of about 8,000 gross registered tons each and the remaining 4 of about 6,500 gross registered tons each, for the payment of the purchase price of substantial interests in other shipping companies recently acquired and for other corporate purposes.

EARNINGS

For the year ended December 31, 1927, the net earnings of the company, after payment of or provision for all charges, as certified by its auditors, Fides Treuhand Aktiengesellschaft, Bremen, amounted to Rm. 26,701,691 (\$6,357,500), out of which Rm. 13,681,954 (\$3,257,600) were set aside for at least 5 per cent depreciation of the original cost of the vessels and Rm. 1,985,837 (\$472,500) for depreciation on buildings, shops, furniture, and fixtures, leaving a balance of Rm. 11,033,900 (\$2,627,100) available for dividends. After payment of 6 per cent on its fully paid preferred stock such balance was equivalent to about 8.71 per cent on the company's Rm. 125,000,000 par value of common stock outstanding as of December 31, 1927.

Incident to the building and handling of its previously mentioned two new lines which are not yet in service and from which, of course, no revenues have yet been received, the company has been meeting, out of its current earnings, heavy charges such as for advertising, increase of personnel, enlargement and expansion of its service bureaus in New York, Paris, and other cities, and the increase of its dock facilities. As a partial result thereof, despite its gross revenues for the six months ending June 30, 1928, having been Rm. 100,730,000 (\$25,411,000) as compared with Rm. 96,005,000 (\$22,858,000) for the same period of 1927, its net income for that period declined slightly from Rm. 14,743,000 (\$3,510,000) for the first half of 1927 to Rm. 13,995,000 (\$3,332,000) for this period of 1928. That the company's income is growing steadily due to its increasing tonnage is attested by the fact that its gross income in 1925 was \$29,300,000, in 1926 was over \$33,000,000, in 1927 was approximately \$45,400,000 and for the first nine months of 1928 was approximately \$40,000,000.

It is most conservatively estimated that the entry of the *Bremen* and the *Europa* into active service in the spring of 1929 will increase the company's gross income by approximately Rm. 40,000,000 (\$9,523,000) or about 20 per cent, and, inasmuch as our own experience as well as that of other companies has shown the increasing profitableness of de luxe liners of this type, the company's net income should be proportionately increased.

Of special interest to American investors will be the fact that of the company's gross revenues for 1928 approximately \$10,000,000 were received in

United States currency and more than 4,000,000 pounds (\$19,466,000) in sterling, while for 1927 approximately \$12,500,000 and 5,000,000 pounds (\$24,333,000) were received, thus automatically providing ample foreign balances for the company's foreign commitments. Thus, for the year 1926 almost 90 per cent of the company's revenues were received in these two foreign currencies alone and for 1927 over 80 per cent.

GENERAL

Application will be made in due course to list these American shares on the New York Stock Exchange.

All conversions in this letter from German into United States currency have been made at the rate of 4.20 reichsmarks to the dollar.

Offered November 16, 1928, at \$68 per share.

(These American shares are entitled to all dividends hereafter declared, including the dividends for the full year 1928.)

By KUNN, LOEB & Co.
LEE, HIGGINSON & Co.

Although these statements are not guaranteed, they have been obtained from sources we believe to be reliable.

Published by Bankers Bond Digest, 206 Fulton Street, New York.

Senator BINGHAM. I understand that these are not originals issued by the banking houses, but only a digest prepared by an independent and not necessarily responsible organization. Therefore I ask the Senator from Massachusetts, why have it put into the record?

Senator WALSH of Massachusetts. It is a perfectly legitimate organization? There is nothing wrong with it, is there?

Mr. KAHN. No. It is a reputable organization.

Senator COUZENS. This only represents foreign loans?

Senator WALSH. All that I have.

Mr. KAHN. We will be delighted to furnish them to this committee.

Senator BINGHAM. Is this an American stock issue?

Senator WALSH of Massachusetts. North German Lloyd Co., common stock.

Mr. KAHN. The next loan was the city of Christiania, Norway, now called the city of Oslo. At that time it was called the city of Christiania, in October, 1920. \$5,000,000. The price paid was 93. The issue price to the public was 99.

The CHAIRMAN. What rate of interest?

Mr. KAHN. Eight per cent.

Senator SHORTRIDGE. What city was that?

Mr. KAHN. It was then called Christiania, in Norway, and now called Oslo. The price paid was 93. The issuing price to the public was 99.

I should like to explain both in respect to the high rate of issue and to the high rate of margin or spread that 1920, with the shadow of 1921 being cast ahead, was a very difficult year; that the city of Christiania was not well known here; that the amount involved was a very small one, but the work involved was measurably comparable to what it would have been if the amount had been a large one, and that therefore the proportionate amount of expense as applicable to a \$5,000,000 loan justified and, in fact, necessitated, a larger allowance in the way of spread than if it had been a currently known city and if the amount had been larger.

The originating group received 2 per cent. The underwriting margin was 2½ per cent. The selling commission was 1½ per cent. The purpose of the loan was electrical works, harbor, and housing.

Senator BINGHAM. Did the underwriting group have such a hard time selling them to the distributing group as to justify that spread? I thought you said it was difficult to sell to the public. Therefore, I suppose the larger amount of spread was necessary?

Mr. KAHN. The amount was small. If you form an underwriting group and a distributing group, you have to put the whole vast machinery into motion, and they do not like to move for nothing. The machinery and the putting into motion of that machinery require little less effort for a \$5,000,000 loan than for a \$50,000,000 loan. Of course, the actual physical effort of salesmen is greater in the case of placing a \$50,000,000 loan than a \$5,000,000 loan; but the getting of the machinery to work is not so very much less of an effort, in the case of a small loan than in the case of a large loan. Therefore, you have got to make your compensation somewhat larger, relatively, when the loan is small than when the loan is large.

Secondly, at that time the city of Christiania was very little known here, and a great deal of work had to be done in explaining it, in sending out literature, and so forth.

Senator COUZENS. You do not mean to say that a large house like Kuhn, Loeb & Co. would have to create all that machinery for a simple \$5,000,000 loan?

Mr. KAHN. It would not have to, perhaps, Senator, but it so happens that in addition to being what you have been good enough to say is a large house, we are also a very conservative house, and we have learned the wisdom of liquidity, which we find to be one of the essential if not—

Senator COUZENS. That means unloading fast?

Mr. KAHN. If you choose to use the word "unloading"—perhaps it would be better to say not to load yourself too heavily, rather than unloading.

Senator COUZENS. There is not much distinction, is there?

Mr. KAHN. There is in sentiment, if not in fact, and there is a distinction in principle.

Senator SHORTRIDGE. What was the term of those bonds?

Mr. KAHN. Twenty-five year bonds at 8 per cent. They have all been repaid.

Senator CONNALLY. What was the total spread?

Mr. KAHN. The total spread was 6 per cent; and the reasons for that unusually large spread I have endeavored to explain.

Senator CONNALLY. Yes; I caught that.

Senator COUZENS. Was there a sinking fund set up for that?

Mr. KAHN. I have no doubt that a sinking fund was set up; and the reason it was paid off so fast was that after a while the credit of Norway improved, became better known, and people realized the intrinsic value of the bonds of these Scandinavian nations.

Senator GORE. Was your house the sole originating or managing house in connection with that sale?

Mr. KAHN. Yes, Senator.

Senator GORE. You guaranteed the city of Christiania that you would dispose of the entire issue?

Mr. KAHN. Yes.

Senator GORE. When you organized this underwriting syndicate did you pass that guaranty on to them, and did they assume that?

Mr. KAHN. They assumed the part of the guaranty which we did not retain, the purpose of an underwriting syndicate being to relieve the originating banker of the responsibility which he has incurred or to reduce such responsibility.

Senator GORE. With respect to that guaranty?

Mr. KAHN. With respect to the loan. If we deal with the city of Christiania and say, "We will buy from you a \$6,000,000 loan," whether or not we succeed in forming an underwriting syndicate, they know they are going to get their money as long as we are solvent. If they do not get their money, we are no longer solvent.

Senator GORE. If you assume the losses, does the underwriting house share that loss with the originating house?

Mr. KAHN. From the moment that we form an underwriting syndicate our responsibility is reduced pro tanto. It is reduced to that extent.

Senator GORE. Do you have a written contract concerning this issue?

Mr. KAHN. Yes, sir.

Senator GORE. Can you put that into the record?

Mr. KAHN. I have no doubt we could; yes.

Senator GORE. Do you have a written contract with this underwriting house or is that—

Mr. KAHN. That is a written agreement; yes.

Senator GORE. I wish you would put that in also. That would be typical particularly of those agreements?

Mr. KAHN. Yes, Senator.

Senator COUZENS. Mr. Kahn, recently we had a reference to the matter of sinking fund. You state that the makers of these loans usually—in fact, all the time—fix the provisions of the sinking fund?

Mr. KAHN. Yes.

Senator COUZENS. In that connection I now draw your attention to the circular for an issue in Brazil in 1918, November 1, in which it has the following concerning sinking fund:

The semiannual cumulative sinking fund calculated to be sufficient to retire all the bonds by maturity is to be applied to the purchase in the open market, at or below par, or to drawings at par, not callable until November, 1928, except from the sinking fund.

Mr. KAHN. Yes.

Senator COUZENS. That is not in accordance with your previous statement that you do not have any option as to how you may use the sinking fund.

Mr. KAHN. I beg your pardon, Senator, I think it is, because that option would not be exercised by the issuing house, but would be exercised by our clients, who would give us directions as to how they wished the sinking fund to be used. That is their privilege and responsibility and not the privilege or responsibility of the issuing house.

Senator COUZENS. Well, then you do have to await instructions from the maker of the securities?

Mr. KAHN. Yes; unless the sinking fund specifically provides, as it usually does, how it is to be used.

Senator COUZENS. And in this it does not.

Mr. KAHN. If there is any discretion to be exercised, the discretion is exercised by the maker of the bond, and not by the issuing house.

Senator COUZENS. If the issuing house had the discretion it would be possible, under the provisions stated in this circular, to buy those bonds at par for the sinking fund.

Mr. KAHN. Yes.

Senator COUZENS. Regardless of what the market might be.

Mr. KAHN. Well, Senator Couzens, I should think it would be a fraudulent transaction, if such a thing were done.

Senator COUZENS. Well, I don't know. If you had the option of doing either, I do not know that it would be a fraudulent transaction, unless, of course, you knew exactly what the market was at the time.

Mr. KAHN. If I might respectfully suggest, it is the business of the issuing house to know the market and to advise its clients as to what the condition of the market is.

Senator COUZENS. If you can have that privilege, certainly.

Mr. KAHN. Well, isn't the issuing house in the position of a kind of continuing trusteeship as to its issues?

Senator COUZENS. Well, that is what I tried to bring out with Mr. Lamont, that to have the issuing house also trustee is, in my opinion, against public policy.

Mr. KAHN. I am not referring now so much to actual trusteeship as to what I might call a moral trusteeship. In other words, I feel, and I think other reputable bankers feel, that if a corporation or a government deals with a particular firm, that particular firm is in the position of moral trusteeship toward its constituents or clients, and it has got to give to it to the best of its ability its advice and its service as long as that loan is outstanding.

Senator COUZENS. Does that same obligation exist with respect to purchasers of securities?

Mr. KAHN. I do think so; yes.

Senator COUZENS. What I was trying to bring out is whether your obligation to your customers or to persons to whom you sell these securities is the same as to the maker of the obligation.

Mr. KAHN. Distinctly so, as far as that is possible. It is naturally limited by financial possibilities. But I do think that an issuing house has that responsibility, that continuing responsibility, as to its constituents from whom it bought the issue on the one hand, and on the other hand to the public to whom it sold the issue.

Senator COUZENS. And let me ask in that connection, if there is default in either principal or interest, what does the issuing house consider to be its responsibility?

Mr. KAHN. The issuing house considers it its responsibility to do everything in its power to reconstitute and reestablish the solvency and the good credit of the property, to protect the bondholders against any undue exactions that might be demanded of them, to work out the best possible plan of reorganization, to give advice to the bondholders concerned, to give its efforts, its experience, its ability fairly and properly to deal with the situation which a default has created.

Senator COUZENS. And sometimes you are required to set up bondholders' protective committees?

Mr. KAHN. Yes.

Senator COUZENS. In such a case do you act on bondholders' committees?

Mr. KAHN. Sometimes yes and sometimes no. But we always keep in touch with bondholders' committees, and sometimes the members are appointed in consultation with the issuing bankers.

Senator COUZENS. When you act on bondholders committees, in other words, as a protective committee for the bondholders, you get a fee for that also, do you not?

Mr. KAHN. We rarely get a fee for acting on a protective committee. We get no fee as bankers for acting on a protective committee.

Senator COUZENS. But your officials may go on such a committee and receive a fee for so serving, as I understand?

Mr. KAHN. Such a fee, if so received, would be a very moderate one. It may be a few thousand dollars, but it is not a fee of any exorbitant dimensions.

Senator COUZENS. I see many of these protective committee circulars in which they solicit depositors of bonds and carrying a substantial percentage of the bonds for the service of the committee. I do not know, of course, how that is divided up as between attorneys and bankers, but I wanted to bring out an answer to the question if you do not get it both coming and going.

Mr. KAHN. Senator Couzens, generally speaking, it is safe to assume that an issuing banker serving on a protective committee would as such receive no more than any other member serving on the committee, if any fee at all; that the compensation of the men serving on such a committee is by any standard a moderate one; that the expenses involved in the way of lawyers' fees, and expenses of various other kinds, such as accountants', engineers', and trustees' fees, are heavy in comparison with and over and above any compensation which are received, as a rule, by the several members of a protective committee. Sometimes the issuing banker does not serve and sometimes he does, but such compensation as he receives would primarily and principally be for services not on the protective committee but for evolving, negotiating, and sponsoring a plan of reorganization, for giving his time, effort, experience, responsibility, and prestige, his placing power, his advice, his best effort to such reorganization.

The CHAIRMAN. Mr. Kahn, in the last 20 years how many defaults have you had in the matter of payment of interest?

Mr. KAHN. Well, Senator Smoot, I am happy to say that the number of defaults in our case is very limited.

The CHAIRMAN. You have had one or two defaults, have you?

Mr. KAHN. Oh, yes; there have been some, but the number has been a very limited one.

The CHAIRMAN. In connection with foreign countries or local loans?

Mr. KAHN. In connection with the loans of foreign countries there is only one to which I will come later on, and that is a mortgage bank, which is the only default we have had in a foreign country. In the case of domestic loans there is, of recent date, one railroad with which we as bankers are connected that has gone into receivership, unfortunately, as you gentlemen probably know. That is the Wabash Railway.

Senator GORE. Let me ask on one other point right there: Mr. Kahn, you stated in connection with the Christiania loan that

when you took over the bonds at a fixed price the transaction was a sale; that you became the purchaser of the bonds and not the agent of the city.

Mr. KAHN. Yes.

Senator GORE. Now, when your house is the managing house, allotting those issues to various underwriting houses, would that transaction be a sale? In other words, would they become purchasers or agents of yours?

Mr. KAHN. That is more or less a legal question which I do not feel quite competent to answer in a legal sense. The fact is that from the moment they underwrite it they become responsible toward us and to that extent one responsibility is extinguished, except as toward the city or government or corporation concerned. As toward them, we are solely responsible for the solvency of our underwriters or distributors. Our responsibility ends only when the city, government, or corporation concerned have actually received the money which we have contracted to pay to them.

Senator GORE. When the underwriting houses allot bonds to distributing houses is that transaction a sale? Do they become purchasers of the bonds or merely agents of the underwriting house?

Mr. KAHN. Again I should say that is a legal distinction which I hardly feel competent to deal with.

Senator GORE. Suppose a distributing house does not dispose of its allotment to the public, does it still have to account for its allotment to the underwriter?

Mr. KAHN. Yes; for its share, and pay for them.

Senator GORE. All right, Mr. Kahn, that is an answer to the point.

Mr. KAHN. But, Senator Gore, the originating house remains responsible until the money is paid over. In other words, it guarantees the solvency of the distributor.

Senator GORE. You are responsible for it to the issuing government?

Mr. KAHN. The originating house guarantees the solvency of the underwriting houses and the distributors, and it is not relieved of its responsibility until the money is paid over.

Senator GORE. You undertake to pass that responsibility on to the distributing house?

Mr. KAHN. Yes; but we can not relieve ourselves of it absolutely.

The CHAIRMAN. Now, if there are no other questions on this point, let Mr. Kahn go forward with his testimony.

Senator GORE. Mr. Chairman, I should like to have Mr. Kahn file a list of the members of his partnership in the record.

Mr. KAHN. All right.

The CHAIRMAN. You may proceed, Mr. Kahn.

Mr. KAHN. The next loan was made—

Senator JOHNSON (interposing). While on that point I should like to have asked Mr. Lamont to furnish a list of the partners of J. P. Morgan & Co.

Senator GORE. I made that request, Senator Johnson.

Senator JOHNSON. Has that been done?

Senator GORE. Yes.

Senator JOHNSON. Pardon me. I did not recall it.

The CHAIRMAN. You may proceed, Mr. Kahn.

Mr. KAHN. The next loan was to the city of Christiana again, a 30-year 6 per cent loan issued in September of 1924 for only \$2,000,000. The price paid to the city was 94, and the issuing price 98, and the total margin was 4 per cent, of which the originating group retained 2 per cent. There was no underwriting group, the amount being so small. There was only a distributor's group, which also retained 2 per cent. The purpose was, again, for electric works, for harbor improvements, and for housing.

After that we come to the city of Oslo, which is the same city under a different name, a loan made in October of 1925, 30 years, 6 per cent sinking-fund loan due in 1955. The amount was \$8,000,000, and the price paid to the city was 97, and the issuing price was 99½ to the public, leaving a total margin of 2½ per cent. In that case there was no originating group participation, but that was merged with the underwriting group participation, and the underwriting group and originating group together received three-quarters of 1 per cent, and the selling commission to the distributors was 1¾ per cent. The purpose was the same as before, for harbor improvements, housing, and electric works.

Senator CONNALLY. If I might interject a question right there, Mr. Chairman?

The CHAIRMAN. Certainly.

Senator CONNALLY. Mr. Kahn, why was it that the credit of the city of Christiana or of Oslo improved so much between those years, the bond bringing 3 per cent more, and of course you sold them for a higher figure, I take it?

Mr. KAHN. Between the year 1920 and the year 1925, what one of my predecessors on the stand here has called international-mindedness of the American public proceeded apace and it was perhaps at its apogee in 1925.

Senator CONNALLY. But as I understood it you read about a loan a while ago made in 1924 and then you read one in the next year.

Mr. KAHN. No, I think you did not get that quite right. It was—

Senator CONNALLY (interposing). A loan of \$8,000,000.

Mr. KAHN. The one for \$2,000,000 was a 6 per cent loan—we started with an 8 per cent loan in 1920, and we came to a 6 per cent loan in 1924, and then we came to another 6 per cent loan in 1925.

Senator CONNALLY. That was the one I was asking about, the one you purchased at 94 and the other at 97.

Mr. KAHN. Yes, but in the meantime the demand for foreign investments in this country had greatly increased, and the credit of the Scandinavian countries and Scandinavian cities, had become a favorite form of investment. And you will understand that the price is not based upon our own estimate but upon our best judgment as to what the investing public will be willing to pay.

Senator CONNALLY. I can understand how that might come about over a period of years, and yet here was one issue in one year and another issue the next year and there was a difference of 3 per cent in the price.

Mr. KAHN. You will understand that in the course of six months we have seen a difference of vastly more than 3 per cent in the value of our railroad bonds.

Senator CONNALLY. Yes, but that is hardly comparable with government bonds, and—

Mr. KAHN (interposing). And we have seen—

Senator CONNALLY (continuing). That was under the present administration, but I am talking about normal times.

Mr. KAHN. Senator Connally, we have seen in the course of three months that United States Government bonds can decline very materially.

Senator CONNALLY. In making these rates when these governments come to you, do you usually fix the rate of interest or is it done under your advice?

Mr. KAHN. We advise them what is the best rate of interest obtainable.

Senator CONNALLY. And you tell them what you can market the bonds at?

Mr. KAHN. Yes.

Senator CONNALLY. They have not much option on that. They have to take your price and your terms.

Mr. KAHN. Oh, no. They are entirely free to act as they please.

Senator CONNALLY. I know, but they have to sell them through your advice, and therefore they have to follow your advice.

Mr. KAHN. That is rather putting the cart before the horse. They first ask our advice and if they think we are right and if they think our price is right they deal with us. If they think we are wrong and they can do better by going to somebody else, then they do so.

Senator CONNALLY. And do they do that, even to the point of going around from one firm to another?

Mr. KAHN. Very few governments, just as you would not ordinarily go to a different doctor every month or every year, change from one banking house to another, although some governments do. For instance, the Argentine Government has often rotated in this matter, and are apt to go from one banker to another.

Senator CONNALLY. Do you mean after they have dealt with one banker or before?

Mr. KAHN. After they have dealt with them often. They are apt to try one banker and then another. But usually a government sticks to the banker it has once picked out, as long as they get satisfaction. Of course, if they think they can do better elsewhere, then they go elsewhere.

The CHAIRMAN. We must hasten along, as it is now 5 minutes to 11.

Senator JOHNSON. Mr. Chairman, might I ask: Are you going to hold the hearing after 12 o'clock to-day?

Senator COUZENS. Oh, we can not do that.

The CHAIRMAN. Well, we can not take up the moratorium until 2 o'clock.

Senator JOHNSON. But we have to be on the floor at 12 o'clock. I was asking merely for information.

The CHAIRMAN. I should like to run along now until 2 o'clock, right straight through if we can. We can recess for a few minutes in order to go over and answer the roll call.

Senator JOHNSON. That is rather a difficult thing. Of course, I have no control over the matter and am merely making a suggestion. But I do hope you will conclude the hearing to-day by 12 o'clock,

however far we may have gotten by that time. The situation is such that I feel I must be on the floor at that time. I do not know what is going to transpire; at any rate, I want to be ready for anything that may occur on the floor, and at best I can only suggest that action which I think ought to be taken.

Senator HARRISON. Why not recess at 12 o'clock?

Senator SHORTRIDGE. Let us go along for the present anyhow.

The CHAIRMAN. Let us go along and get through as soon as we can. If Senators do not feel it necessary to ask too many questions, I am sure that we can go along now and make a little better time.

Senator COSTIGAN. Mr. Chairman, before Mr. Kahn proceeds with his statement let me ask a question.

The CHAIRMAN. Certainly.

Senator COSTIGAN. Mr. Kahn, with reference to the funds you last mentioned, were they used, in part at least, for the construction of municipal-owned-and-operated electric light and power plants?

Mr. KAHN. Yes.

Senator COSTIGAN. And you regarded those as good investments?

Mr. KAHN. Yes.

Senator JOHNSON. Those investments were abroad?

Mr. KAHN. Yes.

Senator SHORTRIDGE. Let me ask right there: Mr. Kahn, was there any arrangement or understanding to the effect that any of the material to be used in the work contemplated by the city of Christiana or of Oslo should be purchased here, and was any of it purchased here in America?

Mr. KAHN. I am not sure that I can answer that question without having to investigate it first. I doubt whether there was such an understanding from the point of view of a definite obligation. But I think it is considered generally not an obligation but a matter of usual practice and fair consideration, other things being equal or substantially equal, that the lender will buy such stuff as he has to buy in the country which gave him the money.

Senator SHORTRIDGE. I purposely used the word "understanding," to be followed by the question whether or not in point of fact any material to be used in the city mentioned was purchased from any of our manufacturers or producers here in America. But if you do not know you may pass on.

Mr. KAHN. I am unable to answer that question; but, as I have said, that is not specifically required in this country as a rule. It is sometimes in other countries. For instance, France rather makes it a habit to do so. But American bankers do not insist upon it as a general practice.

Senator GORE. Mr. Kahn, have you made any investigation to ascertain or have you had any reports as to whether any number of individual investors take any particular amount from those distributing houses?

Mr. KAHN. Yes, roughly speaking, I should say it would be safe to count on an average of \$3,000.

Senator GORE. If you have made any particular study of that matter, I wish you would attach a statement in one or two issues to your testimony.

Mr. KAHN. I will see if I can do that.

Senator GORE. Now, in the placing of these bonds and securities do they find lodgment in the hands of individual purchasers throughout the country?

Mr. KAHN. Yes.

Senator GORE. Isn't it pretty much true in England, too? It is a large creditor country, and I believe owns some \$20,000,000,000 of securities. Do you know whether the securities are largely distributed among the English people or are they more held by trust companies and bankers than in this country?

Mr. KAHN. They are largely distributed among the English people. At the same time I think to a greater extent, relatively speaking, than here the English trust companies and English insurance companies and English investment houses particularly, and particularly again, I will say, the Scottish investment companies are permanent holders of bonds.

Senator GORE. Of foreign bonds.

Mr. KAHN. Yes.

The CHAIRMAN. You may proceed, Mr. Kahn.

Mr. KAHN. The next loan is the city of Oslo again, 20 years, 5½ per cent, issued in January of 1926. The purchase price was 94, and the issue price was 97. The margin was 3 per cent. Again the originating group and the underwriting group were merged, the amount being so small, and the originating and underwriting groups together received 1½ per cent, and the distributing group received also 1½ per cent.

Senator JOHNSON. You did not state the amount of that loan.

Mr. KAHN. It was \$4,000,000.

The CHAIRMAN. Senator Johnson, would it be just as satisfactory to you to have that statement put into the record, all these details about these loans, which would save a lot of our time?

Senator JOHNSON. Mr. Chairman, it is true that it takes a long time to get these matters in this way. At the same time it is the only way that the committee can familiarize itself with exactly what these loans were. When you put a bulky tome into the record it, of course, saves time, but I fear that the committee, like myself, would have little knowledge of what the loans have been made for. I think it a profitable inquiry to proceed as we are with Mr. Kahn.

The CHAIRMAN. You may proceed, then, Mr. Kahn, but make it as brief as possible.

Senator BARKLEY. Mr. Chairman, I was called away, and while it may be that this question has already been asked and answered I should like to be sure: Mr. Kahn, in your case, as in the case of every managing house, to what extent, if at all, are these bonds held by you or them, if any of them are held back by the managing house? Or are they all passed on to the public?

Mr. KAHN. They are in principle all passed on to the public. As I have said before, an essential virtue of the banker, and particularly the private bankers, must be that of liquidity. If that were not so he would very soon find himself so locked up with the issues negotiated by him that he could not continue. Consequently his effort is to buy bonds and sell them. He is a merchant. He is a merchant to that extent, and so much so that in England the ordinary application of such a banker still in use is that of merchant banker. He does not call himself a banker but a merchant

banker, unless he is a house of deposit, which we are not. The essential interest of the private banking business, the issuing business, is that the banker buys securities of such a nature that he feels reasonably confident he can sell them to the public. And having sold them he is then free to go on with other business. If he locks himself up by retaining his own goods, he will very soon be so locked up that his usefulness as a banker will have ceased.

Senator BARKLEY. After you have passed the bonds on to the public you are free of course then to look out for other customers, for other business, and have you any further interest in those bonds?

Mr. KAHN. We have an interest in those bonds until they are repaid according to their due date. We consider that we are under a permanent moral liability to do what we can for the protection of those bonds.

Senator BARKLEY. And in event there is default—

Senator COZZENS (interposing). Senator Barkley, I went over that. You will find that in the record, those questions being asked and answered while you were out.

Senator BARKLEY. All right.

Mr. KAHN. And I might add that we have frequently made it our business, a contingent part of our obligation, that if there is an undue or unjustifiable decline in bonds, if there is not a fair market for the bonds, we have more than once gone into the market in order to afford opportunity to such people as may want to sell, or as are compelled to sell, within the limit of proper prudence and within the limit of our ability, for them to do so.

Senator BARKLEY. If this question has already been asked and answered, all right; but to make sure I should like to ask: Mr. Kahn, to what extent does this moral obligation that you feel under, and likewise does it apply to other houses which manage the distribution of bonds; to what extent does that moral obligation actuate you or any other houses, in the hope or wish or in your advocating that the payment of these Government obligations be lightened up to the extent that it may make it easier for those bonds which have been distributed by your house and other houses, to be paid promptly?

Mr. KAHN. If I properly caught your question, Senator, I should say that to define the extent is almost an impossible undertaking. We are human, and being human, I suppose we are actuated by ordinary human motives, one of the motives being to do what we can to discharge our moral obligations; and another motive, I hope, being not to discharge them at the expense of somebody else. I think that is just as strong and decent a human motive as the other. Another one is to do what we can as American citizens to be helpful in the existing distressful situation, which is one that concerns not only the banker but as well the farmer, the working man, the consumer, the producer; in short, all of us. We are in the same boat. If ever a banker was called upon to divest himself of any banking prejudices, and to give the best, the most unbiased, the most impartial advice he is capable of, that time is now. I am quite sure we all feel it. I am quite sure that in advising to the extent we may be called upon to advise as to the attitude of our Government in economic and financial affairs where the banker's interest is indirectly involved, we are honestly seeking to divest ourselves of our banking prejudices to the extent that they may exist.

Senator JOHNSON. Mr. Kahn, conceding that to the full—and there is no disposition on my part to question it in the slightest—nevertheless there is the banking prejudice that you described by which the securities you put out you want to see retain the value at least that you sold them for to the public, I take it.

Mr. KAHN. Very naturally.

Senator JOHNSON. And if legitimately and within your duties as you have described them, you can maintain the price of those securities as you put them out, of course you do it.

Mr. KAHN. Yes; but may I amend my assent to this by saying, not maintain the price but maintain the value.

Senator JOHNSON. Maintain the value.

Mr. KAHN. Yes. Those bonds are held by hundreds of thousands of American citizens. They are not held by banks mainly; they are not held by rich men mainly; but they are held by hundreds of thousands and probably by millions of American citizens.

Senator JOHNSON. Could you tell me what banks, if any, hold foreign securities at the present time?

Mr. KAHN. I do not know. Not having access to the portfolios of the banks, I am unable to answer that question definitely, but I will say that I do not think many foreign bonds are held by our principal banks. I think they are very widely distributed.

Senator JOHNSON. All right. Now, would that apply to long-term and short-term foreign credits?

Mr. KAHN. It would not apply to short-term foreign credits. I doubt whether there are any great quantity of long-term foreign credits in existence.

Senator JOHNSON. Do I understand you to say that so far as your knowledge extends the banks are not holding short-term foreign credits?

Mr. KAHN. Indeed, they do; yes.

Senator JOHNSON. You say they do?

Mr. KAHN. Yes.

Senator JOHNSON. And they hold them to a very large extent, do they not?

Mr. KAHN. "Very large" is a relative term. I think the total of the short-term credits which have been extended abroad is not relatively—and, by "relatively" I mean in relation to the total resources of the country—a very large sum. I stated this morning in coming down here, if I may be permitted to make a remark of that nature, that if the World War had continued one month longer than it did—and we all expected it to continue five or six months longer, for the best authorities thought the war was going to end in the spring of 1919 instead of in the autumn of 1918—if the war had continued one month longer we would have spent as much and probably more in that one month than the entire amount which we have placed in Germany in bonds and credits.

Senator COUZENS. I have seen in an article by Mr. Frank Simonds the statement, and I believe it was on yesterday, that there were \$2,800,000,000 of securities that Germany had out in all countries.

Mr. KAHN. Yes.

Senator COUZENS. And that it was much larger than it was generally considered to be.

Mr. KAHN. That is in all countries. That seems to me perhaps an additional justification for what the American banks did in making short-term loans and in giving credits to Germany. England was living right across the street so to speak from Germany. She had an age-old prestige for judgment and wisdom in the matter of international financial borrowings. We were perfectly justified in following in our judgment of what was reasonable banking practice the example of a wise old nation like England, being right there, and of a wise old nation like Holland, being next door to Germany, who in proportion to their resources gave larger short-term credits to Germany than America did.

Senator JOHNSON. Now, right there, Mr. Kahn, will you state how much short-term credits are held in America?

Mr. KAHN. My estimate, Senator Johnson, is that it is something in excess of \$600,000,000.

Senator JOHNSON. Exactly?

Mr. KAHN. Which I do not consider an exorbitant sum for a great creditor nation to extend as an accommodation to an intelligent, hard-working European nation of the magnitude, ability, and proven and tested capacity of Germany. It may be locked up for a while, yes; but that is the ordinary risk of the business. And the granting of credits for the purpose of facilitating trade and thereby stimulating the entire economic life of all the world, a repercussion of which is bound to rebound to the advantage of America, the granting of such credits is a legitimate, natural, old-established banking function.

Senator GORE. Let me ask right there: Mr. Kahn, is there any essential difference in the character of the security taken by Holland, England, and the United States with respect to short-term credits?

Mr. KAHN. I beg your pardon, Senator, but I did not catch that question.

Senator GORE. Was there any substantial difference as to the kind of security taken in the case of England, Holland, and the United States with reference to these short-term credits?

Mr. KAHN. None so far as I am aware. It is exactly the same thing, and we had—

Senator GORE (interposing). And the same risk.

Mr. KAHN. Yes; our banks were engaging in the same practices as they for giving short-term advances and credits. They had the experience of generations and generations of world traders back of their action, and I think we were justified in following their example. And we were justified on behalf of America as a creditor nation to extend to Germany accommodation within reasonable limits in order to stimulate trade and to enable them to participate in the economic life of the world.

Senator JOHNSON. But France did not extend short-term credits to the same extent, nor long-term credits either, did she?

Mr. KAHN. Well, I think the reason why France did not is of a political nature, which did not enter into our consideration of the matter.

Senator COVZENS. Let me ask right there: Mr. Kahn, what would be the effect of all these short-term and long-term securities if Germany should go off the gold basis?

Mr. KAHN. Well, that is rather a difficult subject. We have the case of England, off the gold basis, where thus far that has not affected any foreign obligation of the British Empire. To what extent Germany, if it had to undergo the additional shock of going off the gold basis, especially after the horrible experience which its people underwent during the period of inflation, to what extent the German nerves would break completely if that additional blow fell, I am unable to say.

Senator JOHNSON. You spoke a while ago to the effect that England's going off the gold basis did not particularly affect the governmental debts.

Mr. KAHN. No.

Senator JOHNSON. I ask you now what effect Germany going off the gold basis would have on short-term obligations.

Mr. KAHN. Senator Johnson, England going off the gold standard has had no effect up to date upon private obligations of the British Empire in a general way. They are meeting their obligations as they did before.

Senator JOHNSON. With the reduced pound or the same standard dollar?

Mr. KAHN. With the gold standard dollar to the extent that the obligations call for it.

Senator JOHNSON. But these short-term loans made by American bankers to Germany are payable in gold marks.

Mr. KAHN. No; payable in gold dollars, all of them, as far as I know.

Senator JOHNSON. So that if Germany were to go off the gold basis your contention is that these short-term credits extended to commercial houses and banks in Germany, would not affect our loans to them.

Mr. KAHN. I did not say that, if you will pardon me, but—

Senator JOHNSON (interposing). I got that impression by your reference to Great Britain.

Mr. KAHN. I did not wish to convey that impression. Great Britain's nerves and Great Britain's economic situation are very different from the German nerves and the German economic situation; and what Great Britain can stand is very different from what Germany can stand. As a matter of fact, Germany to all intents and purposes is not on the gold basis now, because the essence of the gold basis is a free flow of gold, which does not exist in Germany.

Senator JOHNSON. Then, that is true of Canada, too.

Mr. KAHN. It is true of Canada for the time being to a limited extent, yes.

Senator JOHNSON. It is still said that Canada continues on the gold basis when as a matter of fact she is not on the gold basis so far as a free exchange of gold is concerned.

Mr. KAHN. They still say that Germany is on the gold basis, when as a matter of fact Germany is on the gold basis for the purpose of measuring values, but is not on the gold basis for the purpose of internationality for the time being. What would be the effect if Germany slid off the gold basis I am not prepared to say.

Senator JOHNSON. It would not be helpful to American credits.

Mr. KAHN. No.

Senator BARKLEY. The psychology of the situation would be bad to say the least.

Mr. KAHN. Yes; particularly as to the possible psychological effect upon the German people themselves if they look back at the horrible times they went through when they were off the gold standard before.

Senator COUZENS. But isn't that the difference between what they call control of paper currency and what happened in Germany where it was a case of uncontrolled paper currency?

Mr. KAHN. The question is, To what extent can you control paper currency?

Senator COUZENS. Well, it has been demonstrated that some of these countries are controlling paper currency, otherwise they would not be getting on as they are since they went off the gold basis.

Mr. KAHN. Well, one of the countries, the principal one, indeed, being England, which is particularly distinguished by steady nerve, by stability, by coherence of its population; a tight little island where you can get a message and establish contact and direction around the whole of England, Scotland, and Wales in a very short time, it is relatively easier for Great Britain, with her racial qualities and her position and condition, to manage a paper currency than any other country.

Senator COUZENS. Do you think America could manage a paper currency?

Mr. KAHN. I think America has pretty well demonstrated in the past that she can deal with any necessary task that she is called upon to face. She has met great difficulties, and she has met them and faced them well, and I have every confidence that, if she had to face that difficulty, she would face it as well as England is facing it. But it is a very difficult and hazardous thing to manage a paper currency.

The very purpose of a gold currency is to make it as difficult as possible to get undue inflation, by establishing a medium, long tested in the history of the world for its suitability and relative stability, by which the volume and value of currency are regulated automatically, something which Sir Robert Horne recently termed "a metal anchorage."

Of course, it does have its fluctuations, nevertheless—indeed too much so—and it is worthy of serious consideration what can and should be done to preserve greater stability of values as measured by gold. But when you have a paper currency, the only definite limitation that I know of is the self-restraint of the people and the governments. I know of nothing which has been tested in actual experience that has power, in the case of a paper currency, positively to safeguard the people against the hazards and the almost inconceivable evils of an excessive use of the printing presses for currency, as we have seen in the case of the inflation period in Germany some years ago.

The subject is very much alive now, especially in England. They, or some other country, may conceivably succeed in inventing a safe and fool-proof "managed" currency, but it remains to be proven.

Senator COUZENS. Is it not conceivable to you that with the pres-

ent high value of the gold dollar these debts will never be paid on that basis?

Mr. KAHN. It is conceivable. That embraces, of course, the entire question as to what should be done with these debts, both in the way of reparations and of debts due America.

Senator COUZENS. Well, outside of that, take our domestic debts; the Federal Government, the State and municipal debts, in my judgment, they can not be paid off at the present high value of the gold dollar. And I am wondering whether you believe they can be paid at the present high value of the gold dollar?

Mr. KAHN. "Never" is a long time, Senator. Most debts are not paid off, but renewed. Nature has a way of adjusting things, and by the time these debts have to be paid off or renewed presumably the extraordinary tension will have passed away.

Senator COUZENS. I understand that many, many debtors are unable to get extensions; the banks are unable or unwilling to give extensions. That is one of the difficulties, that the credit of the debtor is being impaired by the high value of the gold dollar that he owes, and the creditor is trying to get liquidation at the present time at the high value of the gold dollar.

Mr. KAHN. That is where the great advantage comes in of a corporation in the nature of the War Finance Corporation, which is essentially a device to protect the debtor. And rightly so; rightly so. I think the debtor is entitled at this time to all the protection that the Government and the moral sense of the community can throw around him. I think it is a wicked thing to compel the debtor in extraordinary times like these, in the face of which he stands helpless to deal with them, it is a wicked thing to go to extreme measures, but it should be made possible for him to tide things over. That can be done most effectively by the temporary aid of the Government. It should be done, as far as possible, by everybody else. It should be done to the extent that that is possible by the banks. And the public can and should aid, amongst other ways, by refraining from putting an unreasonable strain on the banks. I think the names of men who wantonly hoard money and thus make the problem of the banks still harder ought to be publicly announced in these times. I think we all must stand together to prevent the whole country from being unduly damaged by the extraordinary emergency which, I am wholly confident, can be and will be overcome, but which, for the time being, no one individual is capable of dealing with, and no debtor ought to be called upon to deal with alone, as far as his own affairs are concerned.

Senator COUZENS. If you do not care to answer this question, I will not press you for an answer. Is it your opinion that Germany can ever pay off the enormous amount of money she has borrowed for her Government, her municipalities, and her industries?

Mr. KAHN. In the long run, Senator, I think almost anything can be done where there is a will. Germany has demonstrated in the past such an extraordinary capacity for hard work, for mastery of difficulty, and for self-control, that unless she is driven to a point where her nerves crack, to the point of helplessness and despondency, I think she will ultimately pay her debts. By paying her debts, I mean the private debts, the municipal debts, the Government debts that the Government owes to private individuals.

I do not wish to be understood as making any forecast in the way of reparations, for that opens up an entirely different chapter; that opens up, among other things, the chapter of the allied debts to America.

Senator COUZENS. Yes; but would you feel it was a good loan now? Would your house underwrite another loan to Germany now?

Mr. KAHN. At this moment; no.

Senator COUZENS. You would not?

Mr. KAHN. At this moment we would feel that our responsibility to those who look to us for investment guidance would not justify us in making another loan to Germany until this present economic turmoil has been adjusted and straightened out.

Senator COUZENS. Could you estimate the good that was done to Germany by this one year's moratorium proposed by the President?

Mr. KAHN. I believe it was an absolutely vital thing at the time.

Senator COUZENS. You say at the time?

Mr. KAHN. At the time; yes.

Senator COUZENS. Did it accomplish its purpose?

Mr. KAHN. It accomplished some of its purpose.

Senator COUZENS. It did?

Mr. KAHN. It avoided a complete and unexpected financial collapse. It gave time for the world to adjust itself to a situation which is serious enough as it is, but which would have been infinitely more serious if it had broken with such catastrophic suddenness—

Senator BINGHAM (interposing). Mr. Kahn, if you will pardon me, I am sure you misspoke and used a word you did not intend to use. You said it accomplished a catastrophic result.

Mr. KAHN. It accomplished the avoidance of the catastrophic result. I think it did a great deal of good and if it could have gone through with the prompt and universal acclaim and acquiescence that originally seemed to be indicated, it would have been of incalculable value. As it is, it was of great value.

Senator COUZENS. Is Germany worse off to-day than she was in June, 1931?

Mr. KAHN. Intrinsically, no. Actually, yes; but intrinsically, no. According to appearances—

This, perhaps, gives me a legitimate opportunity, Mr. Chairman, to say one word as to something which was said in another place. I should like to state very emphatically—probably it is not necessary to say it—that no member of my firm; no one connected with my firm, had anything to do whatsoever with the granting of the moratorium; with any attempt to influence the President to take the step he did, or with any kind of propaganda whatsoever. No member of my firm is or ever has been, nor is my firm in any contact with any foreign government, except to the extent—and the extent is rare—in which we do business with foreign governments. I want to say it as emphatically as I can that any allegation which connects us in the remotest manner with the conception, the negotiations, or proceedings concerning the moratorium or with President Hoover's decision and action in the matter, is utterly and outrageously unfounded.

The CHAIRMAN. Will you proceed, now?

Mr. KAHN. I would like to add, if I may, one word to deny the allegation connecting Mr. Paul Warburg with my firm in this matter. Perhaps it may be worth while to mention that Mr. Warburg, in the last election, supported Governor Smith and not Mr. Hoover.

Senator LA FOLLETTE. Mr. Kahn, before you take up any more of those loans, and recurring for a moment to the long-time foreign obligations, if I understood you correctly you said that while you had no access to the portfolios of the banks, you were under the impression, from your general information, that the banks and their investment affiliates did not hold any substantial amount of these long-time obligations of foreign governments or foreign corporations. I wanted to ask you whether you wanted to include in that statement the situation of the smaller banks scattered throughout the country, or whether you were referring to the larger metropolitan banks to any extent?

Mr. KAHN. I am referring, Senator, to the larger metropolitan banks, with whose affairs I am more familiar.

Senator LA FOLLETTE. Have you any impression, from your general knowledge, as to whether or not there are any substantial amounts of foreign securities in the portfolios of the banks not metropolitan in character?

Mr. KAHN. I have more than a general impression, Senator; I know that, quite naturally and legitimately, a great many of the country banks were attracted by the higher rate of interest obtainable from these foreign loans at a time when money here was very difficult to place, and considering them to be sound and safe investments, I believe that quite a number of them did buy and still hold a substantial portion of these foreign securities.

Senator LA FOLLETTE. Have you a general estimate—and I realize it would have to be a very general estimate—as to the total amount of the securities of foreign governments, or political or civil subdivisions thereof, and corporations or associations, which have been floated in this country during the past two years are now in default?

Mr. KAHN. In the case of Germany there are hardly any in default. In the case of South America and Central America, unfortunately the great majority are in default.

Senator LA FOLLETTE. Mr. Sloan, of the Standard Statistics Corporation, testified before another Senate committee that in his judgment, and qualifying it by saying that it was a very rough estimate, in October he estimated that there were \$261,000,000, approximately, of such securities in default that had been sold in this country. Would you say that that estimate was approximately correct at that time?

Mr. KAHN. I should say it was an underestimate.

Senator LA FOLLETTE. What would your best judgment be in answer to the question?

Mr. KAHN. That would be guessing, Senator, but I could very easily find out by making a list of such securities as have been issued here, and such securities as are paying now.

Senator LA FOLLETTE. Will you furnish that and insert it in your testimony at this point?

Mr. KAHN. Gladly.

(The statement referred to was furnished by Mr. Kahn. See appendix.)

Senator REED. Mr. Chairman, I would like to follow up a subject that Mr. Kahn brought upon his own account.

Mr. Kahn, it was stated on the floor of the Senate last week that you and your firm helped to elect President Hoover. Is that correct?

Mr. KAHN. Some of the firm voted for him, undoubtedly.

Senator BARKLEY. I do not think any man should be compelled to incriminate himself.

Senator REED. Let me follow this matter up. I am most serious about it.

And it was also stated that having helped to elect Mr. Hoover, that you suggested the moratorium; that the suggestion came from you. Is that true?

Mr. KAHN. Senator, that is a falsehood without the remotest basis in fact whatsoever.

Senator REED. Did you suggest the moratorium?

Mr. KAHN. We never suggested it.

Senator COUZENS. He has already testified to that.

Mr. KAHN. We had no knowledge that the moratorium was coming. I deny that we suggested it, and I deny every implication that is attached to it.

The CHAIRMAN. Mr. Kahn, is it not true that these foreign bonds purchased by many, many of the banks throughout the country, were purchased for their customers, and the individual customers of the bank who originally purchased those bonds are holding them to-day?

Mr. KAHN. Yes, sir. To an extent.

The CHAIRMAN. So all the bonds that were purchased by the small banks of the country, they can not be in the banks to-day, because of the fact that they were purchased by those banks for their customers?

Mr. KAHN. A great many of them. Others were bought by the banks for their own investment.

The CHAIRMAN. No doubt there were some.

Mr. KAHN. For a secondary reserve.

Senator LA FOLLETTE. As a matter of fact, Mr. Kahn, were not some of the smaller banks of the country carrying those bonds as a secondary reserve?

Mr. KAHN. That is my impression; yes.

Senator LA FOLLETTE. And my information is that that practice grew very rapidly prior to the depression because the banks considered them to be very liquid.

Mr. KAHN. Yes.

Senator LA FOLLETTE. And that also, according to my information, in selling those bonds to their customers, the smaller banks have often loaned money to the customer with those bonds for security; and under such circumstances, where the individual purchaser has not been able to meet the note the bank has had to take the bond back for its own security.

Mr. KAHN. I think that is quite correct, Senator.

Senator CONNALLY. Let me ask you this question, Mr. Kahn: Do you or your institution hold any stock in any banking institution in Germany?

Mr. KAHN. No, sir.

Senator CONNALLY. None whatever?

Mr. KAHN. No, sir.

Senator CONNALLY. It has been reported that your firm last year bought an interest in some German banks.

Mr. KAHN. There is no truth in that. I have seen it in the papers myself. There is no truth in it.

Senator BARKLEY. Mr. Kahn, coming back to the foreign obligations—

Senator SHORTRIDGE. You mean the European obligations?

Senator BARKLEY. The European obligations which may be involved in the moratorium—I make no assumption, of course—but if we were justified in assuming from the economic conditions now or in the future that those public and private obligations could not be paid, is there any consensus of opinion in the banking world as to which should have priority; the loans in the United States or the loans in the governments of Europe?

Mr. KAHN. Senator, may I say first that privately held bonds—that is, loans issued by cities and corporations in the shape of long-term bonds—are not generally speaking, as yet under any moratorium. They are paying their interest and sinking fund and have done it right along. As to whether the governmental claims or private debts should have precedence, one necessarily can only express an opinion, which is subject to controversy and subject to error. My own belief is that the essential thing is to keep the economic life of a country going, because the Government would very soon find itself out of funds unless the economic life is going. In order to keep the economic life of a country going, in order to pay taxes, in order to enable it to do its daily work, the sanctity of contracts must be protected to the limit of what is possible.

It is of less importance that one government pay another government to the minute and upon the day what it owes, if it can by mutual consent secure a postponement, than that the confidence of the ordinary investor or the ordinary individual dealing in one country with another individual in another country, or the business man dealing with another business man should not be exposed to profound shock as to the faith and credit of the community in other countries. And I think the economic life of all countries is so interwoven that the economic prosperity of one country is bound, in one way or another, to have its repercussions here. It does not necessarily mean that that country will buy goods and chattels here directly; it does mean that the economic capacity of that country will be increased in one way or another in the direct or indirect ways, and that will favorably react upon the economic condition of America, and those repercussions will reach here. It will help her cotton; it will help her wheat; it will help her copper; it is bound to do so.

Now it seems to me it is a question primarily of expediency; of figuring out in what way will a postponement, if it is found necessary—and that is a question of examination; that is a

question of research and of unbiased and hard-boiled judgment—to what extent will a postponement, if found inevitable, be of least damage to the United States, to the people of the United States and to all the world, and to that confidence which is the most essential thing upon which the trade of the world rests. My personal belief is that the maintenance of the sanctity of contracts between man and man is an absolutely vital thing for the economic life of every country and that no government can go on and be capable and potent unless it has behind it a capable and potent and solvent country. The direct resources of a government are drawn not from the air but from the labor, the enterprise, and the capacity and the honesty of the people over which it rules.

Senator JOHNSON. You are saying, then, Mr. Kahn, in short, that you think private debts should take precedence over governmental obligations?

Mr. KAHN. If a choice must be made, I should say they should either take precedence or they should, at least, be put on something slightly better than a parity.

Senator JOHNSON. We have listened to all the argument you have just made, which was very enlightening, of course. Was not that for the purpose of demonstrating that private obligations should take precedence over governmental obligations?

Mr. KAHN. I do not say it was for the purpose, Senator. I did not volunteer any information. I was asked the question, and in response to that question I gave the answer.

Senator JOHNSON. I am not quarreling with it. I am delighted to hear the answer. But I take it you were trying to demonstrate that private obligations should take precedence over the governmental obligations.

Mr. KAHN. I was saying, and I can not say it in any other way—

Senator JOHNSON. (interposing). Are you not able to answer directly a question of that sort? Do you believe that private obligations should take precedence over governmental obligations?

Mr. KAHN. That is putting it in rather a harsh way, Senator, and I would like to avoid answering it in that way.

Senator JOHNSON. It is putting it in a plain way.

Mr. KAHN. It is a situation that does not now confront us, and I would like to avoid giving a hypothetical answer as to a hypothetical situation.

Senator REED. Let me ask you something about a matter that does confront us. The German Government owes this country nothing, except the occupation costs.

Mr. KAHN. Yes, sir.

Senator REED. The French Government owes us a great deal.

Mr. KAHN. Do you see any lack of a capacity in the French Government to pay its debts to the United States?

Mr. KAHN. I see no such lack of capacity.

Senator REED. Then you do not advocate any cancellation of the debt that France owes to us, do you?

Mr. KAHN. I have never advocated the cancellation of the debt. I have stated in public—and I am on record to the effect—that

if ever a nation is entitled to get its money back, the United States from the point of view of justice was entitled to get her war debts back at the figures mutually agreed upon. We went into the war—the Allies called us Crusaders—and we did our full share, God knows. We asked for none of the spoils, and we got what we asked for—none.

Senator COUZENS. Why do you call them war debts? As a matter of fact, all the war debts have been canceled, and these are post-war debts.

Senator REED. So far as France is concerned.

Mr. KAHN. Yes, though it has never been so stated and understood in Europe.

Senator REED. I would like to ask you, Mr. Kahn—

Mr. KAHN (interposing). May I finish this, Senator, if you will pardon me? It seems to me that in plain justice, in ethics, we have not a thing to apologize for in saying we want our debts paid. We did our full share. But I do not think that it is merely a matter of justice; it is now largely a matter of expediency, and I think it should be dealt with as a matter of expediency. And that, also, answers Senator Johnson's question. It is what at the moment is the most expedient or the wisest thing for America to do. In that I put America first. I feel convinced that what is best for America to do is also best for the world. At the present juncture, if ever, the repercussion of the troubles of one country upon the other is strong and inevitable; the repercussion of the prosperity of one upon the other is strong and inevitable.

I think what we should do, inasmuch as the question has been asked, and if I may say so without impropriety, is to ascertain most diligently in what way, while maintaining the justice and the right of our cause; and without apologizing for what we claim and are rightly entitled to—in what way can we best serve that interest, which is both the world's interest and our own?

That is a very large question. It involves considerations not merely of a financial but of a political nature. It necessarily and rightly belongs mainly to statesmanship, and with all due respect, Senator Johnson, I do not believe I should be called upon to answer it categorically, because it is beyond the province of a banker to express himself categorically concerning a subject involving so many elements which are not of a financial nature.

Senator REED. Now if I may be permitted to carry on the questioning for a moment, I want to ask you some questions that do come in the province of a banker.

You understand I am not talking about the moratorium of this year, but the suggestion that has been made so often, that we ought to abate our claim against France in order to do this thing which you say is practically necessary and a wise thing, for her to abate her claims against Germany.

Mr. KAHN. Yes.

Senator REED. Now that is what I want to ask your opinion on as a banker. You say you see no evidence of a realization in Europe that we have, in effect, canceled all of our war debts in France.

Mr. KAHN. Yes, sir.

Senator REED. And that what we are claiming from France now is merely the repayment, in effect, of those advances we made after the fighting was over.

Mr. KAHN. Yes.

Senator REED. To enable her to buy foodstuffs and materials which constitute her economic life.

Mr. KAHN. That is true, but they do not know it.

Senator REED. They do not know it abroad?

Mr. KAHN. No.

Senator REED. Now, Mr. Kahn, as a banker do you think it is practically expedient or necessary for us to make any further surrender to France, in view of her capacity to pay, in order to buy her to do the prudent and wise thing toward Germany? Do you think that is necessary?

Mr. KAHN. Senator, may I not include in my answer to that the general statement that I have made, that from the point of view of abstract justice I think we have a 100 per cent case—a 200 per cent case; I think we have been generous beyond precedent, almost. Perhaps I may qualify that general statement somewhat in the case of England, which country I believe is entitled to have a good word said for her. They were the first to step up to the captain's desk and say, "We owe you a debt. Give us the best terms you can." They have paid us thus far at a much higher rate of settlement than any other nation, and their attitude toward the whole subject of liquidating the financial consequences of the war has been broad-minded. As a general proposition, I think, as I have said before, it is purely a question of ascertaining what is the most expedient thing for us to do, leaving the matter of sentiment, or abstract justice, in abeyance for the time being, and finding a plain and convincing answer to the query: How can the world, including America, best get out of the mess that it is in now?

Senator REED. The European formula is very simple to get out of the mess, and that is by laying it on America. You do not subscribe to that, do you?

Mr. KAHN. I do not subscribe to that, Senator.

If it were possible to find a way by which all these reparations and war debts, which hang around the neck of the world like a millstone, could be taken out and sunken in the deepest depth of the ocean, I should welcome it unqualifiedly. But there is no such way that I can devise or have ever been able to devise, bearing in mind all the elements of the case. And inasmuch as I do not believe any one has suggested a feasible way, the next best thing is to very calmly and with great self-control, and great self-restraint, though with a little swearing and cussing beneath our breath, to try—without letting ourselves be driven—to evolve something else which will come as near as possible to being a really helpful and effective action toward a solution of an almost unprecedented situation, when almost everybody's nerves are on edge, and some are nearly frazzled. But that, I am bound to repeat, is not primarily a financial problem, though, of course, the financial question enters.

Senator SHORTRIDGE. One question, Mr. Kahn. This country has outstanding many billions of dollars in debts.

Mr. KAHN. Yes, sir.

Senator SHORTRIDGE. No banker or statesman, or alleged statesman, here or elsewhere, has ever suggested any way by which Uncle Sam could scale down those debts, nor has any such person suggested repudiation by our country.

Mr. KAHN. No.

Senator SHORTRIDGE. We propose to pay as we have agreed to pay.

Mr. KAHN. Yes, sir.

Senator SHORTRIDGE. And you hold, as I gather it, others should absolutely likewise observe their legal and moral obligations?

Mr. KAHN. Certainly, Senator. Anything that may be done in possible mitigation of those obligations can be done, honorably, only by mutual consent, based upon the recognition of the existence of a grave and compelling emergency.

Senator SHORTRIDGE. And by consenting to a year's postponement of the debts due us from them, there is to be drawn no inference of any willingness on our part further to extend or cancel the amounts due or to become due to us under constitutionally executed contracts?

Mr. KAHN. I think we should deal with that situation as and to the extent that pressing and manifest emergency arises from time to time.

Senator SHORTRIDGE. But there is no inference to be drawn, by consenting to a postponement now, that we will not go forward and expect and ask that payments be made according to contract?

Mr. KAHN. No, sir.

Senator REED. And you do not think a temporary emergency justifies a permanent reduction of those debts?

Mr. KAHN. I do not, Senator.

The CHAIRMAN. Mr. Kahn, you have explained three loans during this morning hour. On this afternoon the committee can not meet to hear your further testimony. If it is not too much to ask, could you be here to-morrow morning at 10 o'clock?

Senator JOHNSON. Mr. Chairman, will you permit a brief statement on my part in that regard?

The CHAIRMAN. Yes.

Senator JOHNSON. I know nothing about what the procedure is to be upon the floor to-day. I do know that there is no disposition upon my part to filibuster regarding the moratorium. I do, however, intend to present my views to the best of my ability; and I know of others who would like to do likewise. It seems to me, from the statements I have seen in the press—and I do not know whether they are accurate or not—they quote Mr. Watson, the Republican leader, to the effect that we should be kept in continuous session, maybe all night, and with that in view, I should hope that this investigation might go over until after to-morrow.

The CHAIRMAN. I shall ask the other two witnesses whether we can hear them at a later time.

Senator WALSH of Massachusetts. Do you favor suspending until after the recess?

Senator JOHNSON. I do not favor it, and I am willing to go on. But, assuming that we meet the situation to-night such as has been expressed in the press, it is not just to bring us here at 10 o'clock to-morrow morning under the circumstances.

Senator WALSH of Massachusetts. We can not finish with this witness.

Senator JOHNSON. No. So may I appeal to the committee to let to-morrow pass by? The day after that, or the day following, or the week following, or any time will be agreeable.

Senator GORE. Senator Johnson, are you concerned to have the investigation go on after the moratorium is acted upon?

Senator JOHNSON. Oh, yes; I do think the investigation should go on.

Senator GORE. It will then be largely a post-mortem.

Senator WALSH of Massachusetts. How many days do you think it will take?

Senator JOHNSON. Four or five days.

The CHAIRMAN. Unless we make better progress than we have made so far it will take longer than that.

Senator GORE. Yes; I think so.

Senator REED. I move, Mr. Chairman, that we stand in adjournment until January 4.

Senator JOHNSON. I have no objection to that, so far as I am concerned.

Senator SHORTRIDGE. What was the purpose of this investigation?

Senator JOHNSON. Of course, the purpose was to get information that might be utilized on the question of the moratorium; and also the effect of foreign securities in this country.

Senator WALSH of Massachusetts. And remove misconceptions about dealings with them.

Senator SHORTRIDGE. I was in hopes that we could finish the investigation on this resolution before we passed on the moratorium. That was the purpose of the resolution.

Senator JOHNSON. I will say to my colleague that was the purpose of the resolution, or one purpose, but I think the investigation should go on. And what are we going to do if we stay in session all night, as has been indicated in the press?

Senator COUZENS. I suggest, Mr. Chairman, you put the motion.

The CHAIRMAN. The motion is that the investigation be postponed until January 4.

Senator LA FOLLETTE. Mr. Kahn, have you totaled these sums on those sheets so that you could give the total before you go? The total amount floated, and the total profits?

Mr. KAHN. Yes, Senator, as to the total amount floated.

Senator GORE. Would it not be a good idea to have Mr. Kahn's statement printed in full, the whole statement, and have it in the record, and the Senators can examine it during the recess?

Senator COUZENS. Mr. Chairman, Senator Gore makes the suggestion that Mr. Kahn's statement be placed in the record and it can be examined before we come back after the holidays.

Senator LA FOLLETTE. Can you give that before you go?

Mr. KAHN. Yes.

Senator LA FOLLETTE. Would you do that before the recess?

The CHAIRMAN. Without objection, that will be done.

Senator SHORTRIDGE. Then I object, for the time being.

Senator BARKLEY. Mr. Chairman, Mr. Kahn was in the act of answering a question, which will take only a little time.

The CHAIRMAN. You may answer the question, Mr. Kahn.

Mr. KAHN. My firm issued or participated in issuing a total of \$1,136,000,000 of foreign investments. We ourselves originated and managed \$557,570,000.

Senator REED. That is included in the first total that you gave us?

Mr. KAHN. Yes; we participated with J. P. Morgan & Co. in the placing of \$559,000,000. That is, in the total amount of \$1,136,000,000. Of the \$577,000,000 which we originated, about \$200,000,000 has already been repaid or called for repayment, leaving outstanding about \$377,000,000.

Senator REED. I call for a vote on the question.

Senator GORE. Have you handled any German bonds this year?

Mr. KAHN. This year? No, sir.

Senator GORE. National, State, or private?

Mr. KAHN. No, sir.

Senator LA FOLLETTE. You were about to make some statement relative to the second question.

Mr. KAHN. As to the profits on that transaction, I have not got the complete details with me.

Senator LA FOLLETTE. Will you furnish it for the record?

Mr. KAHN. I will try to furnish it.

Senator LA FOLLETTE. And will you, also, please furnish for the record a statement of the general considerations which your house takes into view before you negotiate finally one of these foreign loans; and also a statement as to the amount of investigation which you make of their financial condition?

Mr. KAHN. Yes; I will be glad to.

(The figures and statements were furnished by Mr. Kahn. See appendix.)

The CHAIRMAN. All who are in favor of the motion——

Senator JOHNSON (interposing). Before you put that, Mr. Chairman, I want to say this for the record: I am prepared to go ahead with this investigation at any time and under any circumstances. I have suggested that these two days be set apart because of the statements that have been made by the Republican leadership as to the Senate being kept in continuous session after it meets to-day. I want that distinctly understood.

Senator REED. I call for the question.

The CHAIRMAN. All who are in favor of the motion will signify by saying aye. Contrary, no. The ayes have it, the motion is carried.

Senator SHORTRIDGE. Mr. Chairman, I want this to go into the record, that quite apart from the moratorium, I think it is advisable to resume as quickly as possible and finish this investigation pursuant to the resolution introduced by my colleague and, therefore I object to a long continuance.

The CHAIRMAN. I would like to say to Mr. Aldrich and Mr. Kahn and Mr. Dillon, we will expect you here on the morning of January 4, 1932, at 10 o'clock.

(Whereupon, at 12.05 o'clock p. m., on Monday, December 21, 1931, an adjournment was taken until Monday, January 4, 1932, at 10 o'clock a. m.)

APPENDIX

WHO BUYS FOREIGN BONDS?

By DWIGHT W. MORROW, January, 1927)

[Reprinted from *Foreign Affairs*, an American Quarterly Review, 25 West 43d Street, New York]

A few months ago I was reading a Chicago Tribune on the train. With some surprise I found recorded on the financial page the listed prices of 128 different issues of foreign bonds. I have a great respect for the judgment of the newspapers. They print the news that they think people are interested in. When I noticed that this great newspaper which serves the Middle West was recording daily market transactions in 128 different issues of foreign bonds, it seemed to me a fact of some significance. I found myself speculating as to the number of issues of foreign bonds which had been quoted by the Chicago Tribune in the edition published exactly 10 years before the date of the paper which I was reading. I subsequently learned from the editor that the number was six. The comparison between the number of foreign issues quoted then and now is an interesting commentary on what has happened in the field of foreign-bond investment in the past 10 years.

Examining that long list of 128 foreign bonds in the Tribune, I discovered that governments, municipalities or corporations of some 30 different countries were represented—countries scattered all over the world. The list included the countries of our own hemisphere, Canada, Cuba, Brazil, Argentine, Chile, Peru, Bolivia, Uruguay; nations abroad with whom we fought and against whom we fought, Great Britain, France, Italy, Germany, Austria, Hungary; governments in the Far East such as Japan and the Dutch East Indies; and cities as widely separated as Copenhagen and Montevideo, Tokio and Marseilles.

The contemplation of the extent and variety of America's investment in foreign bonds, gives rise to three questions: Who buys these bonds? Why do they buy them? What do they get when they have bought them?

Who buys foreign bonds? This may seem to be an easy question to answer, but it is not. When a foreign loan is offered to American investors, the managing house in New York, or Boston, or Chicago enlists the cooperation of perhaps five hundred or a thousand investment bankers scattered all over the United States. It is the function of the local investment banker to find the man or woman with savings and to show that man that it is to his interest to exchange his savings for the promise of a foreign government. It is this ultimate saver who really extends the credit to the foreign government. The managing house rarely meets the ultimate buyer of the bonds; it is to the five hundred or thousand investment houses that we must go to find his name and characteristics. These investment houses have developed their own clientele of investors. That clientele is changing constantly, dependent upon the character and the ability of the investment house and the record for successful judgment that it has established. Moreover, it is considered somewhat impertinent for one to ask an investment house to whom the bonds are sold, as such information is carefully guarded. The local investment bankers have tried to teach certain people to save, and they expect to attract the future savings of these people by selling them more bonds. They do not want investigators prying into that part of their business without a very good reason.

In the summer of 1924 when I was asked to speak at Williamstown at the Institute of Politics, I tried to find an answer to this question of who buys foreign bonds. Taking two recent foreign government loans, the issue of which had been managed by the firm of which I have the honor to be a member, we inquired of three investment houses doing business in different parts of the country as to the number of persons to whom they had sold these bonds. The loans were the \$25,000,000 Austrian Government guaranteed loan and the \$150,000,000 Imperial Japanese Government external loan of 1924. The results of our inquiry showed that through these three houses 409 people participated in the Austrian loan, the average investment of these 409 people being \$2,350. Through the same three houses, 1,741 people participated in the Japanese loan, the average investment of these 1,741 people being \$3,100.

The results of the inquiry as presented to the students of international relations at Williamstown seemed to be of interest, and later in 1924, at the request of the president of the Investment Bankers Association, we extended the inquiry

to 24 houses (still covering only the Austrian and Japanese loans, however). This investigation confirmed, in a general way, the results of the earlier one. For one thing, it disposed of the idea that offerings of foreign bonds are taken solely by wealthy individuals or large institutions. It showed, on the contrary, that these foreign bonds are being bought by large numbers of persons of moderate means. The 24 houses had 2,965 customers who made an average investment of \$2,994 each in the Austrian bonds. The 24 houses had 8,211 customers who bought Japanese bonds, making an average investment of \$3,905 each.

Finally in the spring of 1926, we broadened the inquiry by obtaining a similar analysis of their sales of three additional foreign government loans. The results of the earlier inquiries might perhaps be subject to criticism by statisticians, because they covered so few bond issues and because, particularly as to the first inquiry, so small a "sample" of the investment houses which distributed the loans was taken. But in this latest inquiry five loans aggregating \$380,000,000 were covered. Moreover, the 24 houses sold an aggregate amount of \$91,031,800 of these five issues, or about 25 per cent of the total amount. These 24 investment houses who courteously furnished us with the sales analysis which we sought are located in different parts of the country from Portland, Me., to Portland, Oreg., and from Minneapolis to New Orleans. From our own knowledge of the character and distributing ability of the investment houses of the country, we feel reasonably confident that these houses selected for analysis constitute a fairly representative cross section of the entire group of investment houses throughout the country.

Our analysis of the sales of these 24 houses covered five separate foreign government loans, the issue of which was managed by J. P. Morgan & Co., alone or with associates. These loans were offered to the American public within the past three and one-half years: The \$25,000,000 Austrian 7's in June, 1923, the \$150,000,000 Japanese 6½'s in February, 1924, the \$110,000,000 German 7's in October, 1924, the \$45,000,000 Argentine 6's in June, 1925, and the \$50,000,000 Belgian 7's in June, 1925. The results of this inquiry are shown in the table printed on the following page.

This table shows, first, the proportion of each issue sold by the 24 houses. Next, is shown the total number of sales and the total amount sold of each issue by the 24 houses, and the average amount of each sale made by the 24 houses. If we may assume that these houses constitute an adequate "sample," we may extend these figures to cover the entire amount of each issue and obtain the following results:

Distribution of five foreign government bond issues by 24 representative American bond houses

	\$25,000,000 ¹ Austrian Government guaranteed loan 7 per cent bonds, June, 1923	\$150,000,000 ¹ Japanese Government external loan 6½ per cent bonds February, 1924	\$110,000,000 ¹ German external loan 7 per per cent bonds October, 1924	\$45,000,000 Govern- ment of the Argen- tine Nation external 6 per cent June, 1925	\$50,000,000 Kingdom of Belgium external loan 7 per cent bonds June, 1925
Proportion of entire issue sold by the 24 houses.....per cent..	35.5	21.4	22.2	33.0	21.3
Total sales:					
Number of sales.....number..	2,965	8,211	7,654	3,431	2,632
Amount sold.....dollars..	8,876,800	32,269,200	24,428,300	14,872,500	10,785,000
Average amount of each sale.....do....	2,994	3,905	3,194	4,335	3,608
Sales \$100 to \$5,000:					
Number of sales.....number..	2,671	7,265	6,932	2,724	2,453
Per cent of total number.....per cent..	90.1	88.4	90.0	79.4	86.6
Amount sold.....dollars..	5,579,900	14,170,800	13,099,900	6,351,500	6,541,500
Per cent of total amount.....per cent..	62.9	44.2	53.6	42.7	51.4
Sales \$5,100 to \$10,000:					
Number of sales.....number..	207	600	433	532	269
Per cent of total number.....per cent..	6.9	7.4	5.6	15.5	9.5
Amount sold.....dollars..	1,761,900	5,305,300	3,647,400	4,132,500	2,483,500
Per cent of total amount.....per cent..	19.8	16.5	15.8	27.8	23.0
Sales over \$10,000:					
Number of sales.....number..	87	346	269	175	110
Per cent of total number.....per cent..	3.0	4.2	3.5	5.1	3.9
Amount sold.....dollars..	1,535,000	12,693,100	7,481,000	4,388,500	2,760,000
Per cent of total amount.....per cent..	17.3	39.3	30.6	29.5	25.6

¹ Part of a larger international loan.

Distribution of five foreign government bond issues by 24 representative American bond houses—Continued

Name of issue	Indicated total number of buyers	Indicated average amount of each sale
Austrian 7's.....	8,350	\$2,944
Japanese 6½'s.....	38,412	3,905
German 7's.....	34,440	3,194
Argentine 6's.....	10,381	4,335
Belgian 7's.....	13,130	3,808

The above figures confirm those of the earlier inquiries as to the large number of sales made and the moderate average amount of each sale.

The table opposite next shows a classification of the sales of the 24 houses into three groups according to the size of the sale made. That we are dealing with a multitude of small investors rather than with a few large investors is further demonstrated by this classification of the sales. It will be seen that from 80 to 90 per cent of the number of sales in the case of each issue were made to investors whose purchases were limited to \$5,000 or less. Only from 3 to 5 per cent of the number of sales for each issue were made in amounts over \$10,000. It is clear that in number the large investors were relatively unimportant.

But the consideration of only the number of small and large investors might present an exaggerated impression of the importance of the small investor. This is unnecessary, as he is quite important enough without any exaggerating. There is, obviously, a difference between a comparison of the number of small and large investors and a comparison of the aggregate amounts purchased by each group. The number of small investors might be very great but a few very large sales might still result in making the large investor the more important factor in disposing of an issue.

Our analysis of the sales of the 24 investment houses also covered, therefore, the aggregate amount of bonds sold to investors in each of the three groups, from which could be ascertained the ratio which the aggregate amounts sold in each of the groups bore to the total amounts of each issue sold by the 24 houses. Examining them, we see that a good deal depends upon where the line is placed between the small and the large investor. If we draw the line at \$5,000 it is apparent that, while the group of large investors taking more than \$5,000 each is relatively small in number, it is by no means negligible with regard to its aggregate purchases of foreign loans. Comparing the two groups, both on the basis of number of buyers and on the basis of the total amounts of the issues purchased, we have the following summary from the figures:

Name of issue	Per cent of the total number of buyers who took \$5,000 or less	Per cent of the total amount of the issue purchased by buyers who took \$5,000 or less
Austrian 7's.....	Per cent 90.1	Per cent 62.9
Japanese 6½'s.....	88.4	44.2
German 7's.....	90.9	53.6
Argentine 6's.....	79.4	42.7
Belgian 7's.....	86.6	51.4

I present all these statistics with some hesitation because they necessarily are based upon a method of sampling and I well realize how difficult it is to obtain representative samples for any statistical work, and how difficult it is to draw proper conclusions from such samples without danger of distortion. Having

made such reservations, however, it would seem reasonable to draw the conclusion from the statistics presented, that more than 85 per cent of the people who bought these foreign bonds purchased them in small amounts ranging from \$100 to \$5,000, and that approximately 50 per cent of the total amount of these foreign issues was purchased by these small investors.

The investment in these foreign loans represents the savings of the person who spends less than he produces, and thus creates a fund which he is able to turn over either to a domestic or to a foreign borrower if he is satisfied with that borrower's promise. These savers live all over the United States. When we talk about the person who is investing in foreign bonds we are not talking about a great institution in New York or Chicago, or Boston. We are talking about thousands of people living in all parts of the United States. We are talking about school teachers and army officers and country doctors and stenographers and clerks. The man who invests in a foreign bond may be rich or he may be poor. That is all according to our standard. Fundamentally, however, he is a person who has saved something, who is doing without something to-day in order that he or his children may have something to-morrow. Before he invests in the bond he has money which gives him a present command over goods and services. He is willing to transfer this present command over goods and services to the borrower, thereby giving to the borrower the right to buy goods and services. Of course, the investor resumes the command of goods and services at some future time when he is repaid his loan.

The person who invests in foreign bonds is probably the same person who invests in domestic bonds. All that the investment banker in a large city or in a small city does, all that an international banker does, is to gather up little rivulets of savings and put them at the disposition of somebody who needs the capital and is willing to make a dependable promise to pay interest upon that borrowed capital from time to time and to repay the principal at the due date. The answer to the question about who buys foreign bonds is clear. The purchasers are people all over the United States who are investing their savings. If the investment in these bonds is helping American foreign trade, it is this saver of money who should be thanked. If the investment in these bonds is helping the restoration of the rest of the world to a normal condition, it is this saver of money who is entitled to the credit.

Now, the second question, why did these people lend money to Austria, or Japan, or Germany, or Argentine, or Belgium? Here, statistics are of little value. Men have not yet found a method of measuring the motives of other men. In fact, it is difficult enough to know our own motives. Perhaps, however, we may be helped in answering our question if we ask another question. Why does anybody make an investment in one particular security rather than in another? The considerations in the minds of most investors are, first, the safety of the principal and, second, the size of the interest yield. It should be borne in mind that the investor is the man who has done without something. He has done without something that he might have presently enjoyed in order that, in the future, his family may have some protection when he is gone, or in order, perhaps, that a son or a daughter may go to college. This investor wants to be certain that he will continue to receive income on the bond which he buys. He wants that income as large as is consistent with safety. Above all, he wants the principal returned to him on the day of the maturity of the bond.

It can not be asserted, however, that sentiment plays no part in our investments. It does. Many men in this country bought German bonds, after the successful launching of the Dawes plan, not only because the interest rate was attractive and the principal seemed secure, but because they felt that they were thus associating themselves in a fine venture to help Europe back on her feet. But after all proper weight is given to such considerations as these, the question of safety of principal and of interest, and the attractiveness of the rate of interest, remain the considerations uppermost in the mind of a man who has done without the present use of his own money and is investing that money in order to protect the future of himself and of his family.

If that be true, how is the investor to form an intelligent judgement as to the safety of his investment? How does the man in the Middle West, who responds to an invitation from his investment banker to buy an Austrian or a Japanese bond, know that his investment is safe? If he should be asked this question, I think that he would put in the very forefront of his reasons for making the investment the fact that he had confidence in the banker who offered him the investment. After all, the people who buy bonds must rely largely upon the judgment of the offering houses. They must believe that their investment banker would

not offer them the bonds unless the banker believed them to be safe. This throws a heavy responsibility upon the banker. He may and does make mistakes. There is no way that he can avoid making mistakes because he is human and because in this world things are only relatively secure. There is no such thing as absolute security. But while the banker may make mistakes, he must never make the mistake of offering investments to his clients which he does not believe to be good. Moreover, when a banker directs savings into an investment he should believe that the borrowed money is to be put to a constructive use. To the cynic that may sound somewhat idealistic. It is, however, just plain common sense. No banker who wants to stay in business throughout the years wants to lend money to people who are not going to use it for a constructive purpose. The use to which the money is put is a very important factor in determining the ability of the borrower to pay his interest promptly and to return, at maturity, the principal.

An attempt has been made to answer the first two questions: Who buys these foreign bonds and why do they buy them? There remains what is perhaps the most interesting question: What does an investor get when he buys a foreign bond? In 1924, 40 persons in a western city put \$100 apiece into a Japanese bond maturing in 1954. What did those people get for their money? They got a promise. And mark you, that promise was the promise of a group of people associated together on the other side of the earth. Moreover, so far as the promise relates to the payment of the principal of the bond, the promise does not mature in time to be kept by the particular members of the group who originally made it. It is a promise designed to be kept by the children of men now living. Yet somehow or other the banker who offers that bond and the investor who buys that bond rely upon the people of Japan taxing themselves a generation from now in order to pay back the principal of that loan to the children of the person who invests in the bonds to-day. At first blush it is a startling idea. It is particularly startling at this time when so many people are saying that the various nations of the earth have lost faith in each other. Here we have printed in a middle western newspaper the record of the day's dealings in 128 foreign bond issues. Individuals in America are taking their own money, with its present command over goods and services, and surrendering that command to nations on the other side of the earth, and they receive in exchange for it a promise. The question may be asked: Nothing more than a promise? To which answer may be made: Nothing less than a promise.

I remember reading some years ago a letter of Thomas Bailey Aldrich written to William Dean Howells. Aldrich is writing of a friend who has just died, and whose body is resting in "a dismal London burying ground." He says to Howells that it is not worth three pins to be a great novelist or a great general or a great anything else. Then he winds up his letter with this whimsical expression: "Yet with a sort of hopeful vivacity I have just bought two 5 per cent railway bonds that expire in 1967. Who will be cutting off the coupons long before that? Not I." There was Aldrich, despondent because of the transitoriness of life, taking his savings and putting them in railway bonds that matured long after his life would end. Every day investors are buying bonds, domestic and foreign, although they have every reason to wonder who will collect the coupons. Human lives stop. Promises go on. The civilized world today is run on the basis of a belief in promises. Whatever our doubts about the meaning of modern civilization, we may at least take some comfort in the trust which men show in each other's promises.

It was not always so. Early trading began with physical things. The man who had something to sell kept a tight hold with one hand upon the thing he was giving up until he got a tight hold with the other hand upon the thing he was getting in exchange for it. Little by little men learned to trust one another. Markets were developed in which men sold by samples. In such a sale the seller must produce a sample of the thing which he is contracting to sell; the quantity agreed to be sold is later delivered and the buyer makes payment therefor. Mutual promises had to be kept to make such a trade effective. Finally, we have reached the stage of civilization when we buy and sell promises. No man can play an important part in modern commercial civilization unless he respects his promises in letter and in spirit. That is true in all of our day-to-day transactions. We want no commercial dealings with people who can not or will not keep their promises. The keeping of the promise is the fundamental virtue of commercial life. Therefore, when one says that the purchaser of a foreign bond has nothing *more* than a promise, the answer can be made in all seriousness that he has nothing *less* than a promise.

It is apparently believed by some that loans to foreign governments made by our citizens throw upon our own Government the responsibility of using the armed forces of our Government for the purpose of collecting the debts. From leading government officials of both Great Britain and the United States we have had in recent years quite clear pronouncements upon this question. In a debate in the British Parliament in December, 1902, during the controversy with Venezuela, Mr. Balfour, the Prime Minister at the time, said:

"I do not deny, in fact I freely admit, that bondholders may occupy an international position which may require international action; but I look upon such action with the gravest doubt and suspicion, and I doubt whether we have in the past ever gone to war for the bondholders, for those of our countrymen who have lent money to a foreign government; and I confess that I should be very sorry to see that made a practice in this country."

Mr. Root, then Secretary of State, speaking in Buenos Aires in 1906, made the following statement:

"The United States of America has never deemed it to be suitable that she should use her Army and Navy for the collection of ordinary contract debts of foreign governments to her citizens. For more than a century the State Department, the Department of Foreign Relations of the United States of America, has refused to take such action, and that has become the settled policy of our country. We deem it to be inconsistent with that respect for the sovereignty of weaker powers which is essential to their protection against the aggression of the strong. We deem the use of force for the collection of ordinary contract debts to be an invitation to abuses in their necessary results far worse, far more baneful to humanity than that the debts contracted by any nation should go unpaid."

The foregoing expressions of Mr. Balfour and Mr. Root are important not only because of the high official positions that these eminent statesmen held at the time but also because of the great weight which properly attaches to their personal opinions upon a question of this kind. But however valuable such expressions may be, either as a statement of the national thought at the time or as a means of influencing the public thought of the peoples to whom they are addressed, such expressions do not necessarily constitute international law or even a binding rule of conduct. The declarations of statesmen are perhaps more likely to express the ideals than the practices of nations. International law, however, is a gradual growth, based upon custom and conduct. When customs become so well settled that their violation excites the general disapproval of civilized men, we have a real basis for international law. Now, he who seeks to know the custom of nations with respect to the enforcement of contract debts against another government enters a most difficult field. It is hardly surprising that the causes of war are never fully known to the actors. But the long, painstaking work that must be done by unbiased historians before an approximation of the truth can be ascertained must make any candid person almost despair of a complete conviction as to causes. I have not been able to find a clear case of a nation going to war for bondholders. It is only fair to say, however, that contract claims against a foreign government have often been joined with claims for other injuries, or with larger questions of political policy, and that so joined they have been made the basis of armed intervention. I have immediately in mind the military operations against Mexico in 1861, against Egypt in 1880, and against Venezuela in 1902.¹

I have neither the competence nor the desire, however, to discuss from the point of view of the international lawyer or the historian this alleged practice of using armed force to collect contract debts. A difference will readily be noted in the treatment of claims arising out of injuries inflicted upon persons or upon their physical properties and claims growing out of contracts. Where the wrongful act of a foreign government inflicts injury upon a person or upon his physical property, the law of nations seems to recognize the propriety of a demand for reparation. Contract claims, however, have not been treated in the same way, though nations have on occasion made official and unofficial representations regarding violations of contracts and failure or refusal to pay bonded indebtedness. They have also broken off diplomatic relations with the delinquent country as a means of enforcing payment. Nations have also repeatedly submitted bond claims to arbitration. They have also, in rare cases, used measures of force short of war, such as reprisals and that curious procedure known as pacific blockade. President

¹ Mr. Hardley Withers, formerly editor of the *London Economist*, apparently believes that the default in the Egyptian bonds was used for a political purpose. He states that "the bondholders were certainly benefited, but it is in my belief that they might have whistled for their money until the crack of doom if it had not been that their claims chimed in with Imperial policy." *International Finance* (1916), p. 104.

Jackson, in 1834, in connection with certain damage claims not related to bond obligations, actually recommended reprisals. And in 1902 Great Britain, Germany, and Italy enforced certain demands against Venezuela, which included the payment of bond obligations, by a pacific blockade. The advancing interest of civilized governments in this whole question is evidenced by the action taken at the Second Hague Peace Conference in 1907. That conference adopted a Convention respecting the limitation of the employment of force in the recovery of contract debts the pertinent part of which reads as follows:

"The contracting powers agree not to have recourse to armed force for the recovery of contract debts claimed from the government of one country by the government of another country as being due its nationals.

"This undertaking is, however, not applicable when the debtor State refuses or neglects to reply to an offer of arbitration, or after accepting the offer prevents any 'compromise' from being agreed on, or, after the arbitration, fails to submit to the award."

This convention seems to assume that there was a right to use armed force to collect contract debts before the adoption of the convention. Certainly, if Mr. Root is correct, no such right was ever exercised by the United States. What is perhaps more important, the second paragraph seems to imply that a formerly existing right to use force to collect contract debts is still to survive if and when the specified conditions are applicable. It is not surprising, therefore, that very generally the Latin-American countries in adhering to the convention made reservations which negated their consent to the use of armed force against them even though the conditions of the second paragraph had come into existence. Although some critics of this convention have questioned whether the subject was left in an entirely satisfactory situation, there can be no doubt that the delegates to the convention were earnestly seeking to put some limitation upon the use of armed force which had not been accepted by all nations theretofore.

I am writing, however, from the point of view of the investor. Investors, as much as any group of people in the community, are interested in seeing the policy announced by Mr. Root in 1906 scrupulously carried on. Investors who buy foreign loans are in a position to appreciate what a fruitless remedy for breach of contract war is. The establishment of the principle that nations are justified in going to war where the sole issue is the collection of a debt would be not only most hurtful to the nation at large, but, in the long run, would prove injurious to the property interests of the bankers who sell and the investors who buy foreign government loans. Is there any one who thinks that if a man owes him money and can not pay it, there is profit in going out and killing the debtor? Entirely apart from the immorality of putting human lives to the hazard of modern war where the sole issue is a pecuniary claim, there is a conclusive practical reason against such a source in that war in the great majority of cases does not, and can not, accomplish the desired result.

Loans are made to foreign governments in reliance upon the capacity and the good faith of those governments. The intelligent investor recognizes that in the long run a government which defaults upon its obligations hurts itself even more than it hurts its creditors. Even in cases where specific taxes or customs are allocated for the service of a loan, the main reliance of the creditor must be upon the desire of the debtor government to maintain the particular revenues and keep them available. Even when a foreign expert is placed in charge of revenues, the arrangement is helpful only when made with the hearty concurrence of the debtor government, and with the belief and expectation on the part of the debtor government that the fiscal arrangement will redound to its own advantage.

If the foregoing be true, how safe are these investments? To my mind that inquiry is much the same as an inquiry as to the safety of a domestic bond. Some domestic bonds turn out to be good and some turn out to be worthless. There is no reason to expect that it will be otherwise with foreign bonds. Those nations who are borrowing in America because they actually need the money for a constructive purpose; who have a solidarity of national feeling and a sense of the meaning and the value of national credit; who are not incurring obligations beyond what may fairly be considered their capacity to handle; all those nations may be expected to pay their debts. Here again the responsibility rests heavily upon the investment banker in recommending investments. The banker must never be lured, either by the desire for profit or by the desire for reputation, to recommend an investment which he does not believe to be good. But, fundamentally, the reliance of bankers and investors is upon the capacity and, above all, upon the good faith of the foreign government. The foreign government must be able to pay, and it must want to pay.

If it is true that it is upon good faith that lenders to foreign governments primarily rely, it is no less true that it is upon good faith that lenders rely in almost all of their domestic dealings. Of course, there is a sanction ultimately applicable to domestic contracts. The proper legal steps may be taken; the breach of the contract may be proved; and execution may be issued through the sheriff. But we do not in practice put much reliance upon the help of a sheriff in enforcing contracts. We do not willingly deal with one upon whose property we expect to levy execution. When we need the sheriff to help collect a loan, we recognize that our venture has turned out a failure. We are then simply trying to save some planks from a shipwreck. In the overwhelming majority of business transactions, we rely upon the ability and the willingness of the debtor to pay. On no other principle could modern business be conducted. There is no international sheriff. But there still remains our reliance upon good faith, our reliance upon that law which is older than statute law—the acknowledged custom of mankind. The credit of governments is not easily built up. It may easily be shattered. And it must never be forgotten that there are rules of conduct accepted by the silent approval of civilized man, the breach of which hurts the one committing the breach much more than the one against whom it is committed. If good faith can not be relied upon it is better that the loan be not made. The words with which Hugo Grotius closed his great book more than 300 years ago are true: "Not only is each commonwealth kept together by good faith, but that greater society of which nations are the members. If faith be taken away, the intercourse of men is abolished."

Foreign government bonds, J. P. Morgan & Co.

Date of issue	Name of government	Title of issue	Amount of issue	Amount outstanding Dec. 15, 1931	Issue price	Manag- ing commission	Number of partic- ipants in such manag- ing com- mission	Original group commission	Number of partic- ipants in such original group com- mission	Inter- mediate group com- mission	Number of partic- ipants in such inter- mediate group com- mission	Dis- tributing syndicate com- mission (from which expenses are deducted)	Number of partic- ipants in such dis- tributing syndicate com- mission	Total com- mission or spread
June 2, 1925	Argentina...	6 per cent bonds due June 1, 1959.	\$45,000,000	\$41,735,500	96	Per cent None.	None.	Per cent 1½	2	Per cent None.	None.	Per cent 2½	792	Per cent 4
Sept. 22, 1925	.....do.....	6 per cent bonds due Oct. 1, 1959.	20,700,000	27,420,500	96½	None.	None.	1	2	None.	None.	2	757	3
Apr. 22, 1926	.....do.....	6 per cent bonds due May 1, 1960.	20,000,000	18,598,000	98	None.	None.	1½	2	None.	None.	2	662	3½
Sept. 30, 1926	.....do.....	6 per cent bonds due Oct. 1, 1960.	16,900,000	15,836,500	98¾	None.	None.	1¾	2	None.	None.	2	627	3¼
Jan. 14, 1927	.....do.....	6 per cent bonds due Feb. 1, 1961.	27,000,000	25,548,000	98¾	None.	None.	1¾	2	None.	None.	2	615	3¼
Apr. 28, 1927	.....do.....	6 per cent bonds due May 1, 1961.	21,200,000	19,997,000	99	None.	None.	1½	2	None.	None.	2	623	3½
July 16, 1925	Australia....	5 per cent bonds due July 15, 1955.	75,000,000	73,968,000	99½	¾	1	¾	3	¾	125	1½	861	3
Aug. 24, 1927	.....do.....	5 per cent bonds due Sept. 1, 1957.	40,000,000	38,345,000	98	¾	1	¾	3	¾	124	1½	820	2¾
May 8, 1928	.....do.....	4½ per cent bonds due May 1, 1959.	50,000,000	49,738,000	92¾	¾	1	¾	3	¾	14	1½	901	2½
June 11, 1923	Austria.....	7 per cent bonds due June 1, 1943.	25,000,000	17,959,100	90	None.	None.	1¾	137	None.	None.	3	773	4¼
July 15, 1930	.....do.....	7 per cent bonds due July 1, 1957.	25,000,000	24,279,000	95	¾	1	¾	11	1	134	2	726	4
June 1, 1920	Belgium.....	7½ per cent bonds due June 1, 1945.	50,000,000	(¹)	97¾	None.	None.	1	4	1	18	4	862	6
Jan. 24, 1921	.....do.....	8 per cent bonds due Feb. 1, 1941.	30,000,000	(¹)	100	None.	None.	1	4	1	18	4	720	6
Sept. 2, 1924	.....do.....	6½ per cent bonds due Sept. 1, 1949.	30,000,000	28,737,000	94	¾	2	1	5	¾	22	2½	655	4
Dec. 18, 1924	.....do.....	6 per cent bonds due Jan. 1, 1955.	50,000,000	37,871,100	87½	2½/1000	2	7½/1000	4	½	34	3	826	4½
June 11, 1925	.....do.....	7 per cent bonds due June 1, 1955.	50,000,000	46,292,000	98	¾	2	¾	4	½	34	2½	840	4

See footnotes at end of table.

Foreign government bonds, J. P. Morgan & Co.—Continued

Date of issue	Name of government	Title of issue	Amount of issue	Amount outstanding Dec. 15, 1931	Issue price	Managing commission	Number of participants in such managing commission	Original group commission	Number of participants in such original group commission	Intermediate group commission	Number of participants in such intermediate group commission	Distributing commission (from which expenses are deducted)	Number of participants in such distributing syndicate commission	Total commission or spread
Oct. 23, 1926	Belgium	7 per cent bonds due Nov. 1, 1956.	\$50,000,000	\$47,800,500	94	Per cent ½	2	Per cent ¾	4	Per cent ¾	13	Per cent 2½	800	Per cent 4
Apr. 25, 1922	Canada	5 per cent bonds due May 1, 1952.	100,000,000	100,000,000	100	None.	None.	½	6	¾	32	1½	904	2½
Feb. 20, 1920	Manitoba	6 per cent bonds due Feb. 1, 1930.	2,498,000	(?)	93½/100	None.	None.	½	5	None.	None.	2	(?)	2½
Apr. 2, 1920	do	6 per cent notes due Apr. 1, 1925.	2,850,000	(?)	95½/100	None.	None.	1½/1000	5	None.	None.	1½	(?)	2½/1000
Feb. 15, 1921	Chile	8 per cent bonds due Feb. 1, 1941.	21,000,000	(?)	99	None.	None.	1	6	None.	None.	4	600	5
Jan. 15, 1923	Cuba	5½ per cent bonds due Jan. 15, 1953.	50,000,000	26,452,500	99¼	None.	None.	4/100	8	None.	None.	2	813	2½/100
July 1, 1927	do	5½ per cent bonds July 1, 1928-1937 (\$900,000 due annually).	9,000,000	5,400,000	101.122	4/1000	1	2½/1000	1	None.	None.	¾	110	1½/1000
Sept. 3, 1920	France	8 per cent bonds due Sept. 15, 1945.	100,000,000	(?)	100	None.	None.	1	4	1	36	4	766	6
May 23, 1921	do	7½ per cent bonds due June 1, 1941.	100,000,000	60,805,500	95	None.	None.	¾	4	¾	50	4	971	5
Nov. 24, 1924	do	7 per cent bonds due Dec. 1, 1949.	100,000,000	70,740,900	94	¾	2	¾	4	1	123	3	958	5
Oct. 14, 1924	Germany	7 per cent bonds due Oct. 15, 1949.	110,000,000	76,789,400	92	¾	1	¾	10	1½	146	3	1,004	5
June 12, 1930	do	5½ per cent bonds due June 1, 1945.	98,250,000	95,670,500	90	¾	1	¾	11	¾	145	2½	1,011	4
Nov. 20, 1925	Italy	7 per cent bonds due Dec. 1, 1951.	100,000,000	89,270,100	94¼	2½/1000	1	7½/1000	3	¾	127	3	935	4½
Mar. 22, 1927	do	Credit consortium: 7 per cent bonds due Mar. 1, 1937.	4,500,000	2,810,000	96¼	¾	1	1½/100	3	None.	None.	2½	296	4
Mar. 29, 1927	Rome	7 per cent bonds due Mar. 1, 1917.	7,500,000	6,580,000	95¼	¾	1	¾	3	1	29	2	742	4
Mar. 29, 1927	do	6½ per cent bonds due Apr. 1, 1932.	30,000,000	27,442,500	91	¾	2	¾	3	1	29	2	742	4

Feb. 11, 1924	Japan.....	8½ per cent bonds due Feb. 1, 1951.	150,000,000	133,063,300	92½	2½	1	2½	4	1	125	2	900	5
May 12, 1930	do.....	8½ bonds due May 1, 1965.	50,000,000	71,000,000	90	¾	1	¾	5	¾	92	2½	898	4
Nov. 23, 1926	Yokohama..	6 per cent bonds due Dec. 1, 1961.	19,740,000	19,775,000	93	¾	1	¾	5	¾	10	2½	663	4
Mar. 21, 1927	Tokio	5½ per cent bonds due Oct. 1, 1961.	20,640,000	19,437,000	89½	¾	1	¾	5	¾	10	2	649	3½
June 26, 1931	Taiwan.....	Electric Power Co. 5½ per cent bonds due July 1, 1971.	22,800,000	22,800,000	93½	¾	1	¾	5	¾	13	2	396	3½
Aug. 1, 1923	Switzerland.	5 per cent notes due Aug. 1, 1926.	20,000,000	(?)	97¾	None.	None.	¾	9	None.	None.	1½	265	2½
Apr. 1, 1924	do.....	8½ per cent bonds due Apr. 1, 1946.	30,000,000	30,000,000	97½	¾	2	¾	7	None.	None.	2½	562	3½

† Redeemed.
‡ Matured.

§ In addition to the \$50,000,000. Bonds publicly offered \$21,000,000. Bonds were exchanged for account of the original group for £3,800,000. Bonds of the 4 per cent sterling loan due Jan. 1, 1931, under the control of the Imperial Japanese Government. In respect of the \$21,000,000. Bonds exchanged, the total commission was reduced from 4 to 2½ per cent. (Giving effect to this exchange for account of the original group, the total managing commission amounted to 2½ per cent and the total original group commission amounted to 1½ per cent.)

† Per cent.

SUMMARY

Government and municipalities:	Principal amount of bonds offered	Government and municipalities—Continued:	Principal amount of bonds offered
Argentina.....	\$159,800,000	Italy.....	\$142,000,000
Austria.....	50,000,000	Japan.....	294,140,000
Australia.....	165,000,000	Spain.....	None.
Belgium.....	270,000,000	Switzerland.....	50,000,000
Canada.....	105,348,000		
Chile.....	24,000,000	Total.....	1,807,578,000
Cuba.....	59,000,000	Retired to Dec. 15, 1931.....	434,280,100
France.....	300,000,000		
Germany.....	208,250,000	Outstanding Dec. 15, 1931.....	1,370,297,900
Great Britain.....	None.		

Partners in the firm of J. P. Morgan & Co., December 21, 1931: J. P. Morgan, Edward T. Stotesbury, Charles Steele, Thomas W. Lamont, Horatio G. Lloyd, Thomas Cochran, Junius Spencer Morgan, jr., George Whitney, Russell Cornell Leffingwell, Francis D. Bartow, Arthur M. Anderson, William Ewing, Harold Stanley, Henry Sturgis Morgan, Thomas Stilwell Lamont, Henry Pomeroy Davison, Thomas Newhall, Edward Hopkinson, jr., and Seymour Parker Gilbert.

The following were participants in the original group on the issue of \$100,000,000 Government of the French Republic 25-year external gold loan 8 per cent sinking fund bonds dated September 15, 1920: J. P. Morgan & Co.; Brown Bros. & Co.; First National Bank, New York; the National City Co.

The combined list of the original group, except Austrian, comprised the firms of J. P. Morgan & Co.; Bank of Montreal; Bankers Trust Co.; Brown Bros. & Co.; Chase Securities Corporation; Credit Suisse; Dillon, Read & Co.; First National Bank, New York; First National Bank of Boston; Guaranty Co. of New York; Harris, Forbes & Co.; Kidder, Peabody & Co.; Kuhn, Loeb & Co.; Lee, Higginson & Co.; Morgan, Harjes & Co.; the National City Co.; J. & W. Seligman & Co.; Yokohama Specie Bank, (Ltd.).

THE NATIONAL CITY BANK OF NEW YORK,
New York, December 22, 1931.

MY DEAR SENATOR SMOOT: When on Wednesday last you telephoned asking me to appear before your committee two days later to testify on the Johnson resolution, I immediately requested the officers of the City Co. to prepare for me statements of all of our foreign issues. The force in the National City Co. worked day and night, and the long schedules which I had with me before your committee were handed to me as I caught my train for Washington. I had no opportunity to question the accountants who prepared these schedules as to what was meant by expenses of each issue. The reports that I was accustomed to have come over my desk as to the profit to the City Co. on an issue of bonds contained an item of gross profit, an item of expense directly allocable to the issue, and an item showing the net profit. I, therefore, assumed that in the schedules handed me the deduction for expenses represented items such as those I testified to, directly chargeable against the particular issue, and did not include the general expenses of the National City Co. I took the item of "general expense" on the schedules to be an item representing the City Co.'s portion of the expenses directly applicable to each issue.

To-day I have been checking up these figures and I find that I was in error in my testimony. The accountants had deducted from the gross profit figure the items of expense directly chargeable to each particular issue and the column headed "General expenses" represented an attempt on the part of the accountants to allocate to the issue a proportion of the general expenses of the City Co. There is, of course, no method of accounting which would show with absolute accuracy exactly how much of the general expense of the National City Co. should be borne by any particular issue of bonds. An effort was made by the accountants to determine some basis of allocating expenses by taking the total general expenses of the company and dividing them by the total number of bonds sold during the year, thus fixing an arbitrary average cost per bond sold.

If you will refer to the schedules I have given the committee and take the column headed "Gross profit" of the National City Co. and deduct therefrom the succeeding column headed "discounts" the remainder will show the profit of the National City Co. before general expenses of the National City Co. My testimony at the hearing is applicable to this remainder and should not be applied to the last column headed "Net profit."

I wish therefore to correct my testimony by requesting that this letter be inserted as a part of the record of my hearing before your committee.

Very truly yours,

C. E. MITCHELL

HON. REED SMOOT,
Chairman Finance Committee,
United States Senate, Washington, D. C.

Name of issue	Date offered	Amount of issue	Rate	Maturity	Syndicates managed by others				Interest of The National City Co.																
					Sinking fund payments to date	Cost price	Offering price	Manager	O. T. spread	Int. Gr. spread	B. G. spread	S. G. spread	Original terms		Intermediate group		Banking group		Selling group		Gross profit	Discount	General expense	Net profit	Number of retail sales
													Participation	Amount of profit	Participation	Amount of profit	Participation	Amount of profit	Participation	Amount of profit					
ARGENTINA																									
Government of the Argentine Nation extension S. F. G. B.	June 2, 1925	\$45,000,000.00	Per cent 6	June 1, 1930	\$3,264,500.00	Per cent 92	Per cent 96	J. P. Morgan & Co.	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4	Per cent 1/4
Do.	Sept. 22, 1925	20,700,000.00	6	Oct. 1, 1930	2,270,500.00	93 1/2	96 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Apr. 23, 1926	20,000,000.00	6	May 1, 1930	1,402,000.00	94 1/2	96 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Sept. 30, 1926	16,900,000.00	6	Oct. 1, 1930	1,063,500.00	95	98 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Jan. 14, 1927	27,000,000.00	6	Feb. 1, 1931	1,422,000.00	95	99 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Apr. 28, 1927	21,200,000.00	6	May 1, 1931	1,203,000.00	95	99 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Apr. 10, 1930	50,000,000.00	6	Oct. 1, 1930	20,000,000.00	95 1/2	100	Chatham Phenix Corporation	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
AUSTRALIA																									
Commonwealth of Australia extension loan, G. B.	July 20, 1925	75,000,000.00	5	July 15, 1935	1,000,000.00	96 1/2	99 1/2	J. P. Morgan & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Apr. 24, 1927	40,000,000.00	5	Sept. 1, 1937	1,655,000.00	96 1/2	99 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	May 8, 1928	50,000,000.00	4 1/2	May 1, 1936	262,000.00	90	92 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	June 3, 1930	5,000,000.00	6	June 1, 1930	100,000.00	92 1/2	96 1/2	Leo Higginson & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
AUSTRIA																									
Austrian Government	June 11, 1923	25,000,000.00	7	June 1, 1943	5,500,000.00	85 1/2	90	J. P. Morgan & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	July 15, 1930	25,000,000.00	7	July 1, 1931	200,000.00	91	95	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
BELGIUM																									
Belgian Government extension, G. B.	Jan. 13, 1920	25,000,000.00	6	Jan. 1, 1921	(*)	99	95 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	June 2, 1920	50,000,000.00	7 1/2	Jan. 1, 1945	(*)	97 1/2	100	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Jan. 24, 1921	30,000,000.00	6	Feb. 1, 1941	(*)	98	100	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Sept. 2, 1921	30,000,000.00	6 1/2	Sept. 1, 1949	2,900,000.00	90	94	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Dec. 18, 1921	50,000,000.00	6	Jan. 1, 1955	16,000,000.00	83	87 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Dec. 12, 1925	50,000,000.00	7	June 1, 1955	3,300,000.00	94	98	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Oct. 26, 1926	50,000,000.00	7	Nov. 1, 1956	3,300,000.00	90	94	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
BRAZIL																									
United States of Brazil, G. B.	May 22, 1926	35,000,000.00	6 1/2	Oct. 1, 1957	3,802,000.00	94 1/2	99 1/2	Dillon, Reed & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	June 24, 1926	25,000,000.00	6 1/2	Oct. 1, 1957	4,667,500.00	94 1/2	99 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Sept. 2, 1927	41,500,000.00	6 1/2	Oct. 1, 1957	1,791,000.00	98	100	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	July 11, 1928	32,000,000.00	6	June 1, 1958	None.	91.31	94 1/2	White Weld & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Apr. 25, 1930	35,000,000.00	7	Oct. 1, 1940	3,500,000.00	90.28	96	Speyer & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
CHILE																									
Republic of Chile	Feb. 15, 1921	21,000,000.00	6	Feb. 1, 1941	(*)	94	99	J. P. Morgan & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	June 26, 1925	20,000,000.00	6 1/2	June 30, 1957	1,300,000.00	91 1/2	94 1/2	Kuhn, Loeb & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	July 30, 1925	20,000,000.00	6 1/2	June 30, 1961	1,300,000.00	91 1/2	94 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Dec. 23, 1926	10,000,000.00	6	Dec. 31, 1931	None.	91.68	95 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Apr. 10, 1927	20,000,000.00	6	Apr. 30, 1931	600,000.00	92.99	95 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Mar. 27, 1929	20,000,000.00	6	May 1, 1962	2,000,000.00	81.68	92	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
CZECHOSLOVAKIA																									
Czechoslovak Republic	Apr. 6, 1922	14,000,000.00	8	Apr. 1, 1951	1,675,800.00	90	95 1/2	Kidder, Peabody Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	May 20, 1924	6,250,000.00	8	Oct. 1, 1952	546,000.00	89.733	93 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
DOMINICAN REPUBLIC																									
Dominican Republic	Apr. 1, 1926	3,300,000.00	6 1/2	Mar. 1, 1942	507,000.00	98	98	Leo Higginson & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Jan. 10, 1927	5,000,000.00	6 1/2	Oct. 1, 1940	829,000.00	98.07	100	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Jan. 27, 1928	5,000,000.00	5 1/2	Oct. 1, 1940	829,000.00	97.29	99 1/2	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
FRANCE																									
France	Mar. 13, 1922	10,000,000.00	7 1/2	Jan. 1, 1942	None.	94	99	J. P. Morgan & Co.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	Sept. 7, 1923	100,000,000.00	7 1/2	Sept. 15, 1945	None.	94	100	do.	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Do.	May 25, 1924	100,000,000.00	7 1/2	Jan. 1, 1941	33,194,500.00	90																			

Canadian and Cuban Issues managed by others

	Date offered	Amount	Rate	Maturity	Manager	Our cost price	Offering price	Our participation	Our gross spread	Our profit	General expense	Net profit	Amount of sales	Number of sales
CANADA														
Province of Quebec	Mar. 1, 1920	\$3,500,000.00	6	Mar. 1, 1925	Harris Forbes	\$93.87	\$95.84	\$1,750,000.00	1.97	\$24,836.92	\$8,100.00	\$16,736.92	\$1,350,000.00	87
Canadian Northern Ry. Co.	Mar. 23, 1920	12,000,000.00	5	Dec. 1, 1922-1924	W. A. Read Co.	92.57	95.57	800,000.00	3	19,393.14	5,046.00	14,347.14	841,000.00	167
Canadian Pacific Ry. Co.	Mar. 25, 1920	12,000,000.00	6	Oct. 1, 1920-1932	Guaranty	94.328	96.828	450,000.00	2	7,635.10	1,140.00	6,495.10	190,000.00	39
Canadian National Ry. Co.	May 15, 1920	15,000,000.00	7	May 1, 1935	W. A. Read Co.	96	99	1,000,000.00	3	19,412.47	3,480.00	15,932.47	590,000.00	212
Dominion of Canada	July 9, 1919	75,000,000.00	5½	August 1, 1924-1929	J. P. Morgan	98.25 94.75	99.25 97	12,750,000.00	1 2.25	120,251.38	39,156.53	81,094.85	7,847,100.00	1,015
City of Toronto	Nov. 27, 1919	2,632,000.00	5½	Sept. 1, 1920-1949	Harris Forbes	96.20	98.75	1,016,000.00	2.55	22,811.12	4,570.84	18,240.28	916,000.00	47
Grand Trunk Ry. Co.	Oct. 6, 1920	25,000,000.00	7	Oct. 1, 1940	W. A. Read & Co.	95½	100	2,500,000.00	4.50	96,682.70	11,124.00	85,558.70	1,854,000.00	472
Province of Alberta	Nov. 1, 1920	1,000,000.00	6	Nov. 1, 1930	Harris Forbes	91.10	92½	500,000.00	1.775	6,937.28	1,128.00	5,809.28	188,000.00	41
Canadian Northern Ry.	Nov. 26, 1920	25,000,000.00	7	Dec. 1, 1940	W. A. Read & Co.	97	100	2,000,000.00	3	33,740.00	11,172.00	22,568.00	1,862,000.00	1,505
Grand Trunk Ry.	Jan. 14, 1921	12,000,000.00	6½	Feb. 1, 1936	do	92.65	95.4	1,500,000.00	2½	19,193.57	3,008.42	16,185.45	479,000.00	70
Canadian Northern Ry.	July 7, 1921	25,000,000.00	6½	July 1, 1926	Dillon Read	93½	96½	2,000,000.00	3	35,123.27	5,984.84	29,138.43	953,000.00	214
Grand Trunk Ry.	Sept. 16, 1921	25,000,000.00	6	Sept. 1, 1936	do	93	95½	2,000,000.00	2½	29,450.36	8,785.72	20,664.64	1,399,000.00	264
Canadian National Ry.	Mar. 7, 1922	11,000,000.00	5	Mar. 1, 1925	do	99.03	99.625	897,500.00	1.595	2,140.00	2,140.00	1,475.08	395,000.00	32
Dominion of Canada	Apr. 25, 1922	100,000,000.00	5	May 1, 1952	J. P. Morgan	97.50	100	10,500,000.00	2.50	245,743.06	39,939.60	205,743.46	7,350,000.00	476
City of Montreal	Nov. 1, 1922	16,139,000.00	5	Nov. 1, 1942	Harris Forbes	95	97	2,210,000.00	2	23,294.02	10,837.20	3,456.82	3,660,000.00	41
Do	Jan. 8, 1924	9,700,000.00	5	Sept. 1, 1943-1963	do	94.14	96.41	1,215,000.00	2.27	9,955.69	6,605.00	3,290.69	1,550,000.00	73
Canadian National Ry.	July 28, 1924	20,000,000.00	4	July 1, 1927	Dillon Read	98¼	98½	3,275,000.00	1.625	11,528.98	9,283.70	2,245.28	2,159,000.00	47
Do	do	9,375,000.00	4½	July 1, 1935-1939	do	97.35	98.62	1,535,000.00	1.27	11,409.37	5,392.20	6,017.17	1,254,000.00	42
Do	Sept. 4, 1924	26,000,000.00	4½	Sept. 15, 1954	do	94	96	3,040,000.00	2	24,356.40	8,600.00	15,756.40	2,000,000.00	39
Do	Feb. 3, 1925	18,000,000.00	4½	Jan. 15, 1930	do	99½	99½	3,420,000.00	¾	7,784.48	1,651.66	6,132.82	269,000.00	28
Do	do	17,000,000.00	4½	Feb. 15, 1935	do	96¼	97½	1,805,000.00	1½	6,941.53	1,412.20	5,529.33	230,000.00	39
Province of Quebec	June 5, 1925	5,000,000.00	4½	Mar. 2, 1950	Harris Forbes	96.16	97.125	1,913,500.00	1.965	5,571.89	13,839.56	8,267.67	2,254,500.00	46
City of Montreal	Jan. 11, 1926	7,000,000.00	4½	Feb. 1, 1916	do	94.14	95.25	1,400,000.00	1.11	6,670.78	7,095.83	125.05	1,169,000.00	65
Canadian National Ry.	Apr. 29, 1927	15,000,000.00	4½	May 1, 1928-1942	Dillon Read	98	98.831	2,456,250.00	1.831	6,661.60	4,782.82	1,878.78	889,000.00	53
Shawinigan Water & Power Co.	Oct. 5, 1927	35,000,000.00	4½	Oct. 1, 1967	Lee Higginson	94	95½	556,000.00	1.5	110.00	538.00	128.00	100,000.00	67
National Transcontinental Ry.	Jan. 19, 1928	3,396,000.00	4½	Oct. 1, 1958	Dillon Read	96½	98½	865,000.00	2	11,903.53	3,151.50	8,752.09	550,000.00	6
Shawinigan Water & Power Co.	Apr. 17, 1928	10,000,000.00	4½	May 1, 1968	Lee Higginson	97	98½	1,237.50	1½	1,237.50	639.35	598.15	95,000.00	5
Province of New Brunswick	Nov. 9, 1928	2,265,000.00	4½	Nov. 15, 1958	First National Bank	93.30	95.25	6,930,612.00	1.95	5,391.87	8,829.76	3,437.89	1,312,000.00	9
Canadian National Ry.	June 17, 1929	60,000,000.00	5	July 1, 1969	Dillon Read	98.16	99.75	2,625,000.00	1.59	77,588.35	32,908.82	44,679.53	4,708,000.00	618
Canadian Pacific Ry.	Dec. 17, 1929	30,000,000.00	5	Dec. 1, 1954	Bank of Montreal	97.50	100	1,679,000.00	2.50	63,899.25	31,748.58	32,150.67	4,542,000.00	395
Province of New Brunswick	Jan. 10, 1930	3,358,000.00	5	Jan. 15, 1960	Harris Foster	98.10	99.75	2,250,000.00	1.65	10,214.62	11,893.20	1,678.68	2,040,000.00	128
Canadian National Ry.	Jan. 28, 1930	18,000,000.00	5	Feb. 1, 1970	Dillon Read	98.08	99.50	8,750,000.00	1.41	20,131.56	17,198.50	2,933.06	2,950,000.00	375
Canadian National Ry. Co.	Jan. 21, 1931	70,000,000.00	4½	Feb. 1, 1956	do	96.404	98.25	1,000,000.00	1.84	70,977.67	8,704.30	62,273.37	1,930,000.00	391
Canadian Pacific Ry.	Dec. 1, 1930	14,250,000.00	4½	June 1, 1931-1945	Union Trust Title	98½	99.6356	1,340,000.00	1.5731	9,025.00	5,771.70	3,253.30	990,000.00	1
Montreal Metropolitan Commission	May 5, 1931	2,680,000.00	4½	May 1, 1965	Guaranty	98.91	100	1,340,000.00	1.09	5,830.70	7,184.43	1,353.73	1,593,000.00	89
CUBA														
Republic of Cuba	Jan. 15, 1923	50,000,000.00	5½	Jan. 15, 1953	J. P. Morgan & Co.	96.77	99.25	10,000,000.00	2.48	59,343.75	4,256.34	55,087.41	612,100.00	242
Do	July 1, 1927	9,000,000.00	5½	July 1, 1928-1937	do	100	101.122	1,800,000.00	1.122	6,206.25	4,298.62	1,907.63	799,000.00	43

Issues managed by National City Co. covering Canadian and Cuban issues

Issue	Date offered	Amount of issue	Rate	Maturity	Cost price	Offering price	Participation	Our gross spread	Our profit	General expense	Net profit	Amount of sales	Number of sales
CANADA													
City of Toronto	Apr. 19, 1920	\$1,905,000.00	Per cent 5½	1920-1950	\$94.18	\$95.25	\$635,000.00	1.07	\$4,221.90	\$3,084.00	\$1,137.90	\$514,000.00	19
Province of Nova Scotia	Aug. 6, 1920	500,000.00	6	Apr. 1, 1928	89.80	92.00	400,000.00	2.20	7,407.40	1,434.00	5,973.40	239,000.00	72
Province of Manitoba	Mar. 1, 1921	1,000,000.00	5	Mar. 1, 1926	88.30	89.25	1,000,000.00	.95	6,280.00	6,280.00	3,220.00	1,000,000.00	189
Province of Nova Scotia	Mar. 30, 1921	1,500,000.00	6	Apr. 1, 1926	91.41	93.375	500,000.00	1.965	3,139.95	1,293.68	1,846.27	206,000.00	26
Province of Manitoba	May 15, 1921	2,079,000.00	6	May 15, 1931	89.15	91.50	693,000.00	2.35	7,417.96	5,721.08	1,696.88	911,000.00	136
Province of Saskatchewan	Aug. 1, 1921	3,000,000.00	6	Aug. 1, 1927	91.10	92.875	1,250,000.00	1.775	13,526.18	13,407.80	118.38	2,135,000.00	196
City of Toronto	Sept. 29, 1921	10,000,000.00	6	July 1, 1925-1951	96.18	98.54	3,333,334.00	2.36	48,515.66	18,205.72	30,309.94	2,899,000.00	137
Canadian Pacific Ry.	Dec. 20, 1921	25,000,000.00	4	Debenture stock	74.00	78.00	6,450,500.00	4.00	159,292.46	19,276.46	140,016.00	3,069,500.00	695
Province of Ontario	Sept. 11, 1922	15,000,000.00	5	Apr. 1, 1952	97.41	99.25	3,562,500.00	1.84	82,741.77	5,620.54	27,121.23	1,037,000.00	182
Province of Alberta	Sept. 21, 1922	3,000,000.00	5	Sept. 15, 1942	97.42	98.045	3,000,000.00	.625	18,750.00	18,840.00	90.00	3,000,000.00	173
City of Winnipeg	May 29, 1923	1,000,000.00	5	June 1, 1943	95.79	97.50	500,000.00	1.71	7,671.00	4,207.88	3,463.12	604,000.00	84
Canadian Pacific Ry.	Oct. 30, 1923	5,000,000.00	4	Debenture stock	77.00	79.50	1,912,500.00	2.50	11,547.38	4,618.32	6,929.06	662,690.00	26
Greater Winnipeg Water District	Jan. 12, 1924	2,030,000.00	5	Jan. 1, 1929	97.14	98.50	1,030,000.00	1.36	4,340.72	5,607.20	1,266.48	1,304,000.00	82
Duke Price Power Co. (Ltd.)	Aug. 1, 1924	12,000,000.00	6	July 1, 1949	95.00	99.00	9,000,000.00	4.00	210,053.24	21,813.90	188,239.34	5,073,000.00	1,078
Canadian Pacific Ry.	Aug. 4, 1924	10,000,000.00	4	Debenture stock	79.00	81.00	2,700,000.00	2.00	83,704.55	3,719.50	29,985.05	865,000.00	55
St. Maurice Paper Co. (Ltd.)	Dec. 1, 1924	2,600,000.00	5½	Dec. 1, 1929	95.00	98.75	650,000.00	3.75	25,009.97	3,762.50	21,247.47	875,000.00	122
Province of Alberta	Apr. 15, 1925	3,740,000.00	5	Apr. 15, 1950	99.16	100.00	1,870,000.00	.84	12,522.15	10,554.66	1,967.49	1,719,000.00	43
Do	June 15, 1925	2,250,000.00	4½	June 15, 1945	94.50	96.17	1,125,000.00	1.67	8,855.00	7,632.02	1,222.98	1,243,000.00	45
Canadian Pacific Ry.	Sept. 16, 1926	20,000,000.00	4½	Sept. 1, 1946	94.00	96.50	6,600,000.00	2.50	103,300.13	16,276.71	87,023.42	2,681,500.00	251
City of Toronto	Apr. 6, 1927	8,800,000.00	4½	Apr. 1, 1928-1957	98.35	99.38	2,934,000.00	1.03	1,601.72	16,678.00	15,076.28	3,100,000.00	95
Province of Ontario	Oct. 26, 1927	24,000,000.00	4½	Nov. 1, 1928-1957	99.31	100.04	4,800,000.00	.73	19,338.69	30,579.92	11,241.23	5,684,000.00	144
Abitibi Power & Paper Co. (Ltd.)	Apr. 27, 1928	16,000,000.00	6	Cumulative preferred stock	97.50	102.00	7,000,000.00	4.50	105,829.62	32,478.98	163,350.64	4,826,000.00	831
Do	May 28, 1928	10,000,000.00	6	do	97.50	102.00	4,375,000.00	4.50	99,641.59	21,573.01	78,068.58	3,205,000.00	892
Do	June 28, 1928	50,000,000.00	5	June 1, 1953	90.00	94.50	10,750,000.00	4.50	448,501.57	76,674.80	371,826.68	11,393,000.00	1,657
Canadian Pacific Ry.	Nov. 15, 1928	5,000,000.00	4	Debenture stock	85.50	88.00	2,325,000.00	2.50	28,000.98	10,783.48	17,217.50	1,602,300.00	135
Province of Ontario	May 6, 1929	35,000,000.00	5	May 1, 1959	99.15	100.00	5,000,000.00	.85	35,821.75	20,760.30	15,061.45	2,970,000.00	83
Canadian Pacific Ry.	June 28, 1929	30,000,000.00	5	July 1, 1944	97.50	99.50	9,180,000.00	2.00	113,375.45	21,759.87	91,615.58	3,113,000.00	535
Province of Ontario	Dec. 4, 1929	30,000,000.00	5	Dec. 2, 1930	100.51	101.50	6,000,000.00	.99	9,285.06	33,300.36	24,015.30	4,764,000.00	194
City of Toronto	Feb. 18, 1930	5,590,000.00	4½	Feb. 1, 1930-1959	97.60	98.975	802,000.00	1.375	7,939.93	7,205.88	734.05	1,236,000.00	116
Do	Feb. 21, 1930	2,000,000.00	5	Sept. 1, 1953	98.95	100.00	290,000.00	1.05	1,571.42	1,690.70	119.28	290,000.00	1
Do	May 14, 1930	13,396,000.00	5	Apr. 1, 1931-1950	100.214	101.18	1,914,000.00	.97	14,152.75	12,295.47	1,857.28	2,109,000.00	156
Canadian Pacific Ry.	July 11, 1930	25,000,000.00	4½	July 1, 1960	95.50	98.00	6,825,000.00	2.50	117,575.42	27,266.91	90,308.51	4,677,000.00	321
Province of Ontario	Jan. 13, 1931	30,000,000.00	4½	Jan. 15, 1932-1971	98.67	100.50	5,000,000.00	1.83	31,021.45	24,547.93	6,473.52	5,443,000.00	67
CUBA													
Cuban American Sugar Co.	Mar. 8, 1921	10,000,000.00	8	Mar. 8, 1925	95.00	100.00	5,000,000.00	5.00	181,531.16	14,450.28	167,080.88	2,301,000.00	767
Cuban Telephone Co.	Oct. 5, 1921	4,000,000.00	7½	Sept. 1, 1941	87.50	95.00	3,000,000.00	7.50	122,957.00	10,760.10	112,206.90	1,711,800.00	654
Cuba R. R. Co.	Dec. 7, 1921	4,000,000.00	7½	Dec. 1, 1936	93.50	99.50	3,000,000.00	6.00	191,308.47	21,326.88	169,981.59	3,396,000.00	1,107
Sugar Estates of Oriente (Inc.)	Sept. 12, 1922	6,000,000.00	7	Sept. 1, 1942	92.00	97.50	4,500,000.00	5.50	225,492.42	20,373.78	205,118.64	3,759,000.00	1,167
Camaguey Sugar Co.	Nov. 9, 1922	6,000,000.00	7	Oct. 15, 1942	92.00	97.50	4,500,000.00	5.50	168,875.92	25,571.56	143,304.36	4,718,000.00	1,738
Vertiente Sugar Co.	Dec. 12, 1922	10,000,000.00	7	Dec. 1, 1942	92.00	97.50	7,500,000.00	5.00	332,316.88	40,983.33	291,333.55	7,561,500.00	3,106
Cuba Northern Ry.	Mar. 21, 1924	1,850,000.00	6½	Mar. 1, 1925/32	93.50	+198.587	1,260,000.00	+15.007	86,275.05	7,224.00	59,051.05	1,680,000.00	273
Do	July 1, 1924	4,500,000.00	6	July 1, 1966	84.50	88.60	3,627,500.00	5.00	137,672.74	10,866.10	126,806.64	2,527,000.00	865
Cuban Dominican Sugar Co.	Oct. 23, 1924	15,000,000.00	7½	Nov. 1, 1944	90.00	97.50	11,250,000.00	7.50	543,376.58	23,772.55	519,604.03	5,528,500.00	1,954
Cuba R. R. Co.	Mar. 2, 1925	794,000.00	5	July 1, 1952	85.00	87.50	595,500.00	2.50	10,008.86	3,665.58	6,343.28	597,000.00	129
Edificio La Metropolitana, S. A.	Apr. 7, 1926	1,200,000.00	7	Jan. 1, 1945	93.00	100.00	1,200,000.00	7.00	72,715.97	7,945.63	64,770.34	1,309,000.00	310
Cuba R. R. Co.	June 3, 1926	1,376,000.00	6	Dec. 1, 1936	96.00	99.60	1,032,000.00	3.50	81,158.52	6,886.42	24,272.10	1,134,500.00	241
Cuba Northern Ry. Co.	June 2, 1927	20,000,000.00	5½	June 1, 1942	95.50	98.60	6,000,000.00	3.00	212,554.52	38,951.20	173,603.32	7,240,000.00	1,427
National Hotel of Cuba Units	Aug. 21, 1929	6,250,000.00	6	Sept. 1, 1959 (and common)	93.00	100.00	4,687,500.00	7.00	236,031.00	224,958.14	11,072.86	1,584,100.00	1,528
Cuban American Sugar Co.	Mar. 2, 1931	1,065,000.00	8	Mar. 15, 1936	+80.61	91.00	1,065,000.00	+10.38	25,421.07	796.02	24,625.05	176,500.00	105

1 Average.

SAMPLES OF CIRCULARS ON GERMAN OFFERINGS

AEG—\$15,000,000 ALLGEMEINE ELEKTRICITÄTS GESELLSCHAFT (GENERAL ELECTRIC CO., GERMANY) 20-YEAR 6 PER CENT GOLD SINKING FUND DEBENTURES

Debentures dated May 1, 1923; due May 1, 1948.

Sinking fund beginning September 15, 1933, sufficient to redeem by maturity in substantially equal semiannual installments, one-half of the debentures outstanding on that date.

Interest payable November 1 and May 1. Coupon debentures in denominations of \$1,000 and \$500, registerable as to principal only. Principal, interest, and sinking fund payable in New York City in United States gold coin of the present standard of weight and fineness, at the National City Bank of New York, trustee, without deduction for any past, present, or future taxes or duties levied by or within the German Reich. Sinking fund payments may be made either in debentures of this issue or in cash, and any cash so paid will be applied to the redemption of debentures at 100. Issue also redeemable as a whole but not in part on any interest date on 30 days' notice, at 102 up to and including May 1, 1933, at 101 up to and including May 1, 1938, and at par on any interest date thereafter.

Trustee, the National City Bank of New York.

Principal and interest shall also be collectible, at the option of the holders, at the city office of the National City Bank of New York, in London, England, in pounds sterling, at the then current buying rate of the said bank for sight exchange on New York City.

These debentures will be direct credit obligations of the AEG, which will covenant in the trust agreement that it will not execute any mortgage upon, or make any pledge of, any part of its properties or assets without providing for the security of these debentures, either in priority to or, at the option of the company, equally and ratably with the other obligations or liabilities to be secured by such mortgage or pledge.

The following is summarized from the accompanying letter of Messrs. Bücher and Pfeffer, managing directors of the Allgemeine Elektrizitäts Gesellschaft:

The company was originally incorporated in 1883 under the name of the German Edison Co., to exploit the Thomas A. Edison patents for incandescent lamps. In 1887 its corporate name was changed to "Allgemeine Elektrizitäts Gesellschaft," since known the world over as the AEG.

For many years AEG has enjoyed a cooperative relationship with the General Electric Co. (America) under a contract which provides for the exchange and mutual use of patents, technical knowledge, and experience. This relationship has been a source of strength to both companies.

AEG manufactures all forms of electrical apparatus from the largest turbo-generator set to a flashlight bulb. During the fiscal years 1910-1914, inclusive, total business averaged over \$85,000,000 per annum and in some years exceeded \$100,000,000. In recent years gross sales have increased from approximately \$54,000,000 in the fiscal year ended September 30, 1924, to over \$100,000,000 in the fiscal year ended September 30, 1927, and it is believed that the current year will show a further substantial increase. The company's products have achieved a world-wide reputation for quality and efficiency.

Except for the charge or lien in favor of the so-called Dawes debentures, the capital amount of which has been fixed at the equivalent of \$6,115,000, the only outstanding liens on any of the company's properties are small mortgages to the extent of about \$965,000.

The balance sheet of the company as of September 30, 1927, indicates net tangible assets, after deducting all liabilities except funded debt, of more than \$73,750,000, as against total funded debt then outstanding of \$21,352,232. The plant machinery carried at a figure of less than \$5,500,000 has a replacement value estimated to considerably exceed \$50,000,000. All the company's valuable models, patents and tools, as well as furniture and fixtures are carried in the balance sheet at less than one dollar.

During the first 30 years of its history, the company enjoyed a practically continuous record of prosperity, as indicated in the increase of its capital stock from about \$1,190,000 to the equivalent of \$36,890,000 in addition to which its reserves (surplus) on June 30, 1914, aggregated about \$22,776,000. At present quotations the market value of the company's share capital is equal to nearly \$70,000,000. The company has regularly increased its dividend during recent years from 5 per cent for the fiscal year ended September 30, 1924, to 8 per cent for the fiscal year ended September 30, 1927.

For the five years ended June 30, 1914, the net earnings available for dividends after deducting all interest, tax, and depreciation charges, averaged \$5,366,885 per annum. In every year since 1915 the company's operations have shown a profit. During the four years ended September 30, 1927, the net earnings after deducting all interest and tax charges except income taxes but before deducting depreciation, averaged \$3,888,973 per annum, and the net earnings available for dividends after all charges averaged \$2,225,917 per annum.

Application will be made to list these debentures on the New York Stock Exchange. Price on application.

THE NATIONAL CITY Co.,
National City Bank Building, New York.

Fifteen offices in the metropolitan district. Offices in the leading cities throughout the world.

BERLIN, June 5, 1928.

THE NATIONAL CITY Co.,
55 Wall Street, New York, N. Y.

DEAR SIR: In connection with the issuance of \$15,000,000 principal amount 20-year 6 per cent gold sinking-fund debentures of the Allgemeine Elektrizitäts-Gesellschaft (General Electric Co., Germany), we take pleasure in giving you the following information:

PURPOSE OF ISSUE

The proceeds of this issue will be used partly to reimburse the treasury for capital expenditures and to provide additional working capital in line with the increase in the company's business and for other corporate purposes.

SINKING FUND AND REDEMPTION

A sinking fund beginning September 15, 1933, will be provided which will be sufficient to redeem by maturity one-half of the debentures outstanding on that date in substantially equal semiannual installments at 100. The outstanding debentures may also be redeemed, at the option of the company, as a whole but not in part, on any interest date prior to maturity, on 30 days' notice, at 102 and accrued interest up to and including May 1, 1933, at 101 and accrued interest up to and including May 1, 1938, and at par and accrued interest on any interest date thereafter.

EARNINGS

The company's earnings prior to 1914 reflected its steady growth and consistent prosperity. For the five years ending June 30, 1914, the net earnings available for dividends, after deducting all interest, tax, and depreciation charges, averaged \$5,366,885 per annum. In every year since 1915 the company's operations have shown a profit. For the four years ended June 30, 1918, the net earnings available for dividends (translated into dollars at the approximate rate prevailing at the end of each year) averaged \$5,307,262.

During the year ended September 30, 1924, the books of the company were placed on a gold basis, and net earnings for that and subsequent years were as follows:

Year ending Sept. 30—	Net earnings after interest and taxes ex- cept income tax but before depreciation	Net earnings for year available for dividends	Dividend rate
1924.....	\$3,201,107	\$1,719,143	5
1925.....	3,523,779	1,901,520	6
1926.....	3,980,452	2,453,005	7
1927.....	4,850,554	2,630,000	8

The gross sales of the company increased from approximately \$54,000,000 in the fiscal year ended September 30, 1924, to over \$100,000,000 in the fiscal year ended September 30, 1927, and orders on hand indicate a very substantial increase in business for the current year. The company now employs nearly 65,000 people.

Except as otherwise stated German currency in this letter has been converted into United States currency at the rate of 4.20 reichsmarks to the dollar.

BALANCE SHEET

The balance sheet as of September 30, 1926, as compared with the balance sheet of September 30, 1927, as approved by the stockholders, is shown below:

	1926	1927
ASSETS		
Real estate, plant and equipment (less depreciation).....	\$22, 129, 705	\$24, 669, 684
Stocks of subsidiary and other companies.....	18, 154, 674	18, 827, 237
Other investments.....	8, 098, 198	7, 664, 175
Mortgages.....	126, 190	133, 021
Merchandise and materials.....	21, 672, 368	18, 812, 478
Accounts receivable.....	7, 498, 305	9, 245, 878
Due from branches, subsidiary, and affiliated companies.....	11, 931, 934	20, 219, 139
Acceptances.....	2, 382, 733	3, 587, 831
Cash and with banks (net).....	815, 204	6, 361, 870
Treasury stock.....	774, 554	167, 411
Bond discount.....	1, 357, 143	952, 381
Due from stockholders on stock subscriptions.....		5, 357, 143
Total assets.....	91, 941, 208	110, 698, 248
LIABILITIES		
Capital stock:		
Common.....	28, 571, 429	35, 714, 286
Preferred.....	4, 166, 666	4, 166, 666
Preferred B.....	4, 464, 286	4, 464, 286
Total capital stock.....	37, 202, 381	44, 345, 238
General reserve.....	3, 838, 095	5, 266, 667
Welfare reserve.....	1, 028, 785	1, 071, 429
20-year sinking fund 7 per cent gold debentures, due Jan. 15, 1945.....	10, 000, 000	10, 000, 000
16-year 6½ per cent gold sinking fund debentures, due Dec. 1, 1940.....	7, 000, 000	6, 873, 000
Revalorized mark loans.....	3, 722, 722	3, 418, 786
Mortgages.....	966, 373	964, 723
Called mark bonds not yet redeemed.....		98, 723
Prepayments by customers.....	4, 844, 061	4, 984, 138
Accounts payable.....	7, 599, 726	8, 637, 835
Balances due on contracts.....	2, 735, 684	4, 214, 451
Due branches, subsidiary, and affiliated companies.....	8, 359, 423	13, 622, 006
Savings bank deposits.....		4, 391, 053
Uncollected dividends, interest, etc.....	81, 853	72, 482
Profit and loss account.....	2, 562, 104	2, 940, 717
Total liabilities.....	91, 941, 208	110, 698, 248

All of our valuable models, patents, and tools, as well as our furniture and fixtures, are carried in the above balance sheet at a total valuation of less than one dollar. All our machinery is carried at a figure of less than \$5,500,000, although we are quite prepared to state that it would cost considerably more than \$50,000,000 to replace to-day.

The capital stock of the company was increased on September 19, 1927, by an issue of reichsmark 30,000,000 par value of additional common stock, so that the total outstanding common stock is now reichsmark 150,000,000, which stock is now quoted on the Berlin Stock Exchange at about 170 per cent, thus indicating, together with the preferred stock outstanding, an equity of nearly \$70,000,000.

CHARACTER OF OBLIGATIONS

These debentures will be the direct credit obligations of the company, which will covenant in the trust agreement securing them that so long as any of the debentures remain outstanding and unpaid, the company will not execute any mortgage upon or make any pledge of any part of its properties and assets, either real or personal, unless such mortgage or agreement of pledge shall provide for the security of these debentures either in priority to, or, at the option of the company, equally and ratably with the bonds, notes or other obligations or liabilities, of whatsoever character, which are to be secured by such mortgage or pledge.

Except for the charge or lien in favor of the so-called Dawes debentures, the capital amount of which has been fixed at the equivalent of \$6,115,000, the only outstanding liens on any of the company's properties are small mortgages to the

extent of about \$965,000, of which about \$660,000 represents mortgages on new plants acquired in 1926. The company will also covenant in the trust agreement not to take advantage of the provision of the German law, under which the Dawes debentures have been created, to register an owner's mortgage in its own name to the extent that it may at any time have redeemed or repaid such debentures.

The company has outstanding approximately \$3,415,786 of reichsmark obligations due over varying periods from 1932 to 1953 which under the revalorization law (Aufwertungsgesetz) of the German Reich are entitled to interest at 5 per cent and to certain beneficial annual payments based upon the dividend paid on the common stock of the company, such total payments now aggregating approximately \$208,000 but which in any event would be below \$226,000 per annum.

The company also has outstanding two issues of dollar debentures issued in the United States in 1925 of which there were outstanding an aggregate total of \$16,873,000 on September 30, 1927.

The trust agreement will further provide that the company will not pay any cash dividends on its capital stock subsequent to September 30, 1927, except out of net earnings.

HISTORY AND BUSINESS

The company was originally incorporated in 1883 under the name of German Edison Co., to exploit the Thomas A. Edison patents for incandescent lamps. Shortly thereafter it extended its scope to cover the manufacture of electrical machines, apparatus and instruments of every nature, and its corporate name was accordingly changed in 1887 to "Allgemeine Electricitäts Gesellschaft" which has since become well known the world over as the AEG.

The company was, and has always continued to be, a pioneer in the electrical industry and through unceasing research and experimental work and by painstaking workmanship and prudent business management the company enjoyed in the first thirty years of its history a practically continuous record of prosperity, unsurpassed, so far as we know, by any other company of a similar character outside of the United States, and its products achieved a world-wide reputation for quality and efficiency.

During this period the company's original capital stock of about \$1,190,000 increased to the equivalent of \$36,890,000; in addition to which its reserves (surplus) on June 30, 1914, aggregated about \$22,776,000. In no year during this entire period did the company fail to pay a dividend upon its capital stock. The average rate paid was 10.38 per cent per annum, and in no year subsequent to 1893 was the annual rate less than 8 per cent.

The company's plants are of modern, fireproof construction, equipped with up-to-date, machinery and apparatus, and in addition to the manufacturing plants include the necessary warehouses, power houses, administration buildings and laboratories. In and around Berlin and elsewhere the company owns about 197 acres of real estate, upon 119 acres of which have been located the central administration and manufacturing buildings containing more than 10,000,000 square feet of floor space.

The company's products include almost every conceivable form of electrical apparatus and appliances, from an electric locomotive, or a turbo-generator set capable of delivering 80,000 kilowatts to a pocket flash-light bulb. It manufactures electric and steam-locomotives, steam-turbines, Diesel engines, broadcasting and radio-receiving apparatus, meters and other recording instruments, motors and generators and all kinds of central-station and substation equipment. It not only manufactures and sells, but also undertakes the construction of electric light and power-transmission systems, central-power stations, electric railways and electro-chemical works. The company's products are distributed within Germany through 79 offices and branches, most of which have their own repair plants and erecting organizations. Abroad it is represented in practically every country of Europe and also in Mexico, South America, South Africa, China and India.

Our total business for the fiscal years 1910-1914 inclusive, averaged over \$85,000,000 per annum, and in some years has exceeded \$100,000,000. While the year ended September 30, 1927 proved to be a record year for the period since the war, with sales again exceeding \$100,000,000, it is believed that the current year will show a further substantial increase. At the present time over one-third of the company's business is done outside of Germany.

During the last decade, the development of the company has necessarily been along the line of strengthening the economic basis of our business by establishing closer relations with producers of certain necessary raw materials and unfinished products. In this connection we may state that our company has always been one of the largest single customers of the American copper industry. In the past year we bought a very large quantity of copper from America, besides considerable quantities of zinc, silver, oil, benzine, lead, etc.

For many years there has existed between our company and the General Electric Co., in the United States, a very happy and cooperative friendship. Under a contract that still has many years to run we have agreed to the exchange and use of each others' patents, technical knowledge, and experience in the electric field. We believe that this relationship has been and will continue to be, a source of mutual strength to both companies.

ALLGEMEINE ELEKTRICITÄTS-GESELLSCHAFT,
HERMANN BÜCHER,
AUGUST PFEFFER,
Managing Directors.

(The information contained in this circular has been obtained from official statements and statistics and from other sources which we consider reliable. We do not guarantee, but believe it to be correct.)

NEW ISSUE OF \$20,000,000

RHINE-WESTPHALIA ELECTRIC POWER CORPORATION

(RHEINISCH-WESTFÄLISCHES ELEKTRIZITÄTSWERK AKTIEN-GESELLSCHAFT)

CONSOLIDATED MORTGAGE GOLD BONDS, 6 PER CENT, SERIES OF 1928, CARRYING CERTAIN STOCK PURCHASE RIGHTS FOR "AMERICAN SHARES"

Bonds to be dated August 1, 1928; due August 1, 1953.

Interest payable February 1 and August 1. Principal and interest payable in New York City in United States gold coin of the present standard of weight and fineness at the head office of the National City Bank of New York, without deduction for any past, present, or future taxes or duties levied by or within the German Reich. Principal and interest will also be collectible at the option of the holders, at the city office of the National City Bank of New York, in London, England, in pounds sterling, or at the Credit Suisse, Zurich, Switzerland, in Swiss francs, in each case at the then current buying rate of the said banks for sight exchange on New York City.

Coupon bonds in denominations of \$500 and \$1,000, registerable as to principal only. Redeemable at the option of the corporation as a whole, or in part, at any time, upon 30 days' notice, at 102 and accrued interest, if redeemed on or before August 1, 1933; at 101 and accrued interest, thereafter to and including August 1, 1943; and at 100 and accrued interest, thereafter. Also redeemable in part through operation of the sinking fund, on any interest date, upon 30 days' notice, at 100 and accrued interest.

Trustee, the National City Bank of New York; co-trustee, Darmstädter und Nationalbank Kommanditgesellschaft auf Aktien.

The following is summarized in part from the accompanying letter of Messrs. Henke and Schmitz, managing directors of the Rheinisch-Westfälisches Elektrizitätswerk Aktien-Gesellschaft:

The Rhine-Westphalia Electric Power Corporation with its subsidiaries comprises one of the largest electric light and power systems in Europe, with respect to property value, earnings, capacity of power stations and number of customers. The territory served embraces a large part of the Rhineland, including the Ruhr district, the most important industrial section of Germany. This territory has an area of about 9,360 square miles and a population of over 8,000,000.

The consolidated earnings of the corporation and certain of its wholly owned subsidiary companies, including only a portion of the earnings of the many other companies in which the corporation has a substantial and profitable

interest, for the three fiscal years ended June 30, 1925, 1926, and 1927, respectively, were as follows:

	Fiscal years ended June 30—		
	1925	1926	1927
Gross earnings, including nonoperating income.....	\$24,266,224	\$23,068,756	\$26,965,563
Operating expenses, maintenance, and taxes.....	16,563,957	15,166,562	16,992,064
Net earnings, before reserves for renewals and replacements.....	7,702,267	8,523,194	9,973,479

The earnings statement for the year ended June 30, 1928, is not yet available. It is fully expected that it will show earnings in excess of those for the year ended June 30, 1927, which exceeded all previous years in the history of the corporation in point of earnings. Indications are that the current year will set another new record, output during the past few months having increased approximately 23 per cent over the corresponding period of the previous year. The net earnings of \$9,973,479 for the fiscal year ended June 30, 1927, as shown above, compare with annual charges of \$3,049,985, constituting interest requirements on the mortgage debt, including this issue, and estimated maximum fixed charges on industrial debentures issued under the Dawes plan.

The consolidated mortgaged gold bonds will be secured by direct mortgages on the operating properties of the corporation, subject to \$5,189,524 industrial debentures issued under the Dawes plan and \$24,252,500 (closed issue) direct mortgage gold bonds. The trust indenture under which these bonds will be issued will contain conservative restrictions governing the issuance of additional bonds thereunder. The trust indenture will also provide for a cumulative sinking fund calculated to retire by maturity over 56 per cent of the bonds of the 6 per cent series of 1928.

Each \$1,000 bond will carry a stock-purchase right, evidenced by an appropriate warrant, nondetachable until January 1, 1929, entitling the holder to purchase, after January 1, 1929, and on or before August 1, 1931, four American shares, each issued against the deposit with the trustee's agent in Berlin of 100 reichsmarks (\$23.81) par value of the common stock (bearer shares) of the corporation. The price to be paid for each American share will be as follows: \$50 if purchased after January 1, 1929, and prior to August 1, 1929; \$52.50 if purchased on or after August 1, 1929, and prior to August 1, 1930; and \$55 if purchased on or after August 1, 1930, and on or prior to August 1, 1931, after which date the purchase rights will be void. The current market price of the German shares on the Berlin Stock Exchange indicates a market value for the American shares of approximately \$50 a share.

These bonds are listed on the New York Stock Exchange. Price on application. A substantial amount of these bonds has been withdrawn by Credit Suisse, Zurich, for Switzerland. Additional amounts have also been withdrawn for other European markets.

THE NATIONAL CITY Co.,
National City Bank Building, New York.

Twenty-one offices in the metropolitan district. Offices in the leading cities throughout the world.

RHEINISCH-WESTFÄLISCHES ELEKTRIZITÄTSWERK
AKTIEN-GESELLSCHAFT,
Essen, Germany, September 26, 1928.

THE NATIONAL CITY Co.,
55 Wall Street, New York City.

DEAR SIR: In connection with the proposed issue of \$20,000,000, principal amount, consolidated mortgage gold bonds, 6 per cent, series of 1928, of the Rheinisch-Westfälisches Elektrizitätswerk Aktien-Gesellschaft, hereinafter referred to as the Rhine-Westphalia Electric Power Corporation, we take pleasure in giving you the following information:

The Rhine-Westphalia Electric Power Corporation has experienced a remarkable growth since its organization in 1898, and at the present time, with its subsidiary companies, comprises one of the largest electric light and power systems in Europe with respect to property value, earnings, capacity of power stations and number of customers served. The business of the corporation is especially well integrated. Electric energy is generated in the corporation's power stations from fuel obtained from the adjoining coal mines of subsidiary companies, and is supplied to over 440,000 industrial and residential customers through the corporation's high tension transmission lines and distribution systems.

The territory served has an area of about 9,360 square miles, and includes a large part of the Rhineland, extending from the Netherlands frontier on the north and west, into the Province of Westphalia on the east, and south to the River Nahe. This area includes the Ruhr district, the most important industrial section of Germany, and also the so-called Siegerland, known for its iron-ore deposits. As there are numerous industries of a widely diversified character, the prosperity of the territory is not dependent on the success of any one business. Among the more important industries are included iron and steel works, iron-ore mines, hardware factories, coal mines, lignite (brown coal) mines, textile plants, leather factories, electro chemical works, dye works, and oleomargarine plants. In addition, the territory contains large areas of fertile farm land which produces excellent crops of many kinds. The communities entirely supplied by the system have a population of over 8,000,000 and include the cities of Essen, Muhlheim-Ruhr, Gelsenkirchen, Grefeld, Munchen-Gladbach, Wesel, Osnabruck, Remscheid, Solingen, Siegen, Bingen, Kreuznach, and Neuss. In addition, the corporation furnishes electric energy to large portions of the cities of Cologne, Dusseldorf, Duisburg, Coblenz, and Oberhausen, and to the extensive plants of the largest inland harbor of Europe at Ruhrort.

The electric output of 1,650,000,000 kilowatt-hours for the fiscal year ended June 30, 1928, was the greatest in the history of the corporation; and of this amount, about 81 per cent was generated in the corporation's power stations.

PROPERTIES

The system includes nine electric generating stations with an aggregate capacity of 700,000 horsepower. The principal station of the corporation, the Goldenberg plant, is one of the largest and most modern in the world, and has a capacity of 390,000 horsepower. The present construction program provides for a considerable increase in generating capacity, and that of the Goldenberg plant alone will attain 530,000 horsepower. Its equipment includes four 67,000 horsepower steam-turbo units. The transmission and distribution systems comprise over 1,580 miles of 110,000-volt steel tower lines and 15,000 miles of medium and low voltage lines which supply approximately 510,000 electric meters. The above figures for output and property cover only the inter-connected electric system of the corporation and its subsidiaries, which does not include the many affiliated electric companies of whose stocks substantial amounts are owned by the corporation.

The fuel for the corporation's power stations is obtained almost entirely from coal and lignite mines owned by subsidiary companies and located under or immediately adjoining the stations. The coal mines, estimated to contain 75,000,000 tons (of 2,000 pounds), are being mined at the rate of 1,400,000 tons a year. The lignite mines are estimated to contain 450,000,000 tons, and the power stations of the corporation, which are designed to burn this fuel efficiently, consume approximately 4,000,000 tons a year. Although lignite (brown coal) has a relatively low heating value as compared with coal, it is mined through surface workings at very low cost because the average depth of the cover of sand is only about 30 feet, below which the lignite deposit extends for about 120 feet.

The corporation has consolidated its territories by exchanging its half interest in a company located in central Germany for a majority interest in the Braunkohlen Industrie A. G. "Zukunft" Weisweiler. This enterprise owns lignite mines near Aachen, Germany, and has an electric distribution system in a territory situated between the Dutch frontier and the boundary of the corporation's own territories. During the past year it had sales of 172,500,000 kilowatt-hours, which are not included in the corporation's sales above mentioned. The line of this new subsidiary will be connected with the corporation's own high tension lines.

In order to supply the steadily increasing demand for current in the vast and populous territory extending from the Dutch and Belgian frontiers to southern

Germany and, further, to the boundaries of Switzerland and Austria, a 220,000-volt circuit will shortly be placed in operation. This high tension cable will be connected with hydroelectric power plants in southern Germany and Switzerland as well as with the power plants in the central German lignite coal district. Eventually the system will also include a hydro-electric power plant now under construction near Essen, in the very center of the corporation's territory, which plant will utilize the off-peak surplus of steam generating capacity of the corporation's own plants and of the steel works and coal mines in the Ruhr district, in filling a reservoir to a level of 160 meters, the water thus stored serving to generate current to supply day-time peak requirements. This plant will have a capacity of 190,000 horsepower with an annual output of 200,000,000 kilowatt hours.

In addition to the electric and coal properties described above, the corporation owns a modern coke oven plant which supplies gas at wholesale to the city of Essen. The high pressure gas transmission system connected with that plant has been ceded to the "Ruhrgas" in exchange for stock of that company. The latter company was formed to exploit the gas production of practically all the coal mines of the Ruhr district. The corporation also owns the entire capital stock of two relatively small electric railway companies, and operates under lease several municipally owned lines. It also holds as investments, smaller stock interests in many other public-utility companies. In respect to both revenue and physical value, however, the electric and coal properties represent over 96 per cent of all properties owned or controlled.

PURPOSE OF ISSUE

The proceeds from the sale of the present issue of bonds will be used to reimburse the corporation in part for expenditures made in connection with important property additions, to provide funds for further acquisitions and for other corporate purposes.

EARNINGS

The consolidated earnings of the corporation and certain of its wholly owned subsidiary companies, including only a portion of the earnings of the many other companies in which the corporation has a substantial and profitable interest, for the three fiscal years ended June 30, 1925, 1926, and 1927, respectively, were as follows:

	Fiscal year ended June 30--		
	1925	1926	1927
Gross earnings, including nonoperating income	\$24,266,224	\$23,688,756	\$26,965,563
Operating expenses, maintenance and taxes	16,563,957	15,163,562	16,992,064
Net earnings before reserves for renewals and replacements	7,702,267	8,523,194	9,973,479

The earnings statement for the year ended June 30, 1928, is not yet available. It is fully expected that it will show earnings in excess of those for the year ended June 30, 1927, which exceeded all previous years in the history of the corporation in point of earnings. Indications are that the current year will set another new record, output during the past few months having increased approximately 23 per cent over the corresponding period of the previous year. The net earnings of \$9,973,479 for the fiscal year ended June 30, 1927, as shown above, compare with annual charges of \$3,049,985, constituting interest requirements on the mortgage debt, including this issue, and estimated maximum fixed charges on industrial debentures issued under the Dawes plan.

VALUE OF PROPERTY

As of June 30, 1928, the book value of the physical properties of the corporation and its constituent and proprietary companies (hereinafter referred to) was in excess of \$115,250,000, of which properties valued at \$87,300,000 are owned directly by the corporation. These figures are especially conservative. We estimate that it would be impossible to reproduce these properties in Germany to-day for less than \$145,000,000, and that their cost in the United States would

greatly exceed this amount. Moreover, these figures do not take into consideration the value of the corporation's holdings of shares in many other public utility and coal mining companies, all of which are also carried on the books at very conservative amounts.

STOCK PURCHASE RIGHTS

Each \$1,000 bond will carry a stock purchase right, evidenced by an appropriate warrant, nondetachable until January 1, 1929, entitling the holder to purchase, after January 1, 1929, and on or before August 1, 1931, four American shares, each issued against the deposit with the trustee's agent in Berlin of 100 reichsmarks (approximately equivalent to \$23.81) par value of the common stock (bearer shares) of the Rhine-Westphalia Electric Power Corporation, fully paid and nonassessable. The price to be paid for each American share will be as follows: \$50 if purchased after January 1, 1929, and prior to August 1, 1929; \$52.50 if purchased on or after August 1, 1929, and prior to August 1, 1930; and \$55 if purchased on or after August 1, 1930, and on or prior to August 1, 1931, after which date the purchase rights will be void. The current market price of the German shares on the Berlin Stock Exchange indicates a market value for the American shares of approximately \$50 a share.

The capital stock of the corporation amounts to 155,000,000 reichsmarks, par value, of which 150,600,000 reichsmarks, par value, is represented by bearer shares and 4,400,000 reichsmarks, par value, by registered shares. It is expected that the capital stock will shortly be increased to 181,000,000 reichsmarks, par value, of which 175,600,000 reichsmarks, par value, will be represented by bearer shares, and 5,400,000 reichsmarks, par value, by registered shares. There also are outstanding Rm. 10,500,000 contingent certificates of indebtedness (Genusscheine) created on or about November 30, 1927. Dividends have been paid on the bearer shares of the corporation, as outstanding from time to time, at the rate of 8 per cent for the fiscal year 1925-1926, and at the rate of 9 per cent for the fiscal year 1926-27. After deduction of the German income tax of 10 per cent on dividends, the dividend of 9 per cent is equivalent to 8.1 per cent.

The American shares will be issued by the National City Bank of New York, as depositary, pursuant to the terms of a deposit agreement to be entered into between the National City Co., the said National City Bank of New York and the holders of certificates issued and to be issued thereunder; and such American shares will be entitled to all dividends and rights accruing from time to time upon the deposited shares. American shares (in multiples of four American shares) will be exchangeable at any time, upon surrender to the depositary and payment of the necessary charges, for the corresponding par value of deposited shares, deliverable at the office of the agent of the depositary in Berlin.

The common stock (bearer shares) of the Rhine-Westphalia Electric Power Corporation sold on the Berlin Stock Exchange on September 24, 1928, at 212 per cent of par (equivalent to approximately \$50 per American share). During the last six months, the price range of the bearer shares has been 175 per cent of par low, and 215 per cent of par high. The approximate equivalent price range in dollars of the American shares would be, low, \$41.70 a share, and, high, \$51 a share.

SINKING FUND

The mortgage trust indenture will provide for a cumulative sinking fund calculated to retire by maturity over 56 per cent of the bonds of the 6 per cent series of 1928. This sinking fund is designed to operate semiannually to retire the bonds of this series, by purchase or redemption, at not exceeding 100 and accrued interest.

FRANCHISES AND RATES

The corporation has franchise contracts with approximately 1,500 communities. In nearly all cases, these contracts have long periods to run, and as such contracts have expired from time to time in the past, they have been extended for additional long terms. Most of the contracts give to the municipalities the right to purchase the distribution systems within their corporate limits, but not the transmission lines or the power stations. The high tension transmission lines are located either on private rights of way or on properties for which perpetual easements have been obtained. In the opinion of counsel, the franchises of the corporation and its constituent companies are valid and sufficient.

The electric rates charged by the corporation automatically vary from time to time, based on the prevailing price of coal, and thus assure the continuance of

satisfactory profits through proper correlation of charges for service and fuel costs. The electric rates to all classes of consumers have been reduced, voluntarily, from time to time until now they are among the lowest in Germany.

SECURITY

The consolidated-mortgage gold bonds will be secured, in the opinion of counsel, by direct mortgages on the operating properties including real estate, power stations and transmission and distribution systems owned directly by the corporation, subject to charges securing \$5,189,524, present amount of industrial debentures and to mortgages securing \$24,252,500 (closed issue) direct mortgage gold bonds; and by like direct mortgages on the operating properties of certain subsidiary companies, referred to in the mortgage trust indenture as proprietary companies, subject to charges securing \$337,400, present amount, of industrial debentures. In addition, the corporation will covenant that if it should at any time mortgage or pledge any of the properties of certain other subsidiary companies, referred to in the mortgage trust indenture as constituent companies, it will make provision for the prior security of the consolidated mortgage gold bonds. The mortgage trust indenture securing the consolidated mortgage gold bonds will be executed between the corporation, the National City Bank of New York, as trustee, and the Darmstädter und Nationalbank Kommanditgesellschaft auf Aktien, as cotrustee.

In connection with the payment of reparations, the corporation and its constituent and proprietary companies have issued and deposited with the Industrial Debentures Bank (Bank für Deutsche Industrie-Obligationen), in accordance with the so-called Dawes Plan, industrial debentures in the face amount of \$7,015,595 with respect to which the annual charges on account of interest and amortization will not exceed \$420,935, in the aggregate. In the opinion of counsel, the liability of the corporation and its constituent and proprietary companies for the payment of these sums is secured by a first charge, in many respects analogous to a tax lien, upon their fixed property. In accordance with a law which effects a further internal distribution in Germany of the burden of reparations, the annual payments on account of the industrial debentures will probably be considerably reduced so that the maximum annual payments, estimated on the basis of present assessments, on account of the industrial debentures of the corporation and its constituent and proprietary companies, is not expected to exceed \$300,000, or less than one-half of 1 per cent of the value of their physical properties.

ISSUANCE OF ADDITIONAL BONDS

The mortgage trust indenture will provide for the issuance, from time to time, of bonds of other series having such rates of interest, maturities, sinking funds and other provisions, and payable in such places and in such currencies as may be determined by the corporation, (a) for refunding purposes, and (b) to the extent of 75 per cent of the cost of the acquisition of additional properties by the corporation and/or its constituent and/or proprietary companies (as these terms will be defined in the mortgage trust indenture), when consolidated net earnings after operating expenses, maintenance and taxes for 12 consecutive calendar months ending not more than six months prior to the date of authentication of such additional bonds, shall have been not less than three times the sum of the maximum annual fixed charges on the industrial debentures and the annual interest charges on the outstanding direct mortgage gold bonds and consolidated mortgage gold bonds, including the consolidated mortgage gold bonds then to be issued, or to the extent of 60 per cent of such cost, when such net earnings shall have been less than three times but more than two and one-half times all such charges as aforesaid, provided, in each case, that the aggregate of the then outstanding consolidated mortgage gold bonds, including those proposed to be issued, direct mortgage gold bonds and industrial debentures shall not exceed twice the then paid-in capital of the corporation.

MANAGEMENT

The various municipalities and provinces served, together with the State of Prussia and the German Empire, own a substantial majority of the corporation's stock, thus fostering the good will of the public; at the same time the corporation is under an independent, business management which permits of all the advan-

tages of efficient private operation. Nearly all of the managing directors have been with the corporation from 15 to 25 years.

Yours very truly,

**RHEINISCH-WESTFÄLISCHES ELEKTRIZITÄTSWERK
AKTIEN-GESELLSCHAFT.**
HENKE, *Managing Director.*
SCHMITZ, *Managing Director.*

The earnings statement contained in this circular has been prepared by Messrs. Haskins & Sells, certified public accountants, from the books of the corporation and the reports of the constituent companies, in connection with their examination of the books and accounts.

Throughout this circular, conversions into United States currency have been made at the rate of 4.2 Reichsmarks to the dollar.

The information contained in this circular has been obtained, partly by cable, from sources which we consider reliable. We do not guarantee, but believe it to be correct.

Preliminary proof—Subject to change.

CENTRAL BANK FOR AGRICULTURE, GERMANY—\$25,000,000; DEUTSCHE RENTENBANK-KREDITANSTALT LANDWIRTSCHAFTLICHE ZENTRALBANK, FIRST LIEN 7 PER CENT GOLD FARM LOAN SINKING FUND BONDS

Dated September 15, 1925; due September 15, 1950.

SINKING FUND SUFFICIENT TO PAY OR REDEEM ENTIRE ISSUE BY MATURITY

Interest payable March 15 and September 15. Coupon bonds in denominations of \$1,000 and \$500 registerable as to principal only. Principal, interest, and sinking fund payable in New York City, in United States gold coin of the present standard of weight and fineness, without deduction for any past, present, or future taxes or duties levied by or within the German Reich at The National City Bank of New York, trustee. Such principal and interest shall also be collectible at the option of the holders, either at the city office of The National City Bank of New York, in London, England, in pounds sterling, or at Amsterdamsche Bank, Amsterdam, Holland, in guilders, in each case at the then current buying rate of such bank for sight exchange on New York City, New York.

REICHSBANK, BERLIN, German Supervisory Trustee.

Beginning March 15, 1926, a cumulative sinking fund will operate semiannually to purchase bonds at not exceeding par and interest, or, if bonds are not obtainable at or below that price, by redemption of bonds by lot semiannually at 100. This fund is sufficient to retire the entire issue by maturity. The issue is also redeemable in whole or in part, in installments of not less than \$2,000,000 each, upon thirty days' notice, on September 15, 1935, or on any interest date thereafter, at 100 and interest.

The following is summarized from the accompanying letter of Messrs. Kissler and Lipp, managing directors of the Deutsche Rentenbank-Kreditanstalt:

The organization committee appointed under the Dawes Plan to recommend detailed provisions in regard to the new bank of issue, suggested that an agricultural credit institution should be formed to which the Rentenbank should transfer its credit balances and which should supply agriculture with the credits urgently needed to replace deficiencies in working capital resulting from the inflation period. The "Central Bank for Agriculture" (Deutsche Rentenbank-Kreditanstalt) has been organized pursuant to this suggestion to act as the central bank for the existing agricultural credit organizations, some of which have been in operation more than one hundred years, and through such existing organizations to use its own resources and loans obtained at home or abroad in making loans or granting credits for the promotion of agricultural production in all its branches.

The paid-up capital of the Central Bank for Agriculture amounts to \$40,476,190, which may gradually be increased until the capital and surplus reaches the total authorized amount of \$119,047,619. Such increase is to be effected by the application of earnings, and through payments to the credit of capital account made by the Rentenbank by transfer of its assets during the period of liquidation;

and also from sums received by the latter from the proceeds of the land-charge annuities referred to below.

Bond issues are authorized up to six times the paid-up capital but may be increased to eight times with the consent of the Reichsrat, the upper house of the German Parliament.

The bonds of this issue are secured by an equivalent amount of mortgages (or cash in lieu thereof), fulfilling the requirements of the German mortgage bank law of 1899, constituting first liens on German agricultural, forestal, and horticultural lands at not exceeding 40 per cent of the official valuation of such lands, subject only to the original Rentenbank land-charge annuity amounting to one-quarter of 1 per cent per annum of the official land valuation, and to any prior existing mortgages for the immediate discharge of which appropriate provision will be made, and to possible minor charges not of a capital nature for which due allowance will be made in advances made on such mortgages.

The Central Bank for Agriculture covenants and the German Government stipulates in its approval of the issue given in conformity with the charter law that the Central Bank for Agriculture will not issue any other bonds or contract any indebtedness in any manner sharing in the specific security provided for the bonds of this issue.

The Reichsbank will act as supervisory trustee in Germany and will exercise general supervision over bonded agents appointed by it in conjunction with the German Government to examine and pass upon the mortgages securing the bonds and to have the custody of the deposited mortgage documents.

The business operations and policies of the Central Bank for Agriculture are under the supervision of the German Government. The governing board includes eleven members appointed by the German Reichsrat and two appointed by the Government.

The purpose of this issue is to provide funds calculated to increase the productivity of German agriculture. This should exert a favorable influence on German national economy and on the potential balance of payments available to creditor nations.

Application will be made to list these bonds on the New York Stock Exchange.

We offer these bonds if, as and when issued and received by us, subject to the approval of our counsel, Messrs. Shearman & Sterling, New York City, and Dr. Ernst Wolff, Berlin. Delivery in temporary form is expected on or about September 28, 1925.

Price 93 and interest, yielding 7.63 per cent.

THE NATIONAL CITY CO.,
New York City.

CENTRAL BANK FOR AGRICULTURE, GERMANY,
Berlin, Germany, September 12, 1925.

THE NATIONAL CITY CO.,
National City Bank Building, New York, N. Y.

GENTLEMEN: In connection with your purchase of \$25,000,000, Deutsche Rentenbank-Kreditanstalt first lien 7 per cent gold farm loan sinking fund bonds we take pleasure in giving you the following information:

ORGANIZATION AND PURPOSE

The Deutsche Rentenbank-Kreditanstalt, which hereinafter, for the purpose of brevity, is referred to as Central Bank for Agriculture, has an authorized capital and surplus of 500,000,000 reichsmarks (\$119,047,619) and a paid-up capital of 170,000,000 reichsmarks (\$40,476,190). It is situated in Berlin, having been organized under the auspices of the German Government in accordance with a law passed on July 18, 1925.

This Central Bank for Agriculture is the central institution for German agricultural credit organizations. Its purpose is to use its own resources and the proceeds of loans obtained at home or abroad in granting through existing agricultural credit organizations, some of which have been in existence for more than 100 years, loans or credits for the promotion of agricultural production in all its branches.

The governing board is composed of 27 members, of whom 11 are appointed by the German Reichsrat, 2 by the German Government, and 11 by certain leading agricultural organizations specified in the charter law. These members, together with the president, who acts as chairman of the board, may elect, by a two-thirds majority, two additional members who must be credit experts.

GOVERNMENT SUPERVISION

According to the provisions of its charter and by-laws, the Central Bank for Agriculture is under the supervision of the German Government and of the Reichsrat, the upper house of the German Parliament, the members of which represent the several German States. The Government must approve all changes in the by-laws, the disposition of assets in liquidation, and the distribution of profits, except when the latter are used to increase the paid-up capital and reserves to a total not exceeding the authorized amount of 500,000,000 reichsmarks (\$119,047,619). The Government must furthermore approve all bond issues and through its commissioners supervise the conduct of the business of the Central Bank for Agriculture to assure that it is carried on in accordance with legal and other obligations. The Reichsrat must be kept informed of the operations and policies of the Central Bank for Agriculture.

SECURITY

These bonds have the following security:

(1) They are the direct credit obligations of the Central Bank for Agriculture, secured by its entire resources. Its paid-up capital amounting to \$40,476,190 (which may be increased to a total authorized capital and surplus of \$119,047,619) affords an equity of exceptional strength.

(2) There will at all times be on deposit as security therefor mortgage documents evidencing mortgages of an unamortized principal equivalent in gold marks to the aggregate principal amount of the outstanding bonds or, in lieu of such mortgage documents, cash of an equivalent amount. Except for any prior existing mortgages, for the immediate discharge of which appropriate provisions will be made in the trust indenture, these mortgages will constitute absolute first liens on the property covered subject only to the original Rentenbank land-charge annuity for a period in no case extending beyond October 11, 1934, amounting to 1¼ per cent per annum of the official land valuation, which annuity is pledged for the redemption of Rentenmark notes remaining outstanding, and to possible minor charges not of a capital nature for which due allowance will be made in advances made on such mortgages. These mortgages will not exceed 40 per cent of the official valuation of German agricultural, forestal, or horticultural lands, must fulfil the requirements of the German mortgage bank law of 1899, will mature not later than the maturity of the bonds and will bear interest at the rate of at least 7 per cent per annum. Payment on account of the principal thereof will be collectible by the trustees. The deposit of the mortgage documents under the trust indenture provides security equivalent to a pledge under German law. The remedies with respect thereto in case of default are, however, enforceable through an official receiver and not by the trustee directly.

(3) Each of the agricultural credit organizations from which the deposited mortgage documents are acquired by the Central Bank for Agriculture will be individually respectively liable with respect to such mortgages to the full amount of the unamortized principal thereof.

The Central Bank for Agriculture covenants and the German Government stipulates in its approval of this issue, given in conformity with the charter law, that the Central Bank for Agriculture will not issue any other bonds or contract any indebtedness in any manner sharing in the specific security provided for the bonds of this issue.

The Central Bank for Agriculture under present restrictions may not issue bonds in an amount in excess of six times its capital, which limit may be increased to eight times its capital with the consent of the Reichsrat.

The valuation of farm lands is officially determined in accordance with the revised "Wehrbeitrag" assessment, made in 1924, which is based on the average annual yield that may be produced under average farming conditions and is made exclusive of all improvements. The official valuation of all German agricultural, forestal, and horticultural lands subjected to the Rentenbank land-charge annuity is now placed at approximately \$10,000,000,000, a conservative valuation, appreciably lower than pre-war valuations. The ratio of official valuation to actual value varies in the different states and provinces, but has always been kept at a conservative level substantially under the actual value.

The German mortgage bank law of 1899, the basic law governing loans made by mortgage banks, allows secured loans to be made against first mortgages on a general basis of 60 per cent of the valuation of the property by such mortgage banks and bankers and provides that mortgage bonds issued by such banks must be covered by not less than an equal amount of first mortgages carrying at least

the same rate of interest. Such mortgages must be officially registered in the public realty registers (Grundbuecher).

Loans granted from the proceeds of this issue may be made only against first mortgages deposited under the trust indenture not exceeding 40 per cent of the official valuation of the property as hereinbefore indicated.

A special bond reserve will be established by the Central Bank for Agriculture and invested in liquid securities determined by the governing board upon recommendation of the managing directors, into which reserve will be paid one-third of all profits earned until this reserve is equal to 5 per cent of the value of all bonds issued and outstanding.

The Reichsbank will act as supervisory trustee in Germany and will exercise general supervision over bonded agents appointed by it in conjunction with the German Government to examine and pass upon the mortgages securing the bonds and to have the custody of the deposited mortgage documents.

PURPOSE OF ISSUE

The purpose of this issue is to provide funds for the making of farm loans calculated to increase the productivity of German agriculture. The consequent growth in agricultural production in Germany should tend to reduce the import of food stuffs, thereby exerting a favorable influence on German national economy and on the potential balance of payments available to creditor nations.

The proceeds of this issue may also be used to retire existing liens on land which will be mortgaged to secure the bonds of this issue provided that not more than 20 per cent of the proceeds of this issue can be used to retire such existing liens. Inasmuch as these liens are in a majority of cases in favor of mortgage banks or other mortgage credit institutions, such sums as may be repaid in order that the mortgages securing this issue may have a first lien, will in the main be reallocated for agricultural purposes.

BUSINESS AND MANAGEMENT

The Central Bank for Agriculture, in the execution of its rôle as a central agricultural credit institution, functioning under government supervision, grants interest bearing loans for agricultural purposes to the credit institutions designated in its charter and by-laws, to the States, and to organizations designated by the National or State Governments. These will be mainly long term first mortgage loans as described above, made from the proceeds of bonds issued in its own name, such as the present issue. Under the charter law it may also make short term loans until December 31, 1930, from its own capital, primarily by rediscounting the agricultural paper of regional banks.

The Central Bank for Agriculture may purchase and sell exchange as required in carrying out its business and may invest available cash in short term securities through the agency of the Reichsbank or other approved banking institutions.

It may facilitate the repayment of outstanding agricultural loans which were made in Rentenmarks soon after the stabilization of German currency, thereby aiding in the abrogation of the land-charge annuity, amounting to 1¼ per cent per annum of the official land valuation imposed upon German, agricultural, forestal and horticultural lands to secure the Rentenmark currency, as previously described. This abrogation becomes effective on or before October 11, 1934.

The conduct of business is in the hands of not less than two managing directors, elected by the governing board and responsible to the same.

Although subject to Government supervision, the management of the Central Bank for Agriculture enjoys independent discretion in the conduct of the business of the institution.

CAPITAL AND EARNINGS

The paid-up capital of the Central Bank for Agriculture at present totals 170,000,000 reichsmarks (\$40,476,190) and may be increased from time to time as indicated in the following paragraph to an authorized total of 500,000,000 reichsmarks (\$119,047,619), including the surplus and all reserves except the special bond reserve.

Capital increases may be effected from time to time by the application of earnings and through payments to the credit of the capital account of the Central Bank for Agriculture by the Rentenbank by transfer of its assets during the period of liquidation and also from sums received in payment of the land-charge annuities to the extent that such proceeds are not designated for the retirement of the rentenmark notes, in accordance with the provisions of the rentenmark liquida-

tion act of August 30, 1924. The present paid-up capital of 170,000,000 reichsmarks (\$40,476,190) of the Central Bank for Agriculture represents the first of such payments. Moneys receivable from the annuities paid on the land charge are paid over in sums up to 25,000,000 reichsmarks (\$5,952,381) annually and will cease when the land-charge annuity is abolished upon the final liquidation of the Rentenbank. This will probably take place in six years, but in no case later than October 11, 1934.

In addition to the above accretions to the capital, not less than 25 per cent of the net profits earned by the Central Bank for Agriculture must be paid into the legal reserve until the same is equal to not less than 10 per cent of the paid-up capital. At least 33½ per cent of such net profits must be paid into the special bond reserve until this reserve amounts to 5 per cent of the bonds of the Central Bank for Agriculture issued and outstanding. The profits remaining may by resolution passed at the general meeting be added to the capital, to the legal reserve, or to such other reserves as may subsequently be set up, or they may be applied to agricultural purposes with the approval of the German Government. Under certain conditions profits in excess of those required to be devoted to statutory reserves may be used to expedite the redemption of rentenmark notes outstanding.

GERMAN AGRICULTURAL CREDITS

Agricultural credit institutions granting both long term mortgage loans and short term credits have long existed in Germany, many of them cooperative in character somewhat similar to mutual savings banks and other cooperative institutions in the United States. Prior to 1914, these organizations did a flourishing business granting agricultural credits totaling approximately \$2,382,457,000 against which were issued bonds secured by farm mortgages to the extent of \$1,357,100,000. These bonds were dealt in on the German stock exchanges, the majority carrying coupon rates of 3½ per cent and 4 per cent. The organization committee appointed under the Dawes plan to recommend detailed provisions in regard to the new bank of issue suggested that an agricultural credit institution should be formed to which the Rentenbank should transfer its credit balances and which should supply agriculture with the credits urgently needed to replace deficiencies in working capital resulting from the inflation period. The Central Bank for Agriculture has been organized pursuant to this suggestion to act as the central bank for the existing organizations which have previously served German agricultural needs.

The bonds of the Central Bank for Agriculture are not government obligations or government guaranteed obligations but they are the secured obligations of a credit institution operating under government charter and under government supervision on whose governing board there is governmental representation.

Throughout this letter German currency has been converted into United States currency at the rate of 4.20 reichsmarks to the dollar.

Very truly yours,

DEUTSCHE RENTENBANK-KREDITANSTALT,
LANDWIRTSCHAFTLICHE ZENTRALBANK.
KISSLER, *Managing Director*.
LIFF, *Managing Director*.

(The information contained in this circular has been obtained, partly by cable, from official statements and statistics and from other sources which we consider reliable. We do not guarantee, but believe it to be correct. Except as otherwise stated, all figures in this circular have been translated from German marks into United States dollars at the parity of 4.2 marks to the dollar.)

SAMPLE OFFERING LETTERS

ORIGINAL TERMS LETTER SENT AFTER TELEPHONE OFFERING WHICH HAD BEEN
VERBALLY ACCEPTED

SEPTEMBER 14, 1925.

DEAR SIR: We have agreed to purchase subject to issue as planned at 88 per cent and accrued interest, \$25,000,000 Deutsche Rentenbank-Kreditanstalt Landwirtschaftliche Zentralbank (Central Bank for Agriculture, Germany) first lien 7 per cent gold farm loan sinking fund bonds, due September 15, 1950.

A distributing group is being formed to take over this purchase at 89 per cent and accrued interest, and it is expected that the bonds will be offered to the

public at 93 per cent and accrued interest through a selling group, members of which will receive a selling concession of 3 per cent on bonds confirmed to them.

We are pleased to confirm your participation of \$7,500,000 on original terms in this purchase, subject to a management and origination fee of $\frac{1}{8}$ per cent to ourselves.

Kindly confirm your acceptance and oblige.

Very truly yours,

_____, *Vice President.*

DEUTSCHE RENTENBANK-KREDITANSTALT LANDWIRTSCHAFTLICHE ZENTRALBANK
CENTRAL BANK FOR AGRICULTURE, GERMANY—\$25,000,000 FIRST LIEN 7
PER CENT GOLD FARM LOAN SINKING FUND BONDS, DUE SEPTEMBER 15,
1950

DISTRIBUTING GROUP

Confidential.

NEW YORK, *September 15, 1925.*

DEAR SIR: We have agreed to purchase, subject to issue as planned, \$25,000,000 Deutsche Rentenbank-Kreditanstalt Landwirtschaftliche Zentralbank (Central Bank for Agriculture, Germany) first lien 7 per cent gold farm loan sinking fund bonds due September 15, 1950.

We are forming a distributing group in which we shall participate and of which we shall be the managers, to take over this purchase at 89 per cent and accrued interest, which price allows us a profit. We are pleased to confirm that we have offered you and you have accepted a participation in this group of \$ _____ which participation is for your own account and not to be re-offered, subdivided, or transferred. The gross profit to this group is 1 per cent.

Expenses in connection with the purchase and sale of these bonds will be charged to this distributing group. We reserve the right to trade in this issue and any profits or losses accruing through such trading will be credited to or charged against this distributing group.

A selling group of which we shall be the managers and in which you will also be included will be given the privilege to offer these bonds to the public for subscription, subject to allotment, at 93 per cent and accrued interest and will receive a selling concession of 3 per cent on face value of bonds confirmed to them.

The bonds are to be held together for sale under our management for a period of 60 days from date, with a privilege of extension, unless the account be sooner terminated by us. We are to have full control of the account, with power to sell the bonds and to repurchase and resell them. We are to make no charge for our services in managing the account, for, as stated above, a profit is included in the price at which the bonds are being sold to the distributing group; but, as members of such group, we shall be entitled to receive the same profit as is allowed to other members. We reserve the right to change the list price and concessions, and to close the account, at any time, without notice.

Kindly confirm your acceptance to the National City Co. and oblige.

Yours very truly,

THE NATIONAL CITY CO.,
HARRIS, FORBES & CO.,
LEE, HIGGINSON & CO.,
By THE NATIONAL CITY CO.,
Vice President.

CENTRAL BANK FOR AGRICULTURE, GERMANY—\$25,000,000 DEUTSCHE RENTEN-
BANK-KREDITANSTALT LANDWIRTSCHAFTLICHE ZENTRALBANK FIRST LIEN 7
PER CENT GOLD FARM LOAN SINKING FUND BONDS DUE SEPTEMBER 15, 1950

SELLING GROUP

NEW YORK, *September 15, 1925.*

DEAR SIR: We have agreed to purchase, subject to issue as planned, \$25,000,000 Deutsche Rentenbank-Kreditanstalt Landwirtschaftliche Zentralbank (Central Bank for Agriculture, Germany) First Lien 7 per cent gold farm loan sinking fund bonds due September 15, 1950.

We are inviting a selected list of dealers, including yourselves, to participate, without commitment, in the distribution of these bonds, for delivery, when, as,

and if issued to and received by us and subject to all necessary approvals. The public offering price is to be 93 per cent and accrued interest.

Subscription books will be open at the office of The National City Co., 55 Wall Street, New York City, on Wednesday, September 16, 1925, and will be closed at our discretion. You will be allowed a selling concession of 3 per cent on bonds confirmed to you, out of which not exceeding $\frac{1}{4}$ per cent may be reallocated to dealers, banking institutions and insurance companies. No other concessions are to be allowed by you to anyone. From the gross selling concession will be deducted such portion of the distributing expenses as we may in our discretion determine.

Inasmuch as a substantial part of this issue has been taken by European groups, your acceptance of the terms of this offering letter and subscription for bonds is with the agreement on your part that offerings of these bonds by you will be confined to the United States and Canada.

Payment for bonds confirmed is to be made at 92 $\frac{1}{4}$ per cent and accrued interest at the office of the treasurer of The National City Co., 50 Wall Street, New York City, on or about September 28, 1925, in New York City funds, at which time temporary bonds or interim certificates will be delivered.

We reserve the right to retain the full selling concession on any bonds originally delivered to you (irrespective of the price at which such delivery is made) which may be repurchased in the open market at or below the list price of 93 per cent and accrued interest, during the operation of the account, or we may elect to require you to take up such repurchased bonds at repurchased cost to us. The balance of the selling concession will be paid upon the termination of the account on or about November 16, 1925, but we reserve the right at our discretion to dissolve the group at an earlier date and also to extend it for any period or periods not exceeding 60 days in the aggregate.

We will manage the account with full powers and reserve the right to sell and repurchase and resell bonds in our uncontrolled discretion. Upon written notice from us we may exclude from all interests and profits from this account anyone failing to observe the terms hereof and hold him liable to repay any concession which may have been allowed. We shall make no charge for our services in managing this account, as we will be otherwise compensated, but as members of the group we shall be entitled to receive the same concession as is allowed to other members.

Preliminary circular describing this issue is inclosed. Additional circulars our imprint or in blank will be supplied in reasonable quantity upon request.

Please send your subscriptions over public wires direct to The National City Co., 55 Wall Street, New York City and confirm by letter.

Very truly yours,

THE NATIONAL CITY CO.
HARRIS, FORBES & Co.
LEE, HIGGINSON & Co.

By
THE NATIONAL CITY CO.,
Vice President.

\$20,000,000 RHINE-WESTPHALIA ELECTRIC POWER CORPORATION (RHEINISCH-WESTFÄLISCHES ELEKTRIZITÄTWERK AKTIEN-GESELLSCHAFT)—CONSOLIDATED MORTGAGE GOLD BONDS, 6 PER CENT SERIES OF 1928 (CARRYING CERTAIN STOCK-PURCHASE RIGHTS FOR "AMERICAN SHARES"), DUE AUGUST 1, 1953

DISTRIBUTING GROUP

NEW YORK, September 25, 1928.

DEAR SIR: We have agreed to purchase subject to issue as planned \$20,000,000 Rhine-Westphalia Electric Power Corporation (Rheinisch-Westfälisches Elektrizitätswerk Aktien-Gesellschaft) consolidated mortgage gold bonds, 6 per cent series of 1928 (carrying certain stock-purchase rights for "American shares") due August 1, 1953, and are forming a distributing group in which we shall participate and of which we shall be the managers to take over this purchase at 91 $\frac{1}{4}$ per cent and interest, which price allows us a profit. We are pleased to confirm that we have offered you and you have accepted a participation in this group of \$ which participation is for your own account and not to be re-offered, sub-divided, or transferred. The gross profit to the distributing group is $\frac{1}{4}$ per cent.

It is planned that the distributing group will make public offering Wednesday morning, September 26, 1928, at 94 per cent and interest, if, as, and when issued and received by us and subject to approval of counsel, through a selling group of which we shall also be the managers and in which you will also be included. The members of this selling group are to receive a selling commission of 2 per cent on bonds confirmed to them. It is understood that your participation in the distributing group carries with it 80 per cent thereof in firm bonds in the selling group.

Expenses in connection with the purchase and sale of these bonds, in excess of those charged to the selling group, and selling commissions will be charged to this distributing group.

We as managers may allot bonds of this issue in our uncontrolled discretion and may trade in these bonds and outstanding issues of the Rhine-Westphalia Electric Power Corporation for distributing group account at such prices and in such amounts as we may deem advisable. Any profits or losses accruing through such trading will be credited to or charged against the distributing group. Members of the distributing group agree if called upon by us to take up their share of bonds remaining in the distributing group and/or the trading account at the close of this account.

We as managers may dispose of any unsold balance of bonds remaining in the distributing group or the trading account to any group or groups and we may share in such purchase provided the sales price of such bonds shall not be less than the then net cost to the distributing group.

The duration of the distributing group will correspond with that of the selling group but may be extended at our discretion for a further period not to exceed 30 days. We are to have full control of the account with power to sell the bonds and to repurchase and resell in our discretion. We are to make no charge for our services in managing the account for, as stated above, a profit is included in the price at which the bonds are being sold to the distributing group; but, as members of such group we shall be entitled to our proportionate share of the profit in the group. We reserve the right to change the list price and concessions and to close the account at any time without notice.

Nothing herein contained shall constitute the members of the group partners with the managers or with one another or render the managers personally liable for any group obligation or for the obligation of any member. We as managers shall have authority to settle all matters connected with the purchase of these bonds including the right, in our discretion, to agree to variations in the details set forth in the circular describing this issue, that, in our judgment do not substantially change the security purchased; and we reserve to ourselves the right whether to complete the purchase or not, even though there may be variations from the statements contained in the circular.

Upon receipt of this letter please send at once to The National City, Co., 55 Wall Street, New York City, the duplicate copy inclosed herewith duly signed.

Very truly yours,

THE NATIONAL CITY CO.,
_____, Vice President.

THE NATIONAL CITY CO.,
New York, N. Y.

DEAR SIR: We accept the participation of \$ _____ bonds under the terms of agreement and confirm purchase of 80 per cent thereof in firm bonds.

Name _____
Address _____
By _____

**TWENTY MILLION DOLLAR RHINE-WESTPHALIA ELECTRIC POWER CORPORATION
(RHEINISCH-WESTFÄLISCHES ELEKTRIZITÄTWERK AKTIEN-GESELLSCHAFT)—
CONSOLIDATED MORTGAGE GOLD BONDS, 6 PER CENT SERIES OF 1928 (CARRY-
ING CERTAIN STOCK PURCHASE RIGHTS FOR "AMERICAN SHARES"), DUE AUGUST
1, 1953**

SELLING GROUP

NEW YORK, September 25, 1928.

DEAR SIR: We have agreed to purchase, subject to issue as planned, \$20,000,000 Rhine-Westphalia Electric Power Corporation (Rheinisch-Westfälisches Elektrizitätswerk Aktien-Gesellschaft) consolidated mortgage gold bonds, 6 per

cent series of 1928 (carrying certain stock purchase rights for "American shares") due August 1, 1953, and are inviting a selected list of dealers, including yourselves, to join a selling group, without commitment, except as provided below, to offer these bonds Wednesday morning, September 26, 1928, when, as and if issued to and received by us and subject to all necessary approvals at 94 per cent and interest.

We as managers will endeavor to confirm orders as received but reserve the right to reject any or all orders in whole or in part and to allot a smaller par amount than applied for. You will be allowed a selling concession of 2 per cent on the par amount confirmed to you, out of which not exceeding $\frac{1}{4}$ per cent may be reallocated to dealers, banking institutions and insurance companies. No other concessions are to be allowed to anyone. From this gross selling concession will be deducted such portion of the distributing expenses as we may determine.

Your acceptance of the terms of this offering letter and subscription for bonds is with the agreement on your part that offerings of these bonds by you will be confined to the United States and Canada.

Payment for bonds confirmed to you is to be made at 93 $\frac{1}{4}$ per cent and interest when called for on or about October 17, 1928, at the office of the treasurer of The National City Co., 52 Wall Street, New York City, in New York City funds. This selling group will terminate on November 28, 1928, but we reserve the right in our discretion to dissolve the group at an earlier date and also to extend it for a period or periods not exceeding 60 days in the aggregate. The balance of the selling concession will be paid as soon after the termination of the selling group as the group accounts can be made up.

With respect to any bonds originally delivered to you (irrespective of the price at which such delivery is made) which may have been repurchased or contracted for by us at or below the list price during the operation of this account and which may be delivered to us for a period of seven days after the termination of this account, it shall be optional with us (a) to retain the full selling concession thereon, or (b) to require you to repurchase such bonds at the repurchased cost to us. It is understood that bonds delivered to you against such repurchases need not, in every instance, be identical with those originally delivered to you, or may not be delivered to you until after the expiration of this account.

We will manage the account with full powers and we reserve the right to sell, repurchase and resell bonds in our uncontrolled discretion. Upon written notice we may exclude from all interest and profits in this account, and hold liable to repay any concession which may have been allowed, anyone failing to observe the terms hereof. We shall make no charge for our services in managing this account, as we will be otherwise compensated, but as members of the group we shall be entitled to receive the same concession as is allowed to other members. As managers we shall not be liable with respect to the validity or value of the security, or the representations contained in, or the form or validity of, any letters, circulars, agreements or other instruments executed by the Rhine-Westphalia Electric Power Corporation, or by others, nor for the delivery of the security, nor for the performance by the Rhine-Westphalia Electric Power Corporation, or others, of any agreement on its or their part, nor in any way or for any matter connected herewith, except for lack of good faith in performing or failing to perform the undertakings expressly assumed by us by this agreement.

We agree to cause to be filed with the department of State at Albany, New York, a notice respecting these securities in the form required by the general business law of the State of New York.

Preliminary circular describing this issue is enclosed. Additional circulars with our imprint or in blank will be supplied in reasonable quantity upon request.

Please telegraph your orders under above terms over public wires direct to The National City Co., 55 Wall Street, New York City, and confirm by letter.

Very truly yours,

THE NATIONAL CITY CO.,
_____, Assistant Vice-President.

AEG \$10,000,000 ALLGEMEINE ELEKTRICITÄTS GESELLSCHAFT (GENERAL ELECTRIC CO., GERMANY) 20-YEAR 6 PER CENT GOLD SINKING-FUND DEBENTURES DUE MAY 1, 1948

THE NATIONAL CITY Co.,
May 21, 1928.

DISTRIBUTING GROUP

DEAR SIR: We have agreed to purchase, subject to issue as planned, \$10,000,000 Allgemeine Elektrizitäts Gesellschaft (General Electric Co., Germany) 20-year 6 per cent gold sinking-fund debentures due May 1, 1948.

We are forming a distributing group in which we shall participate and of which we shall be the managers, to take over this purchase at 91½ per cent and interest which price allows us a profit. We are pleased to confirm that we have offered you and you have accepted a participation in this group of \$_____ which participation is for your own account and not to be reoffered, subdivided, or transferred. The gross profit to this group is 1 per cent.

Expenses in connection with the purchase and sale of these bonds in excess of those charged to the selling group and selling concessions will be charged to this distributing group. We reserve the right to trade in this and outstanding issues of the General Electric Co., Germany, and any profits or losses accruing through such trading will be credited to or charged against this distributing group. Members of the distributing group agree if called upon by us to take up their proportionate share of bonds remaining in the distributing group and/or the trading account at the close of this account.

It is planned that the distributing group will make public offerings immediately at 94½ per cent and interest if, as, and when issued and received by us and subject to the approval of counsel, through a selling group of which we shall also be the managers and in which you will also be included. The members of this selling group are to receive a concession of 1¼ per cent on bonds confirmed to them. It is understood that your participation in the distributing group carries with it 80 per cent thereof in firm bonds in the selling group.

The distributing group will terminate on July 25, 1928, unless extended or sooner terminated by us. We are to have full control of the account, with power to sell the bonds and to repurchase and resell in our discretion. We are to make no charge for our services in managing the account, for, as stated above, a profit is included in the price at which the bonds are being sold to the distributing group; but, as members of such group, we shall be entitled to our proportionate share of the profit in the group. We reserve the right to change the list price and concession and to close the account at any time without notice.

Nothing herein contained shall constitute the members of the group partners with the managers or with one another, or render the managers personally liable for any group obligation or for the obligation of any member. The managers shall not be liable under any of the provisions hereof or for any matter connected herewith, except for want of good faith; and no obligation not expressly assumed by them herein shall be applied herefrom.

Upon receipt of this letter please send at once to the National City Co., 55 Wall Street, New York City, your formal acceptance of this participation so that our records of this account may be complete.

Yours very truly,

_____, Vice President.

AEG \$10,000,000 ALLGEMEINE ELEKTRICITÄTS GESELLSCHAFT (GENERAL ELECTRIC CO., GERMANY) 20-YEAR 6 PER CENT GOLD SINKING-FUND DEBENTURES DUE MAY 1, 1948

NEW YORK, May 21, 1928.

SELLING GROUP

DEAR SIR: We have agreed to purchase, subject to issue as planned, \$10,000,000 Allgemeine Elektrizitäts Gesellschaft (General Electric Co., Germany) 20-year 6 per cent gold sinking-fund debentures due May 1, 1948.

We are inviting a selected list of dealers, including yourselves, to join a selling group, without commitment, except as provided below, to offer these bonds Tuesday morning, May 22, 1928, when, as and if issued to and received by us subject to all necessary approvals at 94½ per cent and interest.

We as managers will endeavor to confirm orders as received but reserve the right to reject any or all orders in whole or in part and to allot a smaller par

amount than applied for. You will be allowed a selling concession of $1\frac{3}{4}$ per cent on the par amount confirmed to you, out of which not exceeding $\frac{1}{4}$ per cent may be reallocated to dealers, banking institutions, and insurance companies. No other concessions are to be allowed to anyone. From this gross selling concession will be deducted such portion of the distributing expenses as we may determine.

Inasmuch as a substantial part of this issue has been taken by European groups your acceptance of the terms of this offering letter and subscription for bonds is with the agreement on your part that offerings of these bonds by you will be confined to the United States and Canada.

Payment for bonds confirmed to you is to be made at 94½ per cent and interest when called for on or about June 12, 1928, at the office of the treasurer of the National City Co., 52 Wall Street, New York City, in New York City funds. Temporary bonds or interim certificates, exchangeable for definitive bonds when prepared and received will be delivered against payment. This selling group will terminate on July 25, 1928, but we reserve the right in our discretion to dissolve the group at an earlier date and also to extend it for a period or periods not exceeding 60 days in the aggregate. The remaining selling concession will be paid as soon after the termination of the selling group as the group accounts can be made up.

With respect to any bonds originally delivered to you (irrespective of the price at which such delivery is made) which may have been repurchased or contracted for by us at or below the list price of 94½ per cent plus interest during the operation of this account, it shall be optional with us (a) to retain the full selling concession thereon, or (b) to require you to repurchase such bonds at the repurchased cost to us, even though such bonds may not have been delivered to us until after the expiration of this account. It is understood that bonds delivered to you against such repurchases need not, in every instance, be identical with those originally delivered to you, or may not be delivered to you until after the expiration of this account.

We will manage the account with full powers and we reserve the right to sell, repurchase and resell bonds in our uncontrolled discretion. Upon written notice we may exclude from all interest and profits in this account, and hold liable to repay any concession which may have been allowed, anyone failing to observe the terms hereof. We shall make no charge for our services in managing this account, as we will be otherwise compensated, but as members of the group we shall be entitled to receive the same concession as is allowed to other members. As managers we shall not be liable with respect to the validity or value of the security or the representations contained in, or the form or validity of, any letters, circulars, agreements or other instruments executed by Allgemeine Elektrizitäts Gesellschaft, or by others, nor for the delivery of the security, nor for the performance by Allgemeine Elektrizitäts Gesellschaft, or others, of any agreement on its or their part, nor in any way or for any matter connected herewith, except for lack of good faith in performing or failing to perform the undertakings expressly assumed by us by this agreement.

Preliminary circular describing this issue is inclosed. We are forwarding you under separate cover a supply of circulars with our imprint. Additional circulars with our imprint or in blank will be supplied in reasonable quantity upon request.

Please telegraph your orders under above terms over public wires direct to the National City Co., 55 Wall Street, New York City, and confirm by letter.

Very truly yours,

THE NATIONAL CITY CO.,
Assistant Vice President.

KUHN, LOEB & CO.,
New York, December 28, 1931.

Hon. REED SMOOT,
Chairman United States Senate Committee on Finance,
Washington, D. C.

DEAR SIR: Referring to our Mr. Otto H. Kahn's yesterday's letter to you and to his testimony before your committee when he appeared before it on December 21 last, we beg to hand you herewith the following, which, as you will note from the transcript of his testimony, he was requested to file with your committee:

1. A memorandum of foreign loans offered by us since the close of the World War, together with the requested data regarding these loans.

2. A copy or photostat of our official circular describing each of the loans set forth in the above mentioned memorandum.

3. A copy of the loan agreement covering the city of Christiania (Norway) municipal external loan of 1920 25-year 8 per cent sinking-fund gold bonds due October 1, 1945, and a copy each of our underwriting and selling group letters covering that issue of bonds.

4. A list of the partners constituting our firm.

5. A list of foreign bonds at present in default here, which has been furnished to us by the Institute of International Finance of 90 Trinity Place, this city. While we believe that this list is accurate, we would respectfully request that it be used without responsibility on our part or on the part of that institute.

6. A memorandum setting forth matters which we take into account in considering the flotation of any foreign loan.

With regard to the estimate which Mr. Kahn stated to your committee that he would endeavor to have made showing the average size of retail sales of foreign securities, we beg to say that, as Mr. Kahn intimated, inasmuch as we are primarily wholesalers and not retailers of securities, we do not have at our disposal sufficient data upon which we feel we could, with any degree of accuracy, base such an estimate, and regret, therefore, that we are unable to furnish you with such data.

We are, dear sir,

Very respectfully yours,

KUHN, LOEB & CO.

P. S.—There is also inclosed a copy of the official circular (designated inclosure No. 7) describing our offering of American shares for common stock of the North German Lloyd which Mr. Kahn was also requested to file with your committee.

\$25,000,000 SWEDISH GOVERNMENT 20-YEAR 6 PER CENT GOLD BONDS, DATED JUNE 15, 1919, DUE JUNE 15, 1939, INTEREST PAYABLE JUNE 15 AND DECEMBER 15.

Coupon bonds in denomination of \$1,000, registerable as to principal. Principal and interest payable in United States gold coin of the present standard of weight and fineness at the National City Bank of New York. Principal and interest are exempt from all present or future Swedish Government, municipal, or other taxes or duties levied by or within the Kingdom of Sweden. Redeemable as a whole on June 15, 1929, or any interest date thereafter, at 102 and accrued interest on 60 days' notice.

These 20-year 6 per cent gold bonds will be the direct general credit obligations of the Swedish Government, whose faith and credit are pledged for the prompt payment of principal and interest. They will be issued under authority of the Riksdag (National Legislature of Sweden) and of the Swedish national debt office.

The wealth of Sweden, embracing both private and public property, was officially estimated in 1917 at approximately \$4,690,000,000, based on pre-war prices. Assets owned by the State were valued at \$821,152,000 in 1918. Total national debt, including both funded and unfunded, was \$441,020,800, December 31, 1918.

Sweden has prospered financially and commercially during the war. Total resources of the private commercial banks increased 148 per cent from March 31, 1913, to March 31, 1919. Bank clearings in 1918 were five and three-tenths times those of 1914. The total foreign trade has increased from \$338,233,268 in 1910 to \$591,234,800 in 1918, or 75 per cent. The total visible favorable trade balance from 1914 to 1918, inclusive, was \$462,301,778.

The fiscal system of Sweden has been established and developed on a conservative basis. Funded debt has been issued to construct national enterprises which are revenue producing, and substantial amounts have been raised by taxation for the same purposes. Taxes during the war have been increased to meet extraordinary governmental expenditures for national defense. Short-time debts have been incurred during the war to purchase food, fuel, and raw materials, and it is expected these debts will be largely liquidated from time to time as the supplies are sold.

Foreign issues headed by Kuhn, Loeb & Co. since November 11, 1918

Date	Name of issue	Amount	Price paid	Issue price	Amount of loan retired by sinking fund, as of Jan. 1, 1932, or as of the nearest date available	Total spread	Originating group's margin	Underwriting margin	Distributors' commission	Kuhn, Loeb & Co.'s gross profit from originating and underwriting margin and participation, if any, in compensation of distributors' group	Purpose of issue
June 11, 1919	Swedish Government 20-year 6 per cent gold bonds, due June 15, 1939	\$25,000,000	Per cent 96½	Per cent 99½	(1)	3	Per cent 1	Per cent 1½	Per cent ¾	\$76,553	Purchase of commodities in United States. Capital expenditures for railways, posts, telegraphs, telephones, etc.; also agricultural aid.
Oct. 27, 1924	Swedish Government 30-year (external loan) 5½ per cent gold bonds, due Nov. 1, 1954	30,000,000	96.62	99½	None.	2½	½	¾	2	56,017	
	Total Swedish issues	55,000,000									
Oct. 14, 1920	City of Christiania 25-year 8 per cent sinking fund gold bonds, due Oct. 1, 1945	5,000,000	93	99	(1)	6	2	2½	1½	87,240	Productive purposes (electric works, harbor and housing).
Sept. 30, 1924	City of Christiania 30-year 6 per cent sinking fund gold bonds, due Sept. 1, 1954	2,000,000	94	98	\$160,000	4	2		2	22,855	Do.
Apr. 10, 1925	City of Oslo 30-year 6 per cent sinking fund gold bonds, due May 1, 1955	8,000,000	97	99½	480,000	2½	¾		1½	33,092	Do.
Jan. 27, 1926	City of Oslo 20-year 5½ per cent sinking fund gold bonds, due Feb. 1, 1946	4,000,000	94	97	(2)	3	1½		1½	40,400	Partly refunding and partly as above.
	Total Norwegian issues	19,000,000									
June 8, 1927	City of Copenhagen 25-year 5 per cent gold bonds, due June 1, 1952	15,000,000	94.29	97½	None.	2.96	1.46		1½	112,372	Refunding and public works and buildings.
Apr. 24, 1928	City of Copenhagen 25-year 4½ per cent gold bonds, due May 1, 1953	12,000,000	92.077	94½	None.	2.423	1.173		1½	66,019	Refunding.
	Total Danish issues	27,000,000									
Apr. 28, 1924	Government of the Kingdom of the Netherlands 30-year 6 per cent external sinking fund gold bonds, due Apr. 1, 1954	40,000,000	94	98½	None.	4½	1½	1¾	1¾	191,805	Redemption of floating debt.
Jan. 15, 1922	Department of the Seine 20-year 7 per cent external gold bonds, due Jan. 1, 1942	25,000,000	85½	90½	(1)	5½	1½	4 ½ - 1 ½	1¾	195,582	Betterment and extension of transport systems. Refunding and other purposes.
Nov. 5, 1919	Cities of Lyons, Marseilles, and Bordeaux 15-year 6 per cent gold bonds, due Nov. 1, 1934	45,000,000	88	92½	None.	4 ½	1½	1½	1½	355,925	
Mar. 11, 1922	Paris-Lyons-Mediterranean R. R. Co. 6 per cent external sinking fund gold bonds, due Aug. 15, 1958	30,000,000	78½	83	1,610,000	4¾	1	2	1¾	308,873	Purchase of rolling stock, electrification, etc.
Apr. 19, 1922	do.	10,000,000	78½	83½		5	1½	1¾	1¾	188,656	
	Total French issues	110,000,000									
Mar. 27, 1926	"Arbed" Societe Anonyme des Acieries Reunies de Burbach-Eich-Dudelange 25-year sinking fund 7 per cent gold bonds, due Apr. 1, 1951 (Luxembourg)	10,000,000	78½	92½	957,000	6¾	2¾	1¾	2¾	78,169	Additions and improvements to properties.
Oct. 1, 1926	State of Hamburg 20-year 6 per cent gold bonds, due Oct. 1, 1946	10,000,000	88	91¾	None.	3¾	1¾		2	76,944	Partly refunding of notes, partly construction, improvements, harbor, bridges, etc.
Oct. 22, 1927	North German Lloyd 20-year 6 per cent sinking fund gold bonds, due Nov. 1, 1947	20,000,000	90	94	1,606,000	4	1½	¾	1¾	74,741	Construction and repayment of indebtedness incurred therefor.
	Total German issues	30,000,000									
Apr. 5, 1922	Czechoslovak Republic 8 per cent secured external sinking fund gold loan of 1922, due Apr. 1, 1951	14,000,000	90	96½							
May 19, 1924	Czechoslovak Republic 8 per cent secured external sinking fund gold loan of 1922, series B, due Oct. 1, 1952	9,250,000	91	96½	1,675,800	6½	2	2½	2	139,305	Public reconstruction, development of railways, canals, etc., and repayment of advances in connection therewith.
Oct. 26, 1925	Czechoslovak Republic secured external sinking fund gold loan of 1925, series A, 20-year 7½ per cent bonds, due Oct. 1, 1945	25,000,000	91	96	846,600	5½	1	1½	3	86,688	Do.
June 6, 1922	City of Greater Prague 7½ per cent mortgage loan bonds of 1922, due May 1, 1952	7,500,000	86½	92½	(1) 992,000	5 6	1 2¾	1 1¾	3 2	121,538 158,483	Funding of short term indebtedness. Construction of electric power station, gas plants, waterworks, tramways, etc.
	Total Czechoslovakian issues	55,750,000									
Sept. 5, 1923	Government of the Argentine Nation 6 per cent treasury gold notes, due March 1, 1924	55,000,000	98½	99½	(1)	1¾	¾	¾ - ¾	¾	103,698	Refunding.
Jan. 16, 1924	Government of the Argentine Nation external sinking fund 6 per cent gold bonds of 1923, series A, due September 9, 1957	40,000,000	92	96½	4,240,500	4½	1	¾ - ¾	¾	113,179	Do.
Feb. 7, 1924	Government of the Argentine Nation 6-month 5½ per cent treasury gold notes, dated February 25, 1924 (placed with banks only)	20,000,000	99¾	100	(1)	¾	¾			37,002	Do.
	Total Argentine issues	115,000,000									
June 25, 1925	Mortgage Bank of Chile guaranteed sinking fund 6½ per cent gold bonds, due June 30, 1957	20,000,000	93	97½	1,388,000	4¾	1½	1¾	1¾	120,915	Mortgage loans.
July 29, 1926	Mortgage Bank of Chile guaranteed sinking fund 6¾ per cent gold bonds, due June 30, 1961	20,000,000	95¾	99¾	4,092,000	3¾	1½		2¾	113,839	Do.
Dec. 22, 1926	Mortgage Bank of Chile guaranteed 5-year 6 per cent agricultural gold notes of 1926, due Dec. 31, 1931	10,000,000	95½	98¾	None.	3¾	2¾		1	71,724	Loans secured by agricultural products.
Apr. 30, 1928	Mortgage Bank of Chile guaranteed sinking fund 6 per cent gold bonds of 1928, due Apr. 30, 1961	20,000,000	91¾	95¾	647,000	4	2		2	59,868	Mortgage loans.
June 26, 1929	Mortgage Bank of Chile guaranteed sinking fund 6 per cent gold bonds of 1928, due May 1, 1962	20,000,000	89½	92	418,000	2½	¾		2¾	21,700	Do.
	Total Chilean issues	90,000,000									
Oct. 10, 1922	Province of Ontario 20-year 5 per cent gold bonds, due Oct. 1, 1942	20,000,000	97.67	99¾	None.	1.58	.83		¾	3,175	Refunding.
Oct. 1, 1926	Province of Alberta 30-year 4½ per cent gold debentures, due Oct. 1, 1956	6,000,000	92¾	94½	None.	1½	.75		1	36,854	
	Total Canadian issues	26,000,000									
	Total bonds retired				178,112,900						
	Total European issues	346,750,000									
	Total Canadian issues	26,000,000									
	Total South American issues	205,000,000									
	Grand total	577,750,000									

1 Entire issue repaid.
 2 Entire issue called for Feb. 1, 1932.
 3 Entire issue called for Jan. 1, 1932.
 4 Issuing group.

5 Syndicate.
 6 For expenses, ¼ per cent.
 7 Less ¼ per cent for expenses.

8 Purchase group.
 9 Selling group.
 10 Loss.

Foreign issues in which Kuhn, Loeb & Co. participated since November 11, 1918

Date	Name of issue	Amount	Syndicate headed by—	Price paid	Issue price	Amount of loan retired by sinking fund as of Jan. 1, 1932, or as of the nearest date available	Total margin	Originating group's margin	Underwriting margin	Distributors' commission	Kuhn, Loeb & Co.'s gross profit from originating and underwriting margin and participation, if any, in compensation of distributors' group	Purpose of issue
June 8, 1923	Austrian Government guaranteed loan 7 per cent sinking fund gold bonds 1923-1943.	\$25,000,000	J. P. Morgan & Co.	Per cent 85¾	Per cent 90	\$6,488,900	Per cent 4¼	Per cent 1¼	Per cent 2	Per cent 1	\$7,429	League of Nations plan of rehabilitation.
Aug. 14, 1930	Austrian Government international loan, 1930, sinking fund 7 per cent gold bonds due Aug. 1, 1957.	25,000,000	do.	91	95	511,900	4	1	1	2	26,900	Expenditures for railways, postal and telegraph, etc.
	Total Austrian Government issues.....	50,000,000										
									Offering group	Distributing syndicate		
									Per cent	Per cent		
Oct. 10, 1924	German external loan, 1924, 7 per cent gold bonds, due Oct. 15, 1949.	110,000,000	do.	87	92	31,623,100	5	1 ½	Per cent 1¼	Per cent 1¼	109,506	To ensure currency stabilization and financing deliveries in kind.
June 11, 1930	German Government international 5¼ per cent loan, 1930, 35-year gold bonds, due June 1, 1965.	98,250,000	do.	86	90	1,082,000	4	1	½	1¼	101,645	Two-thirds for capitalization of a portion of un-conditional annuities of Young plan, one-third for railway, post, etc.
	Total German Government issues.....	208,250,000										
Feb. 11, 1924	Imperial Japanese Government external loan of 1924, 30-year sinking fund 6½ per cent gold bonds, due Feb. 1, 1954.	150,000,000	do.	87½	92½	16,976,700	5	1	1	1½	445,456	Reconstruction and refunding.
May 9, 1930	Imperial Japanese Government external loan of 1930, 35-year sinking fund 5½ per cent gold bonds, due May 1, 1965.	50,000,000	do.	86	90	None.	4	1	½	1	230,947	Refunding.
Mar. 19, 1927	City of Tokio external loan of 1927 sinking fund 5½ per cent gold bonds, due Oct. 1, 1961.	20,640,000	do.	86	89½	1,167,000	3½	1	½	1	59,382	Reconstruction and refunding.
Nov. 22, 1926	City of Yokohama external loan of 1926, sinking fund 6 per cent gold bonds due Dec. 1, 1961.	19,740,000	do.	89	93	907,000	4	1	½	1½	57,230	Do.
June 26, 1931	Taiwan Electric Power Co. (Ltd.), 40-year sinking fund 5½ per cent gold bonds due July 1, 1971.	22,800,000	do.	90	93½	None.	3½	1	½	1	71,311	Development and expansion.
	Total Japanese financing.....	263,180,000										
June 30, 1927	Republic of Cuba serial 5¼ per cent gold bonds due 1928-1937..	9,000,000	do.	100	101.122	3,600,000	1.122	0.48	0.372	¾	2,940	Funding of internal floating debt.
Jan. 13, 1923	Republic of Cuba external loan 30-year sinking fund 5½ per cent gold bonds due Jan. 15, 1953.	50,000,000	do.	96.77	99¾	23,289,500	2.48		1¼	¾	4,838	
	Total.....	580,430,000				\$ 86,546,100						

¹ To J. P. Morgan, ¼ per cent.

² Average.

³ Total bonds retired.

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Sweden enjoys very high credit. In normal times, its external loans bore a rate of interest from 3 to 4½ per cent, and sold on the London and Paris Stock Exchanges at average prices to yield from 3.23 to 4.28 per cent. The average yield of four representative Swedish Government bonds quoted on the London Stock Exchange May 19, 1919, was 5.31 per cent.

The proceeds of this loan are to be used for the purchase of commodities in the United States.

We offer these bonds if, as and when issued and received by us, subject to prior sale and change in price at 99¼ and accrued interest.

Pending the preparation of definitive bonds, interim receipts exchangeable for definitive bonds will be issued against confirmed sales.

All legal matters pertaining to this issue will be passed upon by Messrs. Shearman and Sterling, New York City.

Kuhn, Loeb & Co.; The National City Co.; First National Bank, New York; Guaranty Trust Co. of New York; Brown Bros. & Co.; Kidder, Peabody & Co.; Lee, Higginson & Co.; Continental & Commercial Trust & Savings Bank, Chicago.; Union Trust Co, Pittsburgh; Mellon National Bank, Pittsburgh; First National Bank, St. Paul; Anglo & London Paris National Bank, San Francisco.

The above statements and statistics are derived from official sources or those which we regard as reliable. We do not guarantee, but believe them to be correct.

SWEDEN

NATIONAL DEBT

The per capita debt of Sweden, both funded and unfunded, as of December 31, 1918, was \$76.59, compared with \$210 for the United States. Even with the increased financial requirements of the Swedish Government occasioned by the World War, the funded debt has increased only 75 per cent since 1913. This increase is moderate compared with those of other nations. All the funded debt has been issued for capital expenditures which are revenue producing, such as State-owned railroads, telegraphs, telephones, hydroelectric plants, canals, loans to aid agriculture and loans to private owned railroads. In addition to the amount raised by loans for investment in State properties, substantial sums have been so invested from ordinary revenues and from taxation. The unfunded debt representing to a large extent banking credits has been created to finance government commissions controlling food, fuel, and raw materials. These commissions are already liquidating their affairs and the credits will be largely paid out of the proceeds.

The following statement furnished by the national debt office shows the national debt of Sweden on December 31 of each of the last six years:

	Funded	Unfunded	Total
1913	\$166,846,233	\$5,390,000	\$172,236,233
1914	186,483,681	11,524,000	198,007,681
1915	217,779,122	9,916,000	227,695,122
1916	249,298,105	15,544,000	264,842,105
1917	270,412,000	37,520,000	307,932,000
1918	291,101,600	149,919,200	441,020,800

The \$249,298,105 funded debt outstanding December 31, 1916, represented original issues of \$293,241,613, the balance \$43,943,508 having been retired through amortization. Of the funded debt of \$291,101,600 outstanding December 31, 1918, \$150,428,400 had been placed in foreign countries and \$140,673,200 in Sweden. The favorable exchange situation resulting from large excess of exports over imports during the war has stimulated the repurchase by Swedish institutions and investors of a considerable amount of Swedish loans placed abroad.

Thirteen loans issued under normal financial conditions, up to and including the year 1913, bore low rates of interest ranging from 3 per cent to 4½ per cent, with an average of 3½ per cent. Four representative bond issues of Sweden listed on the London Stock Exchange sold at average prices to yield about 3.78 per cent

during the 10-year period from 1904 to 1913. For the same period three representative issues sold on the Paris Bourse at average prices to yield about 3.67 per cent.

The national Budget for the fiscal year ending December 31, 1919, provides \$18,481,823 for service of the national debt, of which \$16,997,587 is required for interest and \$1,484,236 for amortization. The total debt service will require only 11.1 per cent of the total revenues, of which 10.2 per cent will be required for interest and 0.89 per cent for amortization.

REVENUES AND EXPENDITURES

The receipts and expenditures of the Government have been officially reported as follows:

	Receipts	Expenditures	Surplus
1913	\$81,983,880	\$69,973,996	\$12,009,884
1914	80,394,908	72,735,032	7,659,876
1915	111,315,944	110,687,484	628,460
1916	140,976,844	116,411,160	24,565,684

Actual expenditures for 1917 and 1918 are not available, but actual receipts exceeded budget estimates by \$70,039,120 in 1917 and by \$20,257,271 in 1918. The budget estimates for 1917, 1918, and 1919 were \$185,454,686, \$180,900,616 and 166,673,940, respectively. The revenues of Sweden are derived from two sources, taxation and state properties. The largest present source of taxation is the income and property tax, which has exceeded customs duties during the past few years. In 1918 the revenues from income and property tax amounted to \$69,476,327, compared with \$11,115,885 in 1913, while customs duties amounted to \$9,907,239 in 1918, compared with \$18,465,921 in 1913. Receipts from the excess profits tax have been very satisfactory, amounting in 1918 to \$81,489,812, which was about five times the estimated amount. Excise taxes are levied on sugar, tobacco, and alcoholic beverages, amounting in 1918 to \$14,368,741. Other important sources of revenue are stamp and inheritance taxes.

State properties contributed an average surplus of between \$15,000,000 and \$20,000,000 annually up to 1918, but showed a deficit of \$1,570,054 in 1918 on account of increased operating costs of the State railroads.

MONETARY SYSTEM AND BANKING

The Swedish monetary unit is the 10-kronor gold coin containing 4.032258 grams of fine gold. The reckoning unit is one krona (crown) with a gold value of \$0.268 in United States money (the rate used in converting kronor to dollars in this circular). Notes of the Riksbank and gold coins are legal tender throughout the country.

The banking system comprises the Riksbank which is owned and controlled by the State and is the only bank of issue; ordinary joint stock commercial banks with limited liability; unlimited liability (enskilda) commercial banks; the General Mortgage Bank of Sweden and mortgage societies; Private savings banks and the post office savings bank. Most of the joint-stock and unlimited-liability banks also maintain savings departments and carry large savings accounts.

Notes of the Riksbank in circulation May 3, 1919, amounted to \$196,000,000 against which was a domestic gold reserve of \$77,600,000, or 39.6 per cent. From May 2, 1914, to May 3, 1919, the domestic gold reserve increased from \$28,150,000 to \$77,600,000, or 176 per cent.

A remarkable development has taken place in Swedish banking in the last five years. Paid-in capital and surplus of the joint-stock and unlimited-liability banks have increased from \$174,700,000 on December 31, 1913, to \$250,500,000 on December 31, 1917, an increase of 43.4 per cent. Deposits increased from \$453,200,000 to \$862,500,000, or 90.3 per cent, and cash 116 per cent. The surplus of foreign assets held by the Riksbank and the private banks over their foreign liabilities was \$33,500,000 on December 31, 1913, and on March 31, 1919, had increased by \$158,500,000 to \$192,000,000, an increase of 473 per cent.

Savings bank deposits have also shown unusual growth. Deposits in private savings banks, the Post Office Savings Bank, and savings departments of the

commercial banks increased from \$362,000,000 on December 31, 1913, to \$475,000,000 on December 31, 1916, a per capita increase from \$64.40 to \$84.50. The per capita savings accounts of the people of Sweden rank high when compared with those of other countries.

AREA, POPULATION, AND GOVERNMENT

Sweden, with an area of 173,035 square miles, is one of the largest countries of Europe. The area is about 83 per cent of that of France or Germany in 1913, 142 per cent of Great Britain and Ireland, and is approximately equal to the combined areas of all the New England States, New York, Pennsylvania, New Jersey, Delaware, and Maryland. The population, as estimated by the Government in 1916, was 5,757,566. The population density is 33 persons per square mile, compared with 119 for all Europe and 176 for Western Europe. Since 1860 the population has increased 49 per cent. Illiteracy is practically unknown in Sweden. The thrifty and industrious character of the people insures a continuance of the steady national progress shown in the past.

The Government of Sweden is a constitutional monarchy. The Riksdag (national legislature) consists of two chambers which have equal authority in all questions. The cabinet ministers are responsible to the Riksdag.

WEALTH AND INDUSTRIES

The wealth of Sweden embracing both private and public property was officially estimated at approximately \$4,690,000,000 in 1917, based on pre-war prices. The assets owned by the State, such as railroads, telegraphs, telephones, hydro-electric plants, canals and forests, were valued at \$821,152,000 in 1918.

The principal industries are mining, agriculture, manufacturing, lumbering, fisheries and shipping. Immense iron ore fields exist in central and northern Sweden, containing deposits generally recognized as of the very highest grade. In 1916, 6,874,018 tons of iron ore and 720,758 tons of pig iron were produced. Other minerals produced are copper, nickel, manganese, zinc, gold, and silver. In 1916, 48,166 employees were engaged in the mining industries. The value of the 1918 harvest of agricultural products was estimated by the Central Statistical Bureau at about \$632,595,000. The chief manufactures in the order of their importance are: Food products, metals, wood, pulp, paper, textiles, leather, and chemicals. In 1915, 9,828 factories were in operation employing 404,674 work people. The value of the production from these factories was \$727,687,000. The merchant marine of Sweden, January 1, 1919, consisted of 1,209 steam vessels of 847,654 gross tonnage 396 motor vessels of 77,430 tons and 1,079 sailing vessels of 124,372 tons, a total of 2,684 vessels of 1,040,456 tons.

Sweden has very extensive water-power potentialities. This power is being rapidly developed and utilized for the further development of the natural resources of the country. The total available supply has been estimated at a minimum of 6,750,000 horsepower. France is estimated to possess 5,900,000; Italy, 5,600,000; Switzerland, 1,500,000 and Great Britain 1,000,000. The total developed power in Sweden was 1,105,096 horsepower in 1916.

The railway mileage of Sweden at the end of 1916 was 9,304 miles of which 3,078 miles were state owned and 6,226 miles private owned. The state-owned system comprises the main trunk lines. The total railway mileage has increased 86.7 per cent since 1890. The density of railway mileage per 1,000 inhabitants is the largest of the European countries. It is more than twice that of Great Britain, France, or Germany.

FOREIGN TRADE

The following table shows the foreign trade of Sweden, excluding gold and silver, since 1910:

	Imports	Exports	Total	Balance
1910.....	\$179,348,639	\$168,884,679	\$338,233,268	-\$20,464,010
1911.....	185,040,267	177,827,641	362,867,908	-7,212,626
1912.....	209,815,578	203,805,800	413,621,378	-6,009,778
1913.....	226,872,068	219,049,007	445,921,075	-7,823,061
1914.....	194,811,310	206,991,160	401,802,470	+12,179,850
1915.....	306,191,331	352,785,659	658,976,990	+46,594,328
1916.....	305,144,800	417,115,200	722,260,000	+111,970,400
1917.....	203,304,800	361,692,800	564,997,600	+158,388,000
1918.....	229,032,800	362,202,000	591,234,800	+153,169,200

1 Partially estimated.

The increase in total trade from 1910 to 1918 was 75 per cent. The average annual surplus of exports over imports from 1914 to 1918, inclusive, was \$92,460,300. This figure does not include the invisible exports such as freights earned by the merchant marine. The gross earnings of the merchant marine in 1915 were \$75,720,337. Trade between Sweden and the United States reached its high level in 1915 when the total was \$87,442,067. Owing to lack of shipping facilities, trade between the two countries declined to \$21,609,598 in 1918, but has shown a pronounced increase in 1919. For the four months ended April 30, 1919, exports from the United States to Sweden were \$38,149,326.

SWEDISH GOVERNMENT BONDS

New issue \$30,000,000 Swedish Government 30-year (external loan) 5½ per cent gold bonds, dated November 1, 1924, Due November 1, 1954.

Interest payable May 1 and November 1. Coupon bonds in denominations of \$1,000 and \$500, registerable as to principal only. Principal and interest payable in New York City in United States gold coin of the present standard of weight and fineness.

The National City Bank of New York, fiscal agent of the loan.

Not redeemable for 10 years.

Redeemable, as a whole but not in part, at the option of the Government on November 1, 1934, or any interest date thereafter, at 100 per cent.

The credit of Sweden ranks high in the financial markets of the world. Recent quotations indicate a 5 per cent average yield basis for nine representative loans listed on the Stockholm Stock Exchange. The Swedish Government 6 per cent dollar loan due 1939 now outstanding in the New York market is quoted to yield 5.40 per cent to maturity, and less than 5 per cent assuming redemption in 1929, the earliest callable date.

For the fiscal year ended June 30, 1924, ordinary revenues amounted to \$177,882,835 and ordinary expenditures \$166,124,126, leaving a surplus for the year of \$11,758,709. The service of the debt for the same period, including interest and amortization, totaled \$23,849,759, or 13.4 per cent of ordinary revenues.

We are officially informed that the proceeds of this loan will be used to meet, in part, recent capital expenditures by the Swedish Government, including posts, telegraphs and telephones, state railroads, hydroelectric developments, loans in aid of agriculture, loans to privately owned railroads, and miscellaneous state enterprises.

Application will be made to list these bonds on the New York Stock Exchange.

We offer these bonds if, as, and when issued and received by us, subject to approval of counsel. Delivery in temporary form is expected on or about November 11, 1924.

Price 99½ and interest, yielding over 5.50 per cent.

Kuhn, Loeb & Co.; First National Bank, New York; The National City Co.; Guaranty Co. of New York; Brown Brothers & Co.; Kidder, Peabody & Co.; Lee, Higginson & Co.; Continental and Commercial Trust & Savings Bank, Chicago; The Union Trust Co. of Pittsburgh; Mellon National Bank, Pittsburgh; First National Bank, St. Paul; Anglo & London Paris National Bank, San Francisco.

(The above information has been obtained, partly by cable, from official statements and statistics. While we do not guarantee we believe it to be correct. All statistics relating to foreign money are expressed in terms of the United States gold dollar at par of exchange.)

\$30,000,000 SWEDISH GOVERNMENT 30-YEAR (EXTERNAL LOAN) 5½ PER CENT GOLD BONDS, DATED DECEMBER 1, 1924, DUE DECEMBER 1, 1954

Not redeemable for 10 years. Interest payable May 1 and November 1. Coupon bonds in denominations of \$1,000 and \$500, registerable as to principal only. Principal and interest payable in New York City in United States gold coin of the present standard of weight and fineness at the National City bank of New York, the fiscal agent of the loan, without deduction for any present or future Swedish taxes, in time of war as well as in time of peace, irrespective of the nationality of the holder.

Redeemable, as a whole but not in part, at the option of the Government, on November 1, 1934, or on any interest date thereafter, at 100 per cent.

Credit.—Of the 12 external loans of the Swedish Government at present outstanding, 11 were issued prior to 1914 and bear coupon rates ranging from 3 to 4½ per cent. The Swedish Government 6 per cent dollar loan, due 1939, which was offered in 1919 at 99½ and which is the only Swedish Government issue now outstanding in the New York market, is quoted at 106 (October 24, 1924). At this price these bonds yield about 5.40 per cent to final maturity, and, assuming redemption at 102 on June 15, 1929, the earliest callable date, less than 5 per cent. The 3½ per cent loan of 1908 and the 4½ per cent loan of 1913 are quoted on London and Paris markets, respectively, at prices yielding about 5 per cent. Nine representative government issues listed on the Stockholm Stock Exchange are quoted at prices giving an average yield of 5.001 per cent.

Debt and resources.—The total national debt as of September 30, 1924, amounted to \$435,760,544, of which \$166,323,750, or about 38 per cent, was external. On the basis of the present population of 6,005,759, these amounts represent a total per capita debt of \$72.56 and a per capita external debt of \$27.70. This debt has been incurred, principally, for capital expenditures, especially the development of means of communication, agriculture, and hydroelectric power. In addition, substantial amounts from current revenues have from time to time been invested in such undertakings.

The proceeds of this loan will be used for meeting, in part, recent capital expenditures of the Swedish Government for posts, telegraphs, and telephones, state railroads, hydroelectric developments, loans in aid of agriculture, loans to privately owned railroads, and for miscellaneous state enterprises.

As an offset, the Government owns properties carried on its books as of September 30, 1924, at \$753,865,834, and additional properties, not carried on the books, valued in 1918 at \$147,400,000, making total assets of \$901,265,834, most of which are revenue producing. Since April 1, 1924, the National Bank of Sweden has been redeeming its notes in gold, and as of September 27, 1924, the ratio of gold to notes in circulation was 42.8 per cent, as compared with a ratio of 45.5 per cent as of July 31, 1914. Institutions and investors in Sweden have taken advantage of the relatively favorable position of Swedish exchange during recent years to repurchase substantial amounts of Government loans originally placed abroad.

Revenues and expenditures.—For the fiscal year ending June 30, 1924, ordinary revenues amounted to \$177,882,835, and ordinary expenditures \$166,124,126, leaving a surplus of \$11,758,709. The service of the debt for the same period, including interest and amortization, totaled \$23,840,759, or 13.4 per cent of ordinary revenues. For the period January 1, 1913, to June 30, 1923, ordinary revenues exceeded ordinary expenditures by \$85,767,079.

A substantial portion of the Government's revenues are derived from direct taxation, and during the fiscal year ending December 31, 1922, more than 28 per cent of ordinary revenues were derived from property and income taxes. Other principal sources of revenue are customs, excise duties, stamp taxes, and profits from State-owned enterprises.

Wealth and industries.—The value of real estate alone, as estimated for tax purposes in 1923, totaled \$4,646,239,087, or more than ten times the total national debt. Of the above valuation, \$421,653,016, belonging to the Government and municipalities, was tax-exempt.

The iron deposits of Sweden rank among the most important of Europe both in extent and in richness of ore, while Swedish steel has for many years enjoyed an international reputation because of its superior quality. Coal, copper, sulphur, nickel, manganese, zinc, gold, and silver are also produced. About 58 per cent of the land area consists of tracts of valuable timber which furnish an abundance of material for the manufacture of wood-pulp and paper. Exports of paper, wood-pulp, and timber for the five years 1919-1923 averaged \$209,069,426. The principal industries are agriculture, mining, lumbering, fishing, shipping, and manufacturing, especially of steel, wood-pulp, and paper. Total production of industry for 1922 amounted to \$995,745,039.

Application will be made to list these bonds on the New York Stock Exchange. We offer these bonds if, as, and when issued and received by us, subject to approval of counsel. Price on application.

The information contained herein has been obtained, partly by cable, from official statements and statistics. While we do not guarantee, we believe it to be correct. All statistics relating to foreign money are expressed in terms of the United States gold dollar at par of exchange.

THE NATIONAL CITY Co.,
National City Bank Building, New York.

**\$5,000,000 CITY OF CHRISTIANIA (NORWAY) 25 YEAR 8 PER CENT SINKING
FUND GOLD BONDS, DUE OCTOBER 1, 1945**

Interest payable April 1 and October 1.

Coupon bonds in denominations of \$1,000 and \$500 each. Principal, premium and interest to be payable in New York City in United States gold coin of, or equal to, the present standard of weight and fineness, at the office of Kuhn, Loeb & Co. without deduction for any Norwegian Government or other Norwegian taxes, present or future.

The city of Christiania is to pay to Kuhn, Loeb & Co., as a sinking fund, in quarterly instalments, the sum of \$220,000 per annum commencing January 1, 1921, and up to and including October 1, 1930, and the sum of \$215,000 per annum commencing January 1, 1931, and until the maturity of the bonds. Prior to August 1, 1925, the sinking fund is to be applied towards the purchase of bonds in the open market, if obtainable, at not more than 110 per cent and interest; any balance remaining unapplied on August 1, 1925, is to be applied to the redemption of bonds by lot on October 1, 1925, at 110 per cent. Commencing April 1, 1926, and semiannually thereafter, Sinking Fund payments are to be applied to redeem bonds by lot at 110 per cent till October 1, 1930, and at 107½ per cent thereafter. The entire issue of bonds outstanding is to be redeemable, as a whole, on any interest date from October 1, 1925, to October 1, 1930 inclusive, at 110 per cent, and from April 1, 1931 to maturity at 107½ per cent, and interest, on six months' previous notice by advertisement.

The following information has been received from Mr. J. Hoe, First Mayor of the City of Christiania. As it has been received by cable, it is subject to correction:

"Christiania, which is the capital and the principal port of the Kingdom of Norway, has a population of about 260,000. Its financial standing has always ranked very high. Previous to the war it borrowed abroad at the rate of 4 to 4½ per cent. There has never been any default on a loan of the city.

"The City's total debt, inclusive of the present issue, is Kr. 174,100,000 (Kr. 1 = \$0.268 at gold parity), of which Kr. 131,000,000 is funded debt. City-owned properties on June 30, 1919, were valued at Kr. 216,000,000 and, based on present values, are estimated at a considerably higher figure. City-owned assets are, therefore, in excess of the total debt, including the present loan. The proceeds of the present loan will be used for productive purposes, such as electric works, housing facilities and harbor improvements.

"The estimated income of the population of Christiania is Kr. 933,000,000 and its taxable income Kr. 756,000,000.

"The budget for the fiscal year to end June 30, 1921 amounts to about Kr. 131,000,000 and provides for Kr. 6,000,000 to be applied towards redemption of the unprovided balance of the two previous budgets. During and since the world war, Christiania had to make considerable expenditures for relief and other purposes connected with the world crisis and it affords proof of the conservative management of the City's finances that during these six years its income from revenue fully covered the expenditures, but for the relatively small aggregate sum of Kr. 9,900,000."

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 99 per cent and accrued interest, payable in New York against delivery of temporary receipts, deliverable if, when and as issued.

The temporary receipts will be exchangeable for the definitive bonds as and when received by us.

The right is reserved to close the subscription at any time without notice, to reject any application, to award a smaller amount than applied for and to make allotments in our uncontrolled discretion.

New York, October 15, 1920.

KUHN, LOEB & CO.

\$2,000,000 CITY OF CHRISTIANIA (NORWAY) 30-year 6 PER CENT SINKING FUND GOLD BONDS, DUE SEPTEMBER 1, 1954

Interest payable March 1 and September 1.

Coupon bonds in denominations of \$1,000 and \$500 each. Principal and interest to be payable in New York City in United States gold coin, of or equal to the present standard of weight and fineness, at the office of Kuhn, Loeb & Co. without deduction for any Norwegian Government or other Norwegian taxes, present or future.

Beginning September 1, 1929, the city of Christiania is to pay to Kuhn, Loeb & Co., in semiannual installments, the sum of \$80,000 per annum, as a sinking fund, to be applied toward the purchase of bonds in the open market, if obtainable, at or below par and interest, or, if bonds are not so obtainable, toward the redemption of bonds by drawings at par.

The entire issue outstanding is to be redeemable, as a whole, at par, at the option of the city, on any interest date on or after September 1, 1934, on six months' previous notice by advertisement.

The following information has been received from J. Hoe, first mayor of the city of Christiania. As it has been received by cable, it is subject to correction:

"Christiania, which is the capital and the principal port of the Kingdom of Norway, has a population of about 260,000. Its financial standing has always ranked very high. Previous to the war it borrowed abroad at the rate of 4 per cent to 4½ per cent. There has never been any default on a loan of the city.

"The city's total debt, exclusive of the present issue, is Kr. 226,698,000 (Kr. 1=\$0.268 at gold parity), of which Kr. 144,223,000 is funded debt. City-owned properties on June 30, 1923, were valued at about Kr. 416,000,000. City-owned assets are, therefore, largely in excess of the total debt, including the present loan. The proceeds of the present loan will be used for productive purposes, such as housing facilities and harbor improvements.

"The budget for the fiscal year to end June 30, 1925, which amounts to about Kr. 100,800,000, balances."

The undersigned offer the above bonds subject to prior sale at 98 per cent and accrued interest, yielding about 6.15 per cent to maturity.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the completion of their purchase and approval of counsel. Interim receipts, exchangeable for definitive bonds, when prepared, may be delivered against payment in New York funds. Application will be made in due course to list these bonds on the New York Stock Exchange.

KUHN, LOEB & Co.

NEW YORK, October 1, 1924.

\$8,000,000 CITY OF OSLO (CAPITAL OF NORWAY), FORMERLY CITY OF CHRISTIANIA 30-YEAR 6 PER CENT SINKING-FUND GOLD BONDS, DUE MAY 1, 1955

Coupon bonds in denominations of \$1,000 and \$500 each. Principal and interest to be payable in New York City in United States gold coin of or equal to the present standard of weight and fineness, at the office of Kuhn, Loeb & Co. without deduction for any Norwegian Government or other Norwegian taxes, present or future. Interest payable May 1 and November 1.

Beginning May 1, 1930, the city of Oslo is to pay to Kuhn, Loeb & Co., in semiannual installments, a sum sufficient to retire \$320,000 of bonds per annum, as a sinking fund, to be applied toward the purchase of bonds in the open market, if obtainable, at or below par and interest, or, if bonds are not so obtainable, toward the redemption of bonds by drawings at par.

The entire issue outstanding is to be redeemable as a whole at par, at the option of the city, on any interest date on or after May 1, 1935, on six months' previous notice by advertisement.

The following information has been received from Mr. J. Høe, first mayor of the city of Oslo:

"Oslo, which is the capital and the principal port of the Kingdom of Norway, has a population of about 260,000. Its financial standing has always ranked very high. Before the war it borrowed abroad at rates of 4 to 4½ per cent. There has never been any default on a loan of the city.

"The city's total debt, including the present issue, is about Kr. 290,000,000 (Kr. 1=\$0.268 at gold parity), of which about Kr. 207,000,000 is funded debt.

City-owned properties on June 30, 1923, were valued at about Kr. 416,000,000. City-owned assets are, therefore, largely in excess of the total debt, including the present loan. The proceeds of the present loan will be used for productive purposes, such as the city-owned gas and electric works, harbor improvements, and housing facilities.

"The budget for the fiscal year to end June 30, 1925, which amounts to Kr. 100,800,000, balances."

The undersigned offer the above bonds, subject to prior sale, at 99½ per cent and accrued interest.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the completion of their purchase and approval of counsel. Interim receipts, exchangeable for definitive bonds when prepared, may be delivered against payment in New York funds. Application will be made in due course to list these bonds on the New York Stock Exchange.

KUHN, LOEB & Co.

NEW YORK, April 8, 1925.

\$4,000,000 CITY OF OSLO (CAPITAL OF NORWAY), FORMERLY CITY OF CHRISTIANIA 20-YEAR 5½ PER CENT SINKING-FUND GOLD BONDS, DUE FEBRUARY 1, 1946.

Coupon bonds in denominations of \$1,000 and \$500 each. Principal and interest to be payable in New York City in United States gold coin of or equal to the present standard of weight and fineness, at the office of Kuhn, Loeb & Co. without deduction for any Norwegian Government or other Norwegian taxes, present or future. Interest payable February 1 and August 1.

Beginning February 1, 1927, the city of Oslo is to pay to Kuhn, Loeb & Co. in quarterly installments, a sum sufficient to retire \$210,000 of bonds per annum, as a sinking fund, to be applied toward the purchase of bonds in the open market, if obtainable, at or below par and interest, or, if bonds are not so obtainable, toward the redemption of bonds by drawings at par.

The entire issue outstanding is to be redeemable as a whole at par, at the option of the city, on any interest date on or after February 1, 1931, on six months' previous notice by advertisement.

The following information has been received from Hon. Jakob Hoe, first mayor of the city of Oslo. As it has been received by cable, it is subject to correction.

"Oslo, which is the capital and the principal port of the Kingdom of Norway, has a population of about 260,000. Its financial standing has always ranked very high. Before the war it borrowed abroad at rates of 4 to 4½ per cent. There has never been any default on a loan of the city.

"The city's total debt, including the present issue, but deducting therefrom the \$3,473,000 25-year 8 per cent sinking fund gold bonds called for redemption on April 1, 1926, is about Kr. 271,000,000 (Kr. 1 = \$0.268 at gold parity); of which about Kr. 216,000,000 is funded debt. City-owned properties on June 30, 1924, were valued at about Kr. 434,000,000. City-owned assets are, therefore, largely in excess of the total debt, including the present loan. Of the proceeds of the present loan, Kr. 11,500,000 will be applied toward the redemption, referred to above, of the 8 per cent bonds now outstanding and the balance of about Kr. 8,200,000 will be used for productive purposes, such as the city owned gas and electric works, harbor improvements and housing facilities.

"The city's budget for the fiscal year to end June 30, 1926, which amounts to Kr. 107,000,000, balances."

The undersigned offer the above bonds, subject to prior sale, at 97 per cent and accrued interest, to yield over 5.75 per cent to maturity.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the completion of their purchase and approval of counsel. Interim receipts, exchangeable for definitive bonds when prepared, will be delivered against payment in New York funds. Application will be made in due course to list these bonds on the New York Stock Exchange.

KUHN, LOEB & Co.

NEW YORK, January 27, 1926.

\$15,000,000 CITY OF COPENHAGEN (DENMARK) 25-YEAR 5 PER CENT GOLD BONDS, DUE JUNE 1, 1952

Principal and interest payable in New York City in United States gold coin of or equal to the standard of weight and fineness existing June 1, 1927, without deduction for any Danish Government or municipal or other Danish taxes, imposts, levies, or duties, present or future. Coupon bonds in denominations of \$1,000 and \$500. Interest payable June 1 and December 1.

NOT REDEEMABLE FOR 10 YEARS

The bonds are redeemable, at the option of the city, in whole, or in part by lot, on June 1, 1937, or on any interest date thereafter, at 100 per cent and accrued interest, on 60 days' published notice. International Acceptance Securities & Trust Co, fiscal agents.

The following information has been received from Hon. J. Schaarup, director general of accounts and audits of the city of Copenhagen; having been transmitted by cable, it is subject to correction:

"The city.—Copenhagen is the capital of Denmark and one of the leading commercial centers of Scandinavia. The population of the city increased from 506,390 in 1916 to 587,000 in 1926. Situated at the entrance to the Baltic Sea on one of the largest harbors in Europe, its importance to shipping has grown steadily, and during 1926 incoming ships totalled 4,984,000 net registered tons.

"The credit of the city of Copenhagen has always ranked high, and prior to the war it borrowed money at coupon rates from 3 to 4 per cent.

"Finances.—For the fiscal year 1926-27, ordinary budget receipts of the city are estimated at \$29,319,000 and expenditures at \$28,676,000. For the past three years, ordinary receipts have exceeded expenditures and during this period the city has made capital expenditures totaling \$28,106,000, which were provided for out of cash balances in the treasury, proceeds of loans, and sales of municipal property.

"As of March 31, 1927, the total funded debt of the city amounted to \$107,280,000 and there was no floating debt. The assessed valuation of real estate in the city is approximately \$804,000,000 and on March 31, 1926, the value of city-owned property was estimated at \$141,450,000, of which productive property (tramways, water, gas and electric works, markets, etc.) to the estimated value of \$101,840,000 yielded a net income of \$6,700,000 for the fiscal year 1925-26.

"Purpose.—The proceeds of this issue will be used in part to pay the internal 5 per cent loan maturing in 1928, amounting to \$6,700,000, and the balance will be used for additions and betterments to public works and buildings.

"Security.—The bonds will be the direct obligation of the city of Copenhagen and will contain a covenant that if, while any of the bonds are outstanding, it shall create or issue or guarantee any loan or bonds secured by lien on any of its revenues or assets or assign any of its revenues or assets as security for any guaranty of any obligation, the present issue of bonds will be secured equally and ratably with such other loan or bonds or such guaranty. No loan of the city is specifically secured and the city has never defaulted on any of its debt.

"Application will be made in due course to list these bonds on the New York Stock Exchange."

Conversions of Danish kroner into United States currency have been made at gold parity of \$0.268 per kroner.

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 97½ per cent and accrued interest to date of delivery, to yield about 5.20 per cent to maturity.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for, and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when and as issued and received by the undersigned and subject to the approval of counsel. In the first instance interim certificates, exchangeable for definitive bonds when prepared, will be delivered against payment in New York funds.

KUHN, LOEB & Co.
INTERNATIONAL ACCEPTANCE BANK (INC.).

NEW YORK, June 8, 1927.

\$12,000,000 CITY OF COPENHAGEN (DENMARK) 25-YEAR 4½ PER CENT GOLD BONDS, DUE MAY 1, 1933

Principal and interest payable in New York City in United States gold coin of or equal to the standard of weight and fineness existing May 1, 1928, without deduction for any Danish Government or municipal or other Danish taxes, imposts, levies or duties, present or future. Coupon bonds in denominations of \$1,000 and \$5,000. Interest payable May 1 and November 1.

NOT REDEEMABLE FOR 10 YEARS

The bonds are redeemable, at the option of the city, in whole or in part by lot, on May 1, 1938, or on any interest date thereafter, at 100 per cent and accrued interest, on 60 days' published notice. International Acceptance Trust Co. fiscal agents.

The following information has been received from Hon. J. Schaarup, director general of accounts and audits of the city of Copenhagen; having been transmitted by cable, it is subject to correction:

"The city.—Copenhagen is the capital of Denmark and one of the leading commercial centers of Scandinavia. The population of the city increased from 506,390 in 1916 to 598,400 in 1927. Situated at the entrance to the Baltic Sea on one of the largest harbors in Europe, its importance to shipping has grown steadily, and during 1927 incoming ships totaled 5,279,000 net registered tons.

"The credit of the city of Copenhagen has always ranked high and prior to the war it borrowed money at coupon rates from 3 to 4 per cent.

"Finances.—For the fiscal year 1927-28 ordinary budget receipts of the city are estimated at \$27,122,000 and expenditures at \$27,845,000. For the past four years ordinary receipts have exceeded expenditures and during this period the city has made capital expenditures totaling \$29,153,000, which were provided for out of cash balances in the Treasury, proceeds of loans and sales of municipal property.

"As of March 31, 1928, the total funded debt of the city amounted to \$120,332,000 and there was no floating debt. The assessed valuation of real estate in the city is approximately \$843,396,000 and on March 31, 1927, the value of city-owned property was estimated at \$139,414,000, of which productive property (tramways, water, gas, and electric works, markets, etc.) to the estimated value of \$101,840,000 yielded a net income of \$6,700,000 for the fiscal year 1926-27.

"Purpose.—The proceeds of this issue will be applied to the redemption of the city's municipal external loan of 1919 25-year 5½ per cent redeemable sinking-fund gold bonds, due July 1, 1944, which are to be called for redemption on July 1, 1928.

"Security.—The bonds will be the direct obligations of the city of Copenhagen and will contain a covenant that if, while any of the bonds are outstanding, it shall create or issue or guarantee any loan or bonds secured by lien on any of its revenues or assets or assign any of its revenues or assets as security for any guaranty of any obligation, the present issue of bonds will be secured equally and ratably with such other loan or bonds or such guaranty. No loan of the city is specifically secured, and the city has never defaulted on any of its debt.

"Application will be made in due course to list these bonds on the New York Stock Exchange."

Conversions of Danish kroner into United States currency have been made at gold parity of \$0.268 per krone.

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 94½ per cent and accrued interest to date of delivery, to yield 4.88 per cent to maturity.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for, and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the approval of counsel. In the first instance interim certificates, exchangeable for definitive bonds when prepared, will be delivered against payment in New York funds.

KUHN, LOEB & Co.

INTERNATIONAL ACCEPTANCE BANK (INC.).

NEW YORK, April 24, 1928.

\$40,000,000 KINGDOM OF THE NETHERLANDS (HOLLAND) 30-YEAR 6 PER CENT EXTERNAL SINKING FUND GOLD BONDS OF 1924, DUE APRIL 1, 1954

Interest payable April 1 and October 1. Coupon bearer bonds in denominations of \$1,000 and \$500. Principal and interest payable at the offices of Kuhn, Loeb & Co. and the National City Bank of New York, fiscal agents of the loan, in United States gold coin of the present standard of weight and fineness, free from all taxes, present and future, levied by the Government of the Kingdom of the Netherlands, and payable as well in time of war as in time of peace, and whether the holder be a citizen or resident of a friendly or hostile state.

A sinking fund is provided beginning April 1, 1925, to retire annually, during the first five years, one-thirtieth of the original principal amount of the loan by purchases of bonds, if obtainable, below par. The unapplied balance of any installment shall revert to the government. After 1929 the sinking fund shall retire annually by drawings at par one twenty-fifth of the aggregate principal amount of bonds outstanding on January 1, 1930.

On April 1, 1929, or on any semiannual interest date thereafter, the government may, at its option, call for redemption all the bonds of this issue then outstanding, in whole but not in part (except as above provided for the sinking fund) at par and accrued interest.

The following statements have been approved by Dr. L. A. Rics, assistant treasurer general of the Kingdom of the Netherlands; having been transmitted by cable, they are subject to correction:

"These bonds are a direct obligation of the Kingdom of the Netherlands and are authorized by act of Parliament, approved December 22, 1922.

"Holland has been for centuries one of the foremost financial and commercial powers of the world, and for generations one of the most important markets for United States and other foreign securities. Her two principal cities, Amsterdam and Rotterdam, to-day occupy a position of great international importance as banking and commercial centers.

"The foreign trade of Holland—not including that of her colonies—aggregated in 1923 Fl. 3,312,000,000, which is \$175 per capita at the present rate of exchange, as against \$73 per capita for the United States. Like Great Britain, Holland always was, and still is, a creditor country, having made very large investments in her colonies and throughout the world. As also in the case of Great Britain, her trade movement in commodities proper has even in normal times shown debit balances which were more than offset by her income from her trade and investments in her large and valuable colonial possessions and from her shipping and her financial and commercial transactions and investments in nearly every part of the globe.

"Holland's merchant marine to-day aggregates over 2,600,000 gross register tons and her vessels sail every sea.

"The total funded and the net unfunded debt of Holland at the close of the year 1923 aggregated Fl. 3,173,000,000¹ (about \$1,275,500,000). This is at the rate of about \$182 per capita, at par of exchange, compared with approximately \$785 per capita for Great Britain. Holland's credit position before the war is illustrated by the fact that her loans were then issued, from time to time, at interest rates of approximately 3½ and 3 per cent.

"The monetary unit of Holland is the guilder (florin) with a value at par of exchange of \$0.402 in the United States.

"The Bank of the Netherlands (Holland's only bank of issue), as of March 31, 1924, had a gold reserve against its circulation of about 56 per cent.

"The proceeds of this loan will be applied toward the redemption of floating debt included in the total debt as stated above. The dollars realized from this loan will be sold to the Netherlands Bank to be from time to time made available for payments to be effected in the United States for purchases and other purposes."

The undersigned will receive subscriptions for the above bonds subject to allotment, at 98½ per cent and accrued interest to date of delivery, to yield over 6.10 per cent on the investment if held to maturity.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the completion of their purchase and approval of counsel.

¹ This figure does not include treasury bills, issued to finance certain advances made by the government to the Government of the Dutch East Indies against which it holds the obligations of the latter.

Temporary bonds or interim receipts exchangeable for definitive bonds when prepared may be delivered against payment in New York funds. Application will be made in due course to list the bonds on the New York Stock Exchange.

KUHN, LOEB & Co.
THE NATIONAL CITY Co.

NEW YORK, *April 28, 1924.*

\$25,000,000 DEPARTMENT OF THE SEINE, FRANCE (COMPRISING PARIS AND ITS ENVIRONS), TWENTY YEAR 7 PER CENT EXTERNAL GOLD BONDS; DUE JANUARY 1, 1942

Authorized under law of September 29, 1919, and by a decree of the president of the republic rendered in Council of State, dated January 14, 1922.

Not subject to redemption during first 10 years.

Redeemable as a whole, upon 90 days' notice, at the option of the department, on January 1, 1932, at 105 per cent and accrued interest, or on January 1 of any subsequent year at 105 per cent less $\frac{1}{2}$ per cent per annum for each year after 1932. Interest payable January 1 and July 1. Coupon bonds, in denominations of \$1,000 and \$500.

For further information regarding this issue of bonds reference is made to the accompanying letter from Monsieur Autrand, prefect of the Department of the Seine.

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 90 $\frac{1}{2}$ per cent and accrued interest to date of delivery.

At the offering price the bonds yield 7.95 per cent to maturity. If the bonds are redeemed before maturity the yield increases gradually to a maximum of 8 $\frac{1}{2}$ per cent if redeemed on January 1, 1932, the first redemption date.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for and to make allotments in their uncontrolled discretion.

Payment for bonds allotted is to be made in New York funds, against delivery of temporary bonds or certificates, deliverable if, when, and as issued and received by the undersigned and subject to approval of counsel.

Kuhn, Loeb & Co.; The National City Co.; Guaranty Co. of New York; Dillon, Read & Co.; Harris, Forbes & Co.; Kidder, Peabody & Co.; Lee, Higginson & Co.; Brown Bros. & Co.; Blair & Co. (Inc.); Cassatt & Co.; The Union Trust Co. of Pittsburgh.

NEW YORK, *January 21, 1922.*

PARIS, *January 15, 1922.*

MESSRS. KUHN, LOEB & Co.,
New York.

DEAR SIR: With reference to the proposed issue of \$25,000,000 20-year 7 per cent external gold bonds of the Department of the Seine, I beg to state the following for your information.

France is divided, for administrative purposes, into 89 Departments.

The Department of the Seine is by far the greatest in point of wealth and population of the Departments of France, comprising the city of Paris and its residential and industrial suburbs.

The population of the Department on March 6, 1921, the date of the last census, was 4,411,691.

Each Department is governed by a prefect. The prefect is nominated by the French Government and exercises certain powers conferred upon him by law.

The annual budget of the Department is voted by the general council, and confirmed by decree of the President of the Republic. The general council is an elected body with considerable powers of local self-government, including the administration of the departmental finances. No taxes can, however, be imposed or money borrowed by the Department without the sanction of the French Government.

The general council of the department is under statutory obligation to levy annually such an amount as may be necessary to balance the Department's yearly budget. The service of the present loan will, of course, be incorporated in the annual budget. The French Government can impose additional taxes in case the general council fails to make sufficient provision for balancing its budget.

The loan which you have contracted will be the direct general obligation of the Department. The service of the loans of the Department is met out of the Department's general income which is mainly derived from (a) certain Government and municipal subventions and contributions and (b) the proceeds of taxes known as "centimes additionnels," which are levied annually by the authority of Parliament and collected together with other Government and municipal taxes by the Government tax collectors.

The estimated revenue and expenditures of the department for 1921 each amounted to approximately frs. 350,000,000, the departmental taxes for that year being approximately 44 francs per capita.

The outstanding debt of the department on December 31, 1921, amounted to approximately frs. 984,000,000. The greater part of this debt has been contracted with the Credit Foncier de France, who have issued their own bonds to the French public. The annual charges for interest and amortization of this debt amounted to approximately frs. 77,870,000, in addition to which the department provides for annuities in respect of the newly acquired transport systems amounting to approximately frs. 32,520,000 per annum. The present issue of \$25,000,000 20-year 7 per cent external gold bonds in New York and of £3,000,000 30-year 7 per cent sinking fund sterling bonds sold in London (which will constitute the only external debts of the department) will increase the total debt, at approximately present rates of exchange, by frs. 450,000,000 approximately, the charges for interest on and amortization of which, calculated at approximately the present rates of exchange, will amount to a further frs. 33,500,000 per annum. Calculated at approximately the present rates of exchange, this brings the total debt up to frs. 1,434,000,000, involving a total annual charge for interest on and amortization of the debt of approximately frs. 144,000,000.

The last official estimate made in 1910 of the value of the lands and buildings situated in the department, was approximately frs. 20,718,000,000, while the annual rental values of such properties, upon which the assessments for taxation are based, were then estimated at frs. 1,471,507,000. On present day valuations, these figures would be very considerably exceeded.

The \$25,000,000 20-year 7 per cent external gold bonds to be issued by you and £3,000,000 (equivalent to about \$12,500,000) 30-year 7 per cent sinking fund sterling bonds, which have been purchased by Messrs. Helbert, Wagg & Co. (Ltd.), London, England, and associates, and are expected to be issued shortly in London, are authorized in conformity with the law dated September 29, 1919, and by a decree of the President of the Republic rendered in council of state, dated January 14, 1922.

Both the present loan and the above-mentioned sterling loan are being contracted to provide funds for capital expenditure on the betterment and extension of the newly acquired transport systems and will thus be entirely utilized for productive purposes.

The \$25,000,000 20-year 7 per cent external gold bonds will be issued in coupon form, in denominations of \$1,000 and \$500, will mature on January 1, 1942, and will bear interest from January 1, 1922, payable semiannually on January 1 and July 1 in each year.

Principal and interest, and premium in case of anticipated redemption, will be payable in gold coin of the United States of America, of, or equal to the standard of weight and fineness existing January 1, 1922, at the office of Kuhn, Loeb & Co., in the city of New York, and are exempt from all taxes, stamp duties, transfer and other duties or deductions of any nature, present or future, levied by the Government, the Departments, municipalites, or other French authorities whatever they may be.

The Department reserves the option to redeem all the bonds of this loan, but not a part thereof, on January 1, 1932, at 105 per cent and accrued interest, or on January 1 of any subsequent year at 105 per cent less $\frac{1}{2}$ per cent per annum for each year from January 1, 1932, to the redemption date, together with accrued interest. Notice of such election to redeem shall be given to the holders of the bonds, by publication at least once in each week for 12 successive weeks, beginning not less than 90 days nor more than 100 days prior to the date of redemption, in two daily newspapers of general circulation in the city of New York.

The Department agrees, and will provide in the bonds, that so long as any of the bonds of this issue shall be outstanding, it will not create any mortgage or lien or other charge upon any of its property or revenues, unless such mortgage, lien or charge shall expressly provide that the bonds of this issue outstanding shall, ratably with any other indebtedness which such mortgage, lien, or charge may be given to secure, be entitled to the security afforded by, and be secured by, such mortgage, lien, or charge.

The Department has obtained assurance from the Government of the French Republic, that while any of the bonds of this issue are outstanding, no obstacle will be placed in the way of the Department regarding the purchase and remittance of the necessary funds to enable the Department to fulfill its obligations in respect thereof.

Pending the engraving of the definitive bonds, temporary bonds or certificates, with one or more coupons, will be issued. Such temporary bonds or certificates shall be exchangeable without expense to the holders, for definitive engraved bonds, when ready, at the office of the Equitable Trust Co. of New York, acting as bond registrar.

Application will be made to list the 20-year 7 per cent external gold bonds on the New York Stock Exchange.

Yours very truly,

AUTRAND,

Préfet of the Department of the Seine.

(The above letter, having been received partly by cable, is subject to correction.)

\$15,000,000 OF CITY OF LYONS, \$15,000,000 OF CITY OF MARSEILLES, \$15,000,000 OF CITY OF BORDEAUX—15-YEAR 6 PER CENT GOLD BONDS DUE NOVEMBER 1, 1934—INTEREST PAYABLE MAY 1 AND NOVEMBER 1

Coupon bearer bonds in denominations of \$1,000, \$500, and \$100.

Principal and interest payable in New York in United States gold coin without deduction for any French governmental, municipal, or other French taxes, present, or future.

The undersigned offer the above bonds, subject to previous sale at 92½ per cent and accrued interest to date of delivery, temporary certificates deliverable if, when, and as issued. At this price the bonds will yield 6.80 per cent if held to maturity.

Payment for bonds purchased is to be made at the offices of any of the undersigned on three days' previous notice from them. The right is reserved to reject any application in whole or in part.

For further information as to this issue of bonds, reference is made to the accompanying letter from Maurice Casenave, Esq., director-general of the French Mission in the United States.

Application will be made in due course to list these bonds on the New York Stock Exchange.

KUHN, LOEB & Co.
 GUARANTY TRUST CO. OF N. Y.
 KIDDER, PEABODY & Co.
 THE NATIONAL CITY CO.
 HARRIS, FORBES & Co.
 WM. A. READ & Co.
 CONTINENTAL & COMMERCIAL TRUST &
 SAVINGS BANK OF CHICAGO.

New York, November 5, 1919.

REPUBLIQUE FRANÇAISE,

DIRECTION GENERALE DES SERVICES FRANÇAIS AUX ETATS UNIS,

New York, November 1, 1919.

MESSRS. KUHN, LOEB & Co.,

New York, N. Y.

GENTLEMEN: Referring to the \$45,000,000, 15-year 6 per cent gold bonds due November 1, 1934, \$15,000,000 each of the cities of Lyons, Marseilles, and Bordeaux, which you have agreed to purchase, I state the following for your information:

These bonds are being issued to replace the funds used to repay on November 1, 1919, the bonds of these cities remaining outstanding of the \$36,000,000 bonds originally issued, and for other purposes. Each issue will be the direct obligation of the city issuing the same, and they will be the only external loans of these cities presently outstanding.

The bonds will be issued in bearer coupon form, in denominations of \$1,000, \$500, and \$100, and will bear interest from November 1, 1919, at the rate of 6 per cent per annum, payable semiannually on May 1 and November 1. Princi-

pal and interest of the bonds will be payable in United States gold coin of the standard of weight and fineness existing on November 1, 1919, without deduction for any present or future French governmental, municipal, or other French taxes. The Government of the French Republic has agreed to undertake, in order to permit the cities of Lyons, Marseilles, and Bordeaux, or any of them, to pay the interest or principal amount of the loan in gold in the city of New York, to furnish them and each of them, if necessary (in exchange for bank notes or other currency), with gold in the amount needed, and authorize its exportation for said purpose.

As established by the laws of France governing municipalities, the finances of these cities, and the authority to borrow money, levy taxes, and execute the annual budgets are under the control and supervision of the French National Government. Under this supervision the municipal authorities of Lyons, Marseilles, and Bordeaux have followed a conservative fiscal policy establishing the credit of the cities upon a sound basis. The internal loans now outstanding bear low interest rates.

The three cities are, next to Paris, among the largest and most important trade centers of France. Originally established in ancient times on main trade routes they have grown steadily to their present importance, because of natural economic advantages. Situated far from the zone of hostilities, their industrial condition, already sound prior to the war, has been strengthened substantially since 1914 by additional facilities provided for the extra war traffic they were called upon to handle, by their increase in population and the expansion of business.

Considered separately:

LYONS

Lyons ranks next to Paris as a center of finance, trade, and manufacturing. Her chief manufactures are of silk, and in the production of these articles she leads the world. Over 90,000 looms, employing more than 200,000 hands are engaged in these enterprises. Lyons is the capital of the Department of Rhone, and is situated at the confluence of the Rhone and Saone, both of which are navigable and flanked by several miles of quays. Ample railway facilities provide her with outlets to the interior. Local industries comprise metal works, chemical and soap factories, dye works, tanneries, and glassworks.

The population of the city has kept pace with her industries, showing an increase from 523,796 in 1912 to over 600,000 (estimated) in 1918. The total internal debt amounted in 1918 (the latest figures available), to about Fcs. 93,500,000 (at Fcs. 5.18, the approximate normal value of francs equals \$18,050,000). To this should be added the present issue of \$15,000,000, making a total of about \$33,050,000.

MARSEILLES

Marseilles, the leading maritime city of the Mediterranean, is one of the greatest natural sea ports of the world and is the southern terminus of the largest railway system in France. Situated on the northeast shore of the Gulf of Lyons, it controls all Mediterranean commerce and sends and receives cargoes through the Suez to and from India. On a normal basis, 21,000,000 gross tons of shipping annually enter and clear from her harbor. Seven wet docks, 6 dry docks, and 13 miles of quays afford accommodation for 2,000 vessels at one time. The traffic in merchandise has increased from 4,372,000 tons in 1870 to more than 21,590,000 tons at the present time. Her industries are many and well diversified, among which are metal foundries and plants for the manufacture of vegetable oils and soaps.

The population has grown from 550,619 in 1912 to about 750,000 (estimated), in 1918. The total internal debt in 1918 amounted to Fcs. 157,074,997 (at 5.18 equals \$30,323,184). To this should be added the present issue of \$15,000,000, making a total of about \$45,323,184.

BORDEAUX

Bordeaux is the principal Atlantic port, and has one of the three finest harbors in France. It is the European terminus of many lines trading with the Americas, Africa, and the British Isles. Shipbuilding is the chief industry besides which there are considerable other manufacturing enterprises. Wine production in the surrounding country contributes to a great extent to the city trade; refined sugar, rope, woolen goods, carpets, paper, and earthenware are produced on a large scale.

Her chief imports comprise metals, English coal, timber, grain and manufactured articles. She exports chiefly cloth, chemicals, and the products of local industry and large quantities of wine.

The pre-war record exhibits an annual entrance and clearance from her harbor of vessels aggregating 5,228,000 tons. The extensive additions made to her quayage and warehouse capacity to enable the handling of the large traffic during the war have greatly enhanced her opportunities for accommodating even more business in the future.

The population of the city has grown from 261,678 in 1912 to about 305,000 (estimated), in 1918. The total internal debt in 1918 amounted to Fcs. 43,442,650 (at 5.18 equals \$8,386,612). To this should be added the present issue of \$15,000,000, making a total of about \$23,386,612.

Application will be made in due course to list these bonds on the New York Stock Exchange.

Yours very truly,

MAURICE CASENAVE,
Director General of the French Mission in the United States.

\$30,000,000 PARIS-LYONS-MEDITERRANEAN RAILROAD CO. 6 PER CENT EXTERNAL SINKING-FUND GOLD BONDS, DUE AUGUST 15, 1958

Part of an authorized issue of \$40,000,000.

Coupon bearer bonds in denominations of \$1,000 and \$500.

Not subject to redemption before February 15, 1932, except for the Sinking Fund as stated below. The entire issue outstanding, but not any part, will be redeemable at 103 per cent and accrued interest, at the option of the Company on February 15, 1932, or on any interest date thereafter.

The remaining \$10,000,000 bonds of this issue have been sold at 83½ per cent and accrued interest.

The bonds are to have the benefit of a cumulative sinking-fund calculated to redeem the entire issue by August 15, 1958. This sinking fund will begin August 15, 1929, and is to operate by purchases of the bonds at or below 100 per cent and interest or by the redemption on August 15, 1929, and any August 15 thereafter, at 100 per cent and interest of bonds to be drawn by lot.

For further information regarding this issue of bonds reference is made to the accompanying letter from the Paris-Lyons-Mediterranean Railroad Co.

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 83 per cent and accrued interest to date of delivery.

At the offering price the bonds yield about 7.35 per cent to maturity. In case of earlier redemption of the entire issue at 103 per cent, the yield increases gradually to a maximum of 8.78 per cent if called on February 15, 1932, the earliest date on which the entire issue may be redeemed, and in case of any bonds redeemed at 100 per cent by the sinking fund, to a maximum of 9.22 per cent as to any bonds redeemed on August 15, 1929.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for and to make allotments in their uncontrolled discretion.

Payment for bonds allotted is to be made in New York funds, against delivery of temporary certificates, deliverable if, when, and as issued and received by the undersigned and subject to the completion of our purchase and to approval of our counsel. The temporary certificates will be issued by the National City Bank of New York, who will act as bond registrar.

THE NATIONAL CITY CO.
KUHNS, LOEB & CO.

NEW YORK, March 17, 1922.

PARIS, March 16, 1922.

Messrs. KUHN, LOEB & Co., and THE NATIONAL CITY CO.,
New York, N. Y.

DEAR SIR: Referring to the issue of \$30,000,000 6 per cent external sinking-fund gold bonds of this company, due August 15, 1958, which form part of an authorized total loan of \$40,000,000, I beg to give you the following information: The Compagnie des Chemins de Fer de Paris à Lyon et à la Méditerranée (Paris-Lyons-Mediterranean Railroad Co.) was organized in 1857. It is by

far the largest railroad enterprise in France, owning nearly 25 per cent of the French broad gauge lines. The company's concession expires December 31, 1958. Its system in France, comprising about 6,121 miles of road, consists of a main trunk line from Paris to Lyons, the chief industrial center of southern France, and from Lyons to Marseilles, the most important French port on the Mediterranean, with branches and extensions throughout the part of France southeast of Paris, through the French Riviera and to the Swiss and Italian frontiers. In addition, the company operates 641 miles in Algeria, of which 412 miles are under lease. The company has outstanding debenture bonds to the amount of Fcs. 8,065,800,500 and £5,000,000. None of these bonds carries any special security, nor is any part of the system or its rolling stock mortgaged in any way. The capital stock of the company, originally amounting to Fcs. 400,000,000 has, through amortization to date, been reduced to Fcs. 345,161,000. Under the convention of 1883, between the Government of the French Republic and the company, the Government guaranteed a dividend of 11 per cent to the holders of the capital stock of the company. Before the war the company was so successfully operated, however, that dividends in excess of the guaranty were paid out of earnings.

At the outbreak of the war, the Government took control of all the French railroads in order to insure efficient coordination for military purposes.

A new convention was entered into on June 28, 1921, between the French Government and the larger railroad systems, including this Company, approved by the "Law regulating the great railroad systems," dated October 29, 1921, revising the status of the railroads. Under this convention and law there is established a "common fund" for the purpose of creating financial solidarity of the large companies and to provide for the balancing of the receipts and expenditures and, in case of need during any fiscal year, to provide the companies with funds for their current treasury needs. The railroad companies shall turn over to the "common fund" any balance of their gross receipts available after providing for their operating expenses, interest and amortization of their loans; a variable "prime de gestion" (operating premium) intended to encourage efficient and economic operation, the guaranteed dividends to the stockholders and other charges as established by the convention. If, at any time, the gross receipts of a railroad should be insufficient to meet the charges mentioned above, there will be paid to the railroad out of the common fund any sums necessary to make up the deficiency.

The Government of the French Republic has undertaken to provide the common fund with any sums by which the receipts of the common fund may fall short of its requirements; provided, however, that if the Minister of Public Works so requires, the railroads will issue bonds for such purposes, the Government of the French Republic guaranteeing the interest, amortization, and actual expenses of the service of such bonds until paid. The convention further provides for an adjustment of tariffs, if necessary, in order to provide the railroads with sufficient revenue to meet expenditures. In regard to Fcs. 1,673,000,000 of bonds issued by the company under special law of December 26, 1924, to cover its deficiencies of Fcs. 1,229,000,000 since the beginning of the war, the convention provides that the Government will reimburse the company therefor by the payment to the company of annuities to cover the service for interest and amortization of these bonds.

The Paris-Lyons-Mediterranean Railroad Co. covenants, and the bonds will so state, that it will not, while any of the bonds of this loan are outstanding, be instrumental in, or give its consent to, any change in the convention with the Government of the French Republic, approved by the law dated October 29, 1921, which would curtail any security, guaranty, benefit, or advantage accruing to the company in respect of the bonds of this loan, or through the company to the holders of the bonds of this loan under said convention or said law of October 29, 1921.

The railroad company also covenants, and the bonds will so state, that, so long as any of the bonds of this issue shall be outstanding, it will not create any mortgage, lien, or other charge on any of its properties or revenues, or on any of the rights, benefits, or advantages accruing to it under the convention dated June 28, 1921, with the Government of the French Republic, and the law of October 29, 1921, approving the said convention, unless such mortgage, lien, or charge shall expressly provide that the bonds of this issue outstanding shall,

ratably with any other indebtedness which such mortgage, lien, or charge may be given to secure, be entitled to the security afforded by and be secured by such mortgage, lien, or charge.

In case of repurchase of the concession of the Paris-Lyons-Mediterranean Railroad Co. by the Government of the French Republic before the termination of said concession, said Government has undertaken to indemnify the company by the payment of annuities, which will be sufficient to provide for the service of interest and amortization in respect to the bonds of this loan then outstanding.

The railroad company has obtained assurance from the Government of the French Republic that, while any of the bonds of this issue are outstanding, no obstacle will be placed in the way of the railroad company regarding the purchase and remittance of the necessary funds to enable the railroad company to fulfill its obligations in respect thereof.

The 6 per cent external sinking fund gold bonds have been duly authorized by the budget law of the French Republic dated December 31, 1931, in accordance with article 2 of the law regulating the great railroad systems dated October 29, 1921, pursuant to the provisions of Title II of the convention of June 23, 1921, entered into between the Government of the French Republic and the great French railroad systems, approved by said law. The proceeds of this issue will be utilized for purchases of rolling stock, for the electrification of certain lines and for other improvements.

The present loan and £5,000,000 6 per cent sterling bonds, of the same type as the present dollar issue, quite recently issued in London with marked success at 86 per cent, and now selling at 90½ per cent, form the only outstanding external long term debt of the company.

The bonds of this loan will be issued in coupon bearer form, in denominations of \$1,000 and \$500, will be dated February 15, 1922, will mature on August 15, 1958, and will bear interest from February 15, 1922, payable semiannually on February 15 and August 15 in each year. Principal and interest and premium in case of anticipated redemption will be payable in gold coin of the United States of America of or equal to the standard of weight and fineness existing March 1, 1922, at the office of Kuhn, Loeb & Co., or at the office of the National City Bank of New York, in the city of New York, without deduction for any French governmental taxes or any other French taxes, present or future.

Beginning August 15, 1929, the loan will be redeemed through a cumulative sinking fund by repurchases if bonds are obtainable at or below par, or by annual drawings at par if not so obtainable, in amounts sufficient to retire the whole issue by August 15, 1958.

In case of drawings, the numbers of the bonds to be redeemed shall be determined by lot and notice of redemption, specifying the numbers of the bonds designated for redemption, shall be published twice a week for at least three weeks preceding the redemption date, in two newspapers of general circulation in the city of New York by Kuhn, Loeb & Co., the fiscal agents for the loan.

On February 15, 1932, or on any interest payment date thereafter, the company may at its option redeem all the bonds of this loan then outstanding, but not a part thereof, at 103 per cent of the principal amount thereof and accrued interest, provided notice of such redemption be published twice a month for at least three months preceding the redemption date, in two newspapers of general circulation in the city of New York.

Application will be made to list the 6 per cent external sinking fund gold bonds on the New York Stock Exchange.

Yours very truly,

STÉPHANE DERVILLÉ,
President Board of Directors.

(The above letter, having been received by cable, is subject to correction.)

\$10,000,000 UNITED STEEL WORKS OF BURBACH-EICH-DUDELANGE (SOCIÉTÉ ANONYME DES ACIÉRIES RÉUNIES DE BURBACH-EICH-DUDELANGE, GRAND-DUCHÉ DE LUXEMBURG) "ARBED" 25-YEAR SINKING FUND 7 PER CENT GOLD BONDS

One million dollars of the present offering have been taken for issue in Holland by a group of banks headed by DeTwentsche Bank, Amsterdam; \$1,000,000 have been taken for issue in Luxemburg by the Banque Generale du Luxemburg

and the Banque Internationale de Luxembourg, Luxembourg; and \$500,000 have been taken for Switzerland by a group of banks headed by Swiss Bank Corporation, to be dated April 1, 1926; to mature April 1, 1951.

Authorized and to be issued, \$10,000,000. Coupon bonds in denominations of \$1,000 and \$500. Interest payable April 1 and October 1. Principal and interest payable in New York City, in gold coin of United States of America of or equal to standard of weight and fineness existing April 1, 1926, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Government of the Grand Duchy of Luxemburg, or by any taxing authority thereof or therein. Redeemable as a whole (but not in part except for the sinking fund), on April 1, 1936, or on any interest date thereafter, on 60 days' notice, and on 30 days' notice if called in part for the sinking fund, at 100 per cent and accrued interest.

Cumulative sinking fund to retire entire issue by maturity.

GUARANTY TRUST CO. OF NEW YORK.

Trustee.

The accompanying letter from Mr. G. Barbanson, president of the board of directors, is summarized by him as follows:

The company, generally known as ARBED, is, with its affiliated companies, the largest single steel manufacturing concern in Europe, having a combined annual capacity of 2,880,000 metric tons of pig iron (1 metric ton=1.102 tons avoirdupois), 2,770,000 metric tons of steel ingots, 2,525,000 metric tons of finished and semifinished iron and steel products, 3,000,000 metric tons of coal and 1,500,000 metric tons of coke. Its output, which is distributed through a world-wide selling organization, comprises practically every important steel product.

The company's properties are favorably located in Grand Duchy of Luxemburg in or near the great Lorraine iron-mining district and in the coal regions of Saar Basin.

ARBED also owns controlling or substantial interests in various companies in Luxemburg, France, Belgium, and Germany, producing coal, coke, pig iron, steel ingots, and finished and semifinished products. These companies assure ARBED of coal and coke supplies and of a regular and fixed outlet for a substantial part of its production.

Both ore and coal reserves are sufficient for over 100 years.

PURPOSE OF ISSUE

Proceeds of issue are to be used for additions and improvements to properties of company and its subsidiaries, which should result in decreased costs and increased earnings, and for additional working capital and general corporate purposes.

PROVISIONS OF ISSUE

The company agrees that so long as any of these bonds are outstanding it will not mortgage, pledge, or create any liens upon any of its assets, franchises, or revenues as security for indebtedness, except purchase money mortgages, mortgages existing on property hereafter acquired and temporary obligations secured on materials, supplies, or receivables. The company has at present no indebtedness secured on materials, supplies, or receivables.

FINANCIAL

Except for outstanding unsecured bonds equivalent at current exchange rate to about \$1,940,020, this issue constitutes company's only funded debt. Properties of the company are free from lien except certain parcels of land which are subject to a government charge of approximately \$428,058 imposed as a guaranty for proper custody of employees' pension and other funds.

Directly owned properties at cost less subsequent depreciation thereon, converted by Messrs. Price, Waterhouse & Co. into dollars at gold values of currency at the time of actual expenditure, amount to \$15,500,000. The company further owns investments, likewise computed by it in gold values, of about

\$18,000,000. In addition, net quick assets, as of date of last balance sheet, at the present exchange rate, including proceeds of present issue, were equivalent to \$12,900,000, making total net assets of \$46,400,000.

The real value, as ascertained by independent engineers' appraisal of the properties and by estimate of value of investments based on current quotations or on the company's conservative appraisal, is much greater than this figure.

EARNINGS

Net profits available for interest, converted to gold values at average prevailing rates, audited by Messrs. Price, Waterhouse & Co., for past six fiscal years averaged over \$2,700,000 per annum, notwithstanding the fact that these years include the period of post-war readjustment which universally affected all business. Such net profits for past three fiscal years have been as follows:

Net profits, available for interest, after charging depreciation and all taxes

Years ended July 31—

1923	\$2,376,668
1924	3,863,472
1925	3,225,330
Average net profits last 3 years	3,155,156

Total interest charges upon completion of this financing . . . 1,019,902

Such average net profits are more than three and nine-hundredths times such total interest charges.

Such net profits for last five months of 1925 were \$1,500,000, or at rate of \$3,600,000 a year, or over three and fifty-two-hundredths times interest charges.

Foregoing net profits do not reflect any benefits from proceeds of this issue, which should substantially increase earnings, nor do they include the effects of the company's recent acquisition of almost the entire balance of over 75 per cent of the outstanding stock of the company's main subsidiary (now 98½ per cent owned) which, after all interest, earned about \$1,000,000 in 1925.

Dividends have been paid in each of past 14 years, except 1915, average for period having been equivalent to \$8.61 per share. The last dividend was equivalent to \$6.79 per share, at the then current rate of exchange. Company's dividend policy has been very conservative, a large part of total profits having been retained in business in form of reserves.

GENERAL

As a Luxemburg corporation, Arbed has the advantage of freedom from reparations and reconstruction burdens.

Its management is recognized as one of most conservative and experienced on the Continent, its leading figures representing families associated with the company or its predecessors since their inception.

Application will be made to list these bonds on the New York Stock Exchange. Ninety-two and one-half and interest, to yield over 7.67 per cent, when, as, and if issued and received by us and subject to approval of counsel. All legal details to be passed on for the bankers by Messrs. Davis, Polk, Wardwell, Gardner & Reed, of New York, and Me. Paul Emile Janson, of Brussels, Belgium. It is expected that trust receipts of Guaranty Trust Co. of New York will be ready for delivery on or about April 14, 1926.

GUARANTY CO. OF NEW YORK.
KUIHN, LOEB & CO.

NOTE.—All conversions of Belgian francs to dollars, unless otherwise stated, have been made at approximately the current rate of exchange, 3.65 cents per franc.

We do not guarantee the statements and figures contained herein, which in part have been received by cable, but they are taken from sources which we believe to be reliable.

MARCH 31, 1926.

Includes \$863,780 applicable to the 2 prior years.

UNITED STEEL WORKS OF BURBACH-EICH-DUDELANGE

(SOCIÉTÉ ANONYME DES ACIÉRIES RÉUNIES DE BURBACH-EICH-DUDELANGE)

LUXEMBURG, March 27, 1926.

MESSRS. KUHN, LOEB & CO., AND GUARANTY CO. OF NEW YORK.

GENTLEMEN: In connection with the issue of \$10,000,000 25-year sinking fund 7 per cent gold bonds of the Société Anonyme des Acéries Réunies de Burbach-Eich-Dudelange (United Steel Works of Burbach-Eich-Dudelange), we take pleasure in giving you the following information:

HISTORY AND BUSINESS

The company, generally known as ARBED, is one of the leading steel companies on the European continent. With its affiliated companies it constitutes the largest single steel manufacturing concern in Europe. The total capacity of the company and its affiliated companies amounts to about 2,880,000 metric tons of pig iron (1 metric ton=1.102 tons avoirdupois), 2,770,000 metric tons of steel ingots, 2,525,000 metric tons of finished and semifinished iron and steel products, 3,000,000 metric tons of coal and 1,500,000 metric tons of coke per annum. ARBED and its affiliated companies have a total of 64,900 employees.

The company is well integrated and its business is widely diversified, its output comprising practically every important steel product. It has its own selling organization throughout the world.

The company was formed in October, 1911, as a consolidation of the "Forges d'Elch, le Gallais-Metz & Co.," established 1847, the "Mines du Luxembourg et Forges de Surrebruck," established 1856, and the "Hauts-Fourneaux et Forges de Dudelange," established 1882.

PROPERTY AND AFFILIATIONS

The company's properties are favorably situated in the Grand Duchy of Luxembourg in or near the great Lorraine iron mining district and in the coal regions of the Saar Basin. The company's main plants are located at Dudelange, Esch-sur-Alzette, Dommeldange, and Elch, all in the Grand Duchy of Luxembourg, and at Burbach and Hostenbach in the Saar Basin, with blast furnaces having an annual capacity of 1,450,000 metric tons of pig iron, steel works and rolling mills with an annual capacity of 1,420,000 metric tons of semifinished and finished products, 400 coke ovens, foundries, etc. The company owns or has mining concessions covering about 2,775 acres in the Grand Duchy of Luxembourg, 17,000 acres in Lorraine, and 2,950 acres in the Meurthe-et-Moselle, which supply the company's entire iron-ore requirements and are estimated to contain reserves sufficient to cover the company's needs for over 100 years.

The company owns, directly or through subsidiaries, coal-mining concessions covering 8,580 acres in Belgium and Germany. In addition the company operates under a long-term contract the coal fields of the well-known Eschweller Bergwerksverein of whose capital stock an important part is owned by ARBED.¹

¹ Under this contract, entered into in 1913, ARBED guaranteed dividends of 14 per cent on the capital stock of the Eschweller Co. until 1943, when ARBED was to have the option of renewing the contract for 30 years by guaranteeing dividends of 8 per cent per annum; ARBED also agreed to buy all Eschweller stock offered to it in 1943 at 250 per cent.

In connection with the revalorization law of Germany, ARBED and Eschweller have agreed to a revalorization of the terms of the contract to 60 per cent of the former figures so that the dividend guaranteed on the Eschweller capital stock now amounts to 8.40 per cent per annum until 1943, when ARBED shall have the right to renew the contract for 30 years with guaranteed dividends of 4.50 per cent per annum; correspondingly, the price to be paid for each Eschweller share offered to ARBED in 1943 is 150 per cent.

ARBED is advised by all legal authorities consulted by it that the court, if appealed to by any dissenting Eschweller stockholder, will sustain the foregoing agreement, in which case annual dividends guaranteed on the Eschweller capital stock would amount to marks 8,192,000 (\$759,696). If the agreement should not be sustained, which appears extremely unlikely, the amount of dividends to be guaranteed would not exceed marks 5,320,000 (\$1,266,160). A considerable amount of the guaranteed dividends would revert in any case to ARBED because of its shareholdings in the Eschweller Co. Under the contract any surplus earnings of Eschweller remaining after the payment of the guaranteed dividends accrue to ARBED.

These fields, located near Aix-la-Chapelle, contain large amounts of anthracite, steam, and excellent coking coal. It is estimated that reserves of coking coal are sufficient for the needs of ARBED and its affiliated companies for at least as long as their own iron ore will last. The Eschweiler Co. has over 600 coking ovens, with complete installations for the recovery of by-products, and is equipped with blast furnaces, steel plant, rolling mills, and a structural shop, which are capable of producing 110,000 tons of pig iron and 100,000 tons of finished products per annum. The Eschweiler Co. at present produces annually 3,000,000 tons of coal and 625,000 tons of coke. Additional coke ovens are under construction and the output of coal could be increased to 5,000,000 tons per annum with practically no increase in the present installations other than the construction of more workmen's houses in order to provide for additional labor.

ARBED further owns over 98½ per cent of the capital stock of the Société Métallurgique des Terres Rouges (Red Earth Metal Co.), a Luxembourg corporation, and, directly or indirectly, practically all of the shares of Société Minière des Terres Rouges (Red Earth Mining Co.), a French corporation, which were formed in 1919 to purchase from the well-known German company "Gelsenkirchen" its properties situated in the Grand Duchy of Luxembourg, on the left bank of the Rhine and in France. These companies own extensive iron-mining concessions and have an annual producing capacity of 1,320,000 metric tons of pig iron and 1,250,000 metric tons of steel.

The working relations between ARBED, the Eschweiler Co., and the Red Earth Metal Co. are so close that, from an operating standpoint, they may be considered a single concern. A common selling company, the "Columeta" (Comptoir Métallurgique Luxembourgeois), which has a world-wide organization, handles exclusively the sale of all the metallurgical products of the three companies throughout the markets of the world.

Moreover, ARBED and Société Métallurgique des Terres Rouges have recently entered into an agreement of community of interest, under the terms of which ARBED is to manage and operate the Terres Rouges plants and the profits of the two companies are to be pooled, which should result in substantially increased earnings available for interest requirements.

In addition to the foregoing, ARBED controls the prosperous and well-known Felton & Guillaume A. G. (Cologne), and Clouterie & Tréfilerie des Flandres (Ghent), and owns substantial interests in various other companies which manufacture a wide line of iron and steel products, including drawn wire, barbed wire, nails, rivets, wire cables, small tools, iron and steel pipe, and long-distance telephone and telegraph cables, and insure to ARBED a regular and fixed outlet for a substantial part of its production.

The principal producing plants of the company and its affiliated companies have been well maintained and progressively modernized, excepting, however, the rolling mills of the plant at Burbach where the modernization has just been started.

PURPOSE OF ISSUE

The proceeds of the present issue are to be used in the modernization of the rolling mills at the Burbach plant, including the electrification of some of the drives; to increase the production of coal and coke of the subsidiaries of the ARBED-Terres Rouges group, which, it is expected, will result in substantial savings in fuel costs and in increased earnings; to coordinate still further the ARBED and Terres Rouges plants so as to obtain the maximum return from the community of interest agreement recently effected between the two companies, and for additional working capital and general corporate purposes.

THIS ISSUE

The bonds of the present issue are to be the direct obligations of the company and the company agrees, and the bonds will so provide, that so long as any of the bonds of this issue shall be outstanding, it will not mortgage, pledge, or create any liens upon any of its assets, franchises, or revenues as security for the payment of any loan or indebtedness, but this shall not apply to purchase money mortgages, mortgages existing on property hereafter acquired, or temporary loans or indemnity for a period of not more than one year incurred in the usual course of business secured on materials or supplies or accounts or bills.

receivable. The company has at present no indebtedness secured on materials, supplies, or receivables.

The company has no other funded debt outstanding, except Fcs. 53,151,500 of Belgian franc bonds, bearing 4 per cent and 5 per cent interest, all of which are unsecured, amounting to the equivalent of about \$1,940,029 at the current rate of exchange.

The \$10,000,000 25-year sinking fund 7 per cent gold bonds were authorized by the stockholders at the general meeting of stockholders on November 28, 1925. The bonds will be in coupon form, in denominations of \$1,000 and \$500, will be dated April 1, 1926, will mature April 1, 1951, and will bear interest at the rate of 7 per cent per annum from April 1, 1926, payable semiannually on April 1 and October 1 of each year. Principal and interest will be payable in the borough of Manhattan, in the city of New York, at the option of the holders, either at the office of Kuhn, Loeb & Co. or at the principal office of Guaranty Trust Co. of New York, in gold coin of the United States of America, or of equal to the standard of weight and fineness existing April 1, 1926, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Government of the Grand Duchy of Luxemburg or by any taxing authority thereof or therein.

On April 1, 1930, or any interest date thereafter, the company will have the right to redeem all but not part of the bonds at the time outstanding at 100 per cent and accrued interest, notice of such redemption to be given by advertisement, the first advertisement to appear at least 60 days before such redemption date.

SINKING FUND

The company agrees to establish a cumulative sinking fund calculated to retire the whole issue by maturity. The company shall have the right to make sinking-fund payments in bonds at par in lieu of cash. To the extent that sinking-fund installments shall not be paid in bonds, available moneys are to be applied to the redemption of bonds at 100 per cent on any interest date. Notice of redemption of bonds drawn by lot is to be given by advertisement, the first advertisement to appear at least 30 days before each redemption date.

FINANCIAL

Directly owned properties at cost less subsequent depreciation thereon, converted by Messrs. Price, Waterhouse & Co. into dollars (at gold values of currency at the time of actual expenditure) amount to \$15,500,000, while, based on a recent appraisal by independent engineers, the reproduction cost of these properties, less depreciation, is much greater. The same holds true of the investments in other companies. These, computed as above by the company, and including the additional Terres Rouges shares recently acquired, represent a gold value of approximately \$18,000,000, while their estimated value, based on current market quotations or on the company's own conservative appraisal, is substantially in excess of this figure. The net quick assets as of the date of the last balance sheet, at the present exchange rate, including the proceeds of the present issue, were equivalent to \$12,000,000. Such net quick assets are now equal to at least this amount.

While the total net assets, computed as above, amount thus to \$46,400,000, they have, as stated above, a real value much greater than this amount.

The properties of the company are free from lien except for certain parcels of land which are subject to a Government charge in the amount of approximately \$428,058 imposed as a guaranty for the proper custody of employees' pension and other funds.

The capital stock of the company consists of 240,000 shares without par value.

EARNINGS

Net profits of the company available for interest, after depreciation and all taxes, for the past three fiscal years, converted to gold values at average prevailing rates, audited by Messrs. Price, Waterhouse & Co., have been as follows:

Net profits, available for interest, after charging depreciation and all taxes

Year ended July 31:	
1923	\$2, 376, 688
1924	3, 863, 472
1925	3, 225, 330

Net profits available for interest, as shown above, averaged over \$3,155,156 per annum. This is equivalent to more than three and nine one-hundredths times total annual interest requirements, upon completion of this financing.

Net profits available for interest, after depreciation and taxes, for the five months ended December 31, 1925, amounted to approximately \$1,500,000, which is at the rate of about \$3,600,000 per annum, or over three and fifty-two one-hundredths times interest charges.

Net profits for the six years ended July 31, 1920 to 1925, on the same basis, converted to gold values at average prevailing rates, as shown by an audit of Messrs. Price, Waterhouse & Co., averaged over \$2,700,000 annually, notwithstanding the fact that these years include the period of postwar readjustment which universally affected all business.

The foregoing earnings do not, of course, reflect any benefits from the proceeds of this issue nor the pooling of the Terres Rouges profits or the effects of the company's recent acquisition of almost the entire balance of over 75 per cent of the outstanding Terres Rouges stock, all of which should substantially increase the amount of earnings available for interest requirements. The earnings of Terres Rouges for the fiscal year ended December 31, 1925, after deducting interest, amounted to about \$1,600,000.

ARBED has pursued a very conservative dividend policy, a large part of its total profits since its inception having been retained in the business in the form of depreciation and other reserves.

Dividends have been paid in each year since the establishment of the company in its present form in 1911, except in 1915, the dollar equivalent having been not less than \$5.63 per share (in 1923) and averaging \$8.61 per share per annum for the period. The last dividend was equivalent to \$6.79 per share at the then current rate of exchange.

GENERAL

As a corporation of the Grand Duchy of Luxemburg, ARBED has the advantage of being entirely free from any reparations or reconstruction burdens. The Grand Duchy of Luxemburg is an independent sovereign State. In 1921 it entered into an economic union with Belgium which is to run for 50 years, which eliminates customs barriers and provides for economic reciprocity and the use of Belgian currency in Luxemburg. The financial affairs of the Grand Duchy are in good order, its public debt is relatively low, and its ordinary revenues regularly balance ordinary expenses.

The relations between ARBED and its employees have always been very satisfactory and the company's policy of carefully looking after the health, housing, and welfare of its employees, and their families has been rewarded by good will and confidence on the part of the employees in every emergency.

The management of ARBED is recognized as one of the most conservative and experienced on the Continent. The leading figures represent families associated with the company or its predecessors since their inception.

Application will be made to list these bonds on the New York Stock Exchange.
Very truly yours,

G. BARRANSON,
President of the Board of Directors.

NOTE.—All conversions of Belgian francs to dollars, unless otherwise stated, have been made at approximately the current rate of exchange, 3.65 cents per franc.

\$10,000,000 STATE OF HAMBURG (FREE AND HANSEATIC CITY OF HAMBURG), GERMANY, 20-YEAR 6 PER CENT GOLD BONDS, DUE OCTOBER 1, 1946

Coupon bonds in denominations of \$1,000 and \$500 each. Principal and interest payable in New York City in United States gold coin or of equal to the present standard of weight and fineness without deduction for any German taxes.

¹ Includes \$863,780 applicable to the 2 prior years.

present or future, and payable in time of war as well as in time of peace and whether the holder be a citizen or resident of a friendly or a hostile State. Interest payable April 1 and October 1. International Acceptance Securities & Trust Co., fiscal agents.

The bonds are redeemable, at the option of the State, in whole or in part by lot, at 100 per cent and accrued interest on October 1, 1931, or on any interest date thereafter on 60 days' published notice.

The following letter has been received from Hon. Carl Cohn, senator, president of the finance deputation of the State of Hamburg; having been transmitted by cable, it is subject to correction:

"The State.—The State of Hamburg (Free and Hanseatic City of Hamburg) is one of the independent States constituting the federation of the Republic of Germany. It includes within its territory of 160 square miles, among other municipalities, the city of Hamburg, which is the second largest city in Germany, and the city of Cuxhaven. Both of these are important harbors, the port of Hamburg being in point of tonnage the largest in Germany, its 1925 cargoes having totaled 12,644,000 metric tons incoming and 7,217,000 metric tons outgoing; for the first half of 1926 the incoming cargoes have amounted to 5,325,000 metric tons, and the outgoing cargoes to 4,117,000 metric tons. The value of the sea-going exports from Hamburg in 1925 was \$1,028,688,000.

"The River Elbe, on which the harbor of Hamburg is situated, also commands an important inland commerce, being navigable for a distance of over 450 miles, well into Czechoslovakia. Hamburg is the home port of several large international shipping lines. Incoming ships in 1925 had an aggregate tonnage of 16,635,346, exceeding by 2,450,000 tons the tonnage of the incoming ships in 1923. Hamburg has over 18 miles of piers for sea-going vessels. Among Hamburg's 7,700 industrial establishments are some of the world's largest shipbuilding plants, including those in which the *Majestic*, *Leviathan*, and *Berengaria*, the three largest liners afloat, were built.

"According to the latest census, the State had a population of 1,176,178 inhabitants, of whom 1,100,905 were living in the city of Hamburg.

"Purpose.—The proceeds of these bonds are to be used for the payment of the State's \$5,000,000 1-year treasury note which matures on May 1, 1927, for the construction of additional piers and port railways and of a bridge over the River Elbe and for the improvement of real estate to be used for industrial purposes.

"Finances.—The revenues of the State of Hamburg are derived from local dues and taxes, the income from port works and public utilities, and the allotment of certain taxes collected by the German Reich. The State owns valuable properties, mostly income producing, of which the port works alone represent a value of over \$178,000,000. Also included in its properties are the Hamburg Gas & Waterworks and a substantial share in the Hamburg Electric Works.

"The total external debt of the State, including the present issue, but after deducting the \$5,000,000 1-year treasury note to be repaid from its proceeds, amounts to £2,854,178 and \$10,000,000. The State has no internal debt except its liability on its old mark debt, as revalorized under the law of July 16, 1925, which must be redeemed within a period of 30 years; a sum of reichmarks 6,700,000 has been provided for the service of such old debt for the current fiscal year. None of the outstanding loans is secured.

"The credit of Hamburg ranks very high. Before the war it issued its loans at coupon rates of 3 to 4 per cent. The State's budget, aggregating \$68,628,596 for the current year, balances. The port dues are collected partly in actual foreign currencies and even in the times of severest inflation were always collected on a gold basis. In 1925 these dues yielded over \$4,550,000, which alone is over two and one-half times the amounts required for the service of the whole external debt, including the present issue.

"Security.—The bonds will be the direct obligations of the State of Hamburg and will contain a covenant that if, while any of the bonds are outstanding, it shall create or issue or guaranty any loan or bonds secured by lien on any of its revenues or assets or assign any of its revenues or assets as security for any guaranty of any obligation, the present issue of bonds will be secured equally and ratably with such other loan or bonds or such guaranty.

"The enforcement of the charges to which the assets and revenues of the German Reich and its constituent States were made subject under article 248 of the Versailles treaty is suspended so long as Germany performs its obliga-

tions under the Dawes plan, which provides that certain revenues shall be specifically pledged as security for reparation payments. The public utilities in which the State has an interest have to make yearly payments under the Dawes plan in the same manner and approximately to the same extent as private enterprises of like character.

"Application will be made in due course to list these bonds on the New York Stock Exchange."

The dollar amounts above, where converted, are at the rate of 4.20 German marks to the dollar.

An issue of £2,000,000 principal amount of 25-year sinking fund 6 per cent bonds, due October 1, 1951, was sold in London on September 30, 1926, by Messrs. Baring Bros. & Co. (Ltd.), N. M. Rothschild & Sons, and J. Henry Schroder & Co., at 93½ per cent and accrued interest.

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 91¾ per cent and accrued interest to date of delivery, to yield over 6¾ per cent to maturity.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for, and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the approval of counsel. In the first instance, interim certificates, exchangeable for definitive bonds when prepared, will be delivered against payment in New York funds.

KUHN, LOEB & Co.
INTERNATIONAL ACCEPTANCE BANK (INC.).
BROWN BROS. & Co.
J. HENRY SCHRODER BANKING CORPORATION.
LEE, HIGGINSON & Co.

New York, October 5, 1926.

**\$20,000,000 NORTH GERMAN LLOYD (NORDEUTSCHER LLOYD), BREMEN, 20-YEAR
6 PER CENT SINKING FUND GOLD BONDS, DUE NOVEMBER 1, 1947.**

Coupon bonds in denominations of \$1,000 and \$500 each. Principal and interest payable in New York City at the option of the holder either at the office of Kuhn, Loeb & Co. or the principal office of Guaranty Trust Co. of New York, in United States gold coin of or equal to the present standard of weight and fineness and without deduction for any German taxes, present or future, in time of war as well as in time of peace and whether the holder be a citizen or resident of a friendly or hostile state. Interest payable May 1 and November 1.

Beginning November 1, 1929, the bonds are to be retired by a cumulative sinking fund, payable semiannually, calculated to retire the entire issue by maturity, the company to make sinking-fund payments in cash or in bonds at par, the cash to be applied to the redemption of bonds by drawings at par.

On November 1, 1932, or on any semiannual interest payment date thereafter, the company may, at its option, call for redemption all but not a part of the bonds then outstanding at par and accrued interest on not less than 60 days' notice by publication. Except for the sinking fund, bonds can not be called in part or before November 1, 1932.

For further information regarding the company and this issue of bonds reference is made to the accompanying letter dated November 8, 1927, from the North German Lloyd. As it has been transmitted by cable, it is subject to correction.

The undersigned offer the above bonds, subject to prior sale, at 94 per cent and accrued interest to date of delivery, to yield about 6.55 per cent to maturity.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the completion of the transaction as planned and to the approval of counsel. In the first instance interim certificates, exchangeable for definitive bonds when prepared, will be delivered against payment in New York funds.

KUHN, LOEB & Co.
GUARANTY Co. OF NEW YORK.
LEE, HIGGINSON & Co.

New York, November 9, 1927.

NORDEUTSCHER LLOYD (BREMEN),
Bremen, November 8, 1927.

Messrs KUHN, LOEB & Co., and GUARANTY Co. of NEW YORK,
New York, N. Y.

DEAR SIR: Referring to the \$20,000,000 principal amount North German Lloyd (Norddeutscher Lloyd) Bremen, 20-year 6 per cent sinking fund gold bonds, due November 1, 1947, which you have agreed to purchase, we beg to state the following for your information:

Business and properties.—The North German Lloyd, incorporated in 1857, operates through its own vessels and those of subsidiary companies 17 different passenger and freight lines serving more than 150 ports in all parts of the world.

As of November 1, 1927, the aggregate tonnage of the company's 123 ocean-going vessels was 621,000 gross registered tons, including such well-known ships as the *Columbus*, *Berlin*, *Dresden*, *Muenchen*, and *Stuttgart*, while there are at present under construction ships aggregating an additional 161,300 gross registered tons, including two de luxe liners to be called the *Bremen* and the *Europa* of 40,000 tons each, which are to be ready for service in April, 1929. In addition, the company owns approximately 60,000 gross registered tons of smaller ships which ply within German territorial waters.

The entire fleet is modern, over half of it having been built within the last eight years, and although it is carried in the company's balance sheet as at June 30, 1927, at mks. 142,620,000 (\$33,957,000), the additions since 1920 alone represent an expenditure of gold mks. 211,322,000 (\$50,314,000).

The company also owns or has substantial interests in a number of other important shipping and allied enterprises, including valuable warehouses and office buildings and long-term leases on piers and drydocks in Bremen and other centers, all carried in the balance sheet much below their actual value.

Purpose.—The proceeds of these bonds will be used for new construction and to repay indebtedness incurred for construction, and for other corporate purposes. Part of the proceeds will be deposited with the Internationale Bank te Amsterdam, Amsterdam, Holland, to be released by it only for the repayment of certain indebtedness maturing serially to 1934, secured by a portion of the company's fleet, the payment of which indebtedness the company has no right to anticipate. Upon completion of the present financing, including repayment of the above loan, the company's total funded and floating debt, including the present issue, will amount to only \$25,580,000. Included therein is a debt of mks. 13,013,000 (\$3,100,000) to the German Government, at low rates of interest, secured by real estate and by seven small ships aggregating 23,500 tons, and certain purchase money mortgages, which can not be repaid before maturity, amounting to only \$2,112,000 on ships aggregating 80,000 tons. The obligations under the Dawes plan, referred to hereafter, and current accounts payable, of approximately \$8,117,000, are not included in the above figure.

Capital. The company has outstanding Mks. 125,000,000 fully paid common stock and Mks. 3,906,200 preferred stock (of which Mks. 1,563,000 is 25 per cent paid). The common stock, at the current market price, represents an equity of over \$40,000,000.

Dividends for 1926 at the rate of 6 per cent per annum were paid in June, 1927, on both common and preferred stock.

Earnings. The net earnings of the company as certified by the company's auditors, the Fides Treuhand Aktiengesellschaft, before taxes and depreciation, but after provision for payments under the Dawes plan, available for interest, for the year ended December 31, 1926, were \$5,504,000, or over three and three-fourths times the net annual interest charges on the company's total funded and short term debt to be presently outstanding, including these bonds.

Such earnings for the six months ended June 30, 1927, were \$4,132,000 as compared with \$2,734,000 for the corresponding period of 1926.

That the company's income is growing steadily due to its increasing tonnage is seen from the fact that its gross income in 1925 was \$29,300,000; in 1926 it was over \$33,000,000, while for the first nine months of 1927 it rose to approximately \$34,500,000, and the net income for this period, which can not yet be definitely determined, will show a similar favorable increase.

Of the company's gross revenues for 1926 approximately \$10,000,000 was received in United States currency and more than £4,000,000 (\$20,000,000) in sterling, thus automatically providing ample foreign exchange for the company's commitments.

Balance sheet. The balance sheet of the company as at June 30, 1927, after giving effect to the present financing as certified by the Fides Treuhand Aktiengesellschaft, is as follows:

ASSETS

Preferred-stock liability (75 per cent unpaid on \$372,143).....	\$279, 107
Ocean-going fleet.....	33, 957, 145
Payments on account of ships under construction.....	11, 772, 275
Coastwise and river steamers, lighters, etc.....	118, 653
Lands, buildings (including leases of piers and dry docks), shops, furniture and fixtures.....	1, 496, 904
Cash on hand and bank balances ¹	18, 467, 643
Shares and interests in other companies.....	2, 038, 179
Ship stores at Bremen and Bremerhaven.....	1, 260, 182
Accounts receivable, and suspense items ²	14, 730, 196
Total	84, 120, 344

LIABILITIES

Capital stock:		
Common.....	\$29, 761, 904	
Preferred.....	930, 048	
		\$30, 691, 952
Dollar bonds (present issue).....		20, 000, 000
Legal reserve.....		4, 047, 619
Reserve for renewals.....		1, 788, 714
Insurance reserve.....		2, 380, 952
Revalorized bonds.....		620, 988
Long-term credits.....		4, 356, 169
Sundry creditors.....		8, 720, 727
Suspense accounts (advance passage moneys, pending voyages, and reserves for taxes).....		8, 006, 009
Profit and loss surplus.....		3, 510, 214
Total		84, 120, 344

Note.—This balance sheet does not show Dawes-plan debentures.

The company has not included in its balance sheet its tonnage seized by the United States Government, for which claims are pending, and its property seized by the Alien Property Custodian of the United States.

Security: The bonds will be the direct obligations of the company, which in the agreement under which the bonds will be issued will covenant that if, while any of the bonds are outstanding, the company or any company in which it owns, directly or indirectly, stock having 75 per cent of the voting power, shall create or issue or guarantee any indebtedness or obligations secured by lien on any of its property (except liens on property other than ships to secure current indebtedness or obligations incurred in the ordinary course of business) or pledge any of its property, as security for any guarantee of any indebtedness or of any obligations, the present issue of bonds will be secured equally and ratably with such other indebtedness or obligations or such guarantee. The company may, however, acquire ships subject to existing mortgages provided that the aggregate amount of such mortgages existing at any time shall never exceed \$500,000.

Dawes payments: The private German shipping companies, like the railroad and street railway companies, have executed a general debenture for their aggregate provisional liability for payments under the Dawes plan. Each company will issue individual debentures when its liability has been definitely determined on a reapportionment. On the basis of present assessments it is estimated that the individual Dawes plan debentures to be issued by the company will not exceed \$3,500,000, in respect of which the maximum annual charge would be \$210,000. The payment by the company for the year ending September 1, 1928, is estimated at not more than \$150,000.

¹ Not including the indebtedness to be repaid from the proceeds of this loan nor per contra the funds deposited therefor.

² Including \$5,042,760 due from subsidiaries, and discount on this issue of bonds.

³ Including \$4,564,507 unallocated funds received from agents.

Sinking fund: Beginning November 1, 1929, the bonds are to be retired by a cumulative sinking fund, payable semiannually, calculated to retire the entire issue by maturity, the company to make sinking fund payments in cash or in bonds at par, the cash to be applied to the redemption of bonds by drawings at par.

Redemption: On November 1, 1932, or on any semiannual interest payment date thereafter, the company may, at its option, call for redemption all but not a part of the bonds then outstanding at par and accrued interest on not less than 60 days' notice by publication in at least two newspapers of general circulation in the Borough of Manhattan, city of New York. Except for the sinking fund, bonds can not be called in part or before November 1, 1932.

General: The bonds will be in coupon bearer form, in denominations of \$1,000 and \$500; will be dated November 1, 1927; will be due November 1, 1947, and the principal thereof and semiannual interest thereon will be payable in New York City at the option of the holder, either at the office of Kuhn, Loeb & Co. or the principal office of Guaranty Trust Co. of New York in gold coin of the United States of America of or equal to the present standard of weight and fineness and without deduction for any German taxes present or future, and will be payable in time of war as well as in time of peace and whether the holder be a citizen or resident of a friendly or a hostile state.

Application will be made in due course to list these bonds on the New York Stock Exchange.

All conversions in this letter from German into United States currency have been made at the rate of 4.20 marks to the dollar.

Yours very truly,

NORTH GERMAN LLOYD,
NORDDEUTSCHER LLOYD, BREMEN,
By CARL JOACHIM STIMMING,
General Director.

By ARNOLD PETZET,
Director.

**\$14,000,000 CZECHOSLOVAK REPUBLIC 8 PER CENT SECURED EXTERNAL SINKING
FUND GOLD LOAN OF 1922, DUE APRIL 1, 1951**

Part of an authorized issue of \$50,000,000 or £10,000,000.

Coupon bearer bonds in denominations of \$1,000, \$500, and \$100.

The present issue will consist of \$14,000,000 dollar bonds in New York, £2,800,000 sterling bonds in London, to be issued by Messrs. Baring Bros. & Co. (Ltd.), N. M. Rothschild & Sons, and J. Henry Schröder & Co., and £500,000 sterling bonds to be issued in Amsterdam by Messrs. Hope & Co.

Interest payable April 1 and October 1. Not subject to redemption before May 1, 1932, except for the sinking fund, as stated below. The entire issue outstanding, but not any part, will be redeemable at 108 per cent and accrued interest, at the option of the Government, after May 1, 1932, on giving three months' notice. Principal, interest and premium payable in New York City in gold coin of the United States, of the present standard of weight and fineness, without deduction for any Czechoslovak taxes or duties, present or future, and payable in time of war as well as in time of peace, and whether the holders of the bonds be subjects of a friendly or hostile State.

The Czechoslovak Republic is one of the succession States of the former Austro-Hungarian monarchy and was officially recognized by the treaties of Versailles, St. Germain, and Trianon, which it signed as one of the allied and associated powers.

The bonds are to be redeemable by means of a cumulative annual sinking fund of 1 per cent to be applied semiannually to the purchase of bonds under par; or to drawings at par should the bonds be unobtainable under par, the first redemption by lot taking place October 1, 1928.

The authorized issue is secured by a first specific charge on the receipts from the customs duties and on the net profits of the tobacco monopoly, which together in 1921 yielded kr. 1,815,500,000, and for 1922 are estimated to yield kr. 1,246,000,000, which at the rate of 1½ cents is equivalent to \$21,812,000.

The Czechoslovak Republic has undertaken to pay weekly, for remittance to Messrs. Baring Bros. & Co. (Ltd.), London, at least one fifty-second part of the total annual requirements for the service of interest and sinking fund of the loan. Messrs. Baring Bros. & Co. (Ltd.) are to remit to New York a proportionate part of these weekly payments applicable to the dollar bonds.

All drawn bonds and matured coupons shall be accepted by the Czechoslovak Government at their full face value at the then current rate of exchange in payment of customs duties.

It is to be provided in a "general bond," which is to be deposited with Messrs. Baring Bros. & Co. (Ltd.), that if at any time it may be necessary or expedient to obtain the sanction of the bondholders in respect to any matter in connection with the rights of the holders of the bonds of this loan, they may, by publication in two London, two New York, and two Amsterdam newspapers, convene a general meeting of the bondholders, to be held in the city of London, upon 30 days' notice, and the decision of the holders of a majority in nominal value of bonds present at the meeting, either in person or represented by proxy, shall be binding upon all bondholders, but such majority must be comprised of not less than 50 per cent of the sterling bonds and not less than 50 per cent of the dollar bonds outstanding.

The above has been taken from the loan contract and from the accompanying letter from Prime Minister Edouard Benes, to which letter reference is made for further information. As all documents have been received by cable the within is subject to correction.

The undersigned will receive subscriptions for the above bonds, subject to allotment at 98½ per cent and accrued interest to date of delivery.

At the offering price the bonds will yield over 8.30 per cent to maturity.

The undersigned reserve the right to close the subscription at any time without notice to reject any application, to allot a smaller amount than applied for, and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when and as issued and received by the undersigned and subject to the completion of their purchase and approval of their counsel. Interim receipts will be delivered against payment in New York funds for bonds allotted pending the receipt of the engraved bonds.

THE NATIONAL CITY CO.
KUHN, LOEB & Co.
KIDDER, PEABODY & Co.

APRIL 6, 1922.

PRAGUE, April 5, 1922.

Messrs. KUHN, LOEB & Co., KIDDER, PEABODY & Co.,
and THE NATIONAL CITY Co.,
New York City.

DEAR SIR: With reference to the proposed loan to Czechoslovakia of £3,300,000 and \$14,000,000, being part of a total authorized issue of £10,000,000 or \$50,000,000, secured by the first specific charge on the receipts from the customs duties and also on the net profits from the tobacco monopoly, I beg to submit the following information.

The customs receipts specifically charged in favor of the loan: 1920, krone 401,283,878; 1921, krone 750,669,527; 1922, krone 528,000,000, at exchange 1½ cents, \$9,240,000.

The net profit from the tobacco monopoly specifically charged in favor of the loan: 1920, krone 449,696,463; 1921, krone 1,064,925,937; 1922, krone 718,428,534, at exchange 1¼ cents, \$12,572,000.

The state budget shows the following figures:

Revenue:	Krone	Expenditures:	Krone
1920.....	10,426,500,794	1920.....	15,278,427,032
1921.....	17,298,916,630	1921.....	18,026,460,144
1922.....	18,884,209,544	1922.....	19,812,960,479

All 1922 figures estimated.

This is in addition to a budget amounting for 1922 to krone 3,263,000,000 for capital expenditures mainly on railroads, post and telegraph services.

Objects of the loan.—The proceeds of the loan will be applied to essential works of public reconstruction and development, railways, canals and similar purposes, and to repayment of temporary advances in connection therewith.

Outstanding national debts.—Until the liability for the debts of the former Austro-Hungarian Empire shall have been settled by the Reparations Commission, it is not possible to state the exact amount of the outstanding national debt, but in no case will the debt including the present loan exceed \$53 per head of population, calculating the exchange at 1½ cents. As soon as the liability for the debts of the former Austro-Hungarian Empire shall have been settled by the Reparations Commission, my Government will immediately make necessary arrangements to take over definitive service of such proportion of these debts as may be assigned to them.

By the various peace treaties, the State has acquired territory of over 140,000 square kilometers. In area it is, therefore, nearly as large as England and Wales, with a population of over 13,500,000, and in this area are included about 75 per cent of the principal industrial centers of the late Austro-Hungarian Empire.

The Government of the Czechoslovak Republic has the unqualified sovereign right to pledge its above receipts for the service of this loan. Having been recognized as one of the Allied and Associated Powers, it is not subject to the control which the Reparations Commission has the power to exercise over the state revenues or assets of ex-enemy countries.

The Czechoslovak Republic is one of the succession states of the former Austro-Hungarian monarchy and was officially recognized by the Treaties of Versailles, St. Germain and Trianon which it signed as one of the Allied and Associated Powers.

Yours very truly,

EDOUARD BENES,
Prime Minister of the Czechoslovak Republic.

\$9,250,000 CZECHOSLOVAK REPUBLIC 8 PER CENT SECURED EXTERNAL SINKING FUND GOLD LOAN OF 1922, SERIES B, DUE OCTOBER 1, 1952

Balance of an authorized issue of \$50,000,000, or £10,000,000, of which bonds to the principal amount of £3,300,000 and \$14,000,000 due April 1, 1951, were issued in 1922.

Series B will consist of \$9,250,000 dollar bonds in New York, £1,850,000 sterling bonds in London, to be issued by Messrs. Baring Bros. & Co. (Ltd.), N. M. Rothschild & Sons, and J. Henry Schröder & Co., and £200,000 sterling bonds to be issued in Amsterdam by Messrs. Hope & Co.

Coupon bearer bonds in denominations of \$1,000, \$500, and \$100.

Interest payable April 1 and October 1. Not subject to redemption before May 1, 1932, except for the sinking fund as stated below. All bonds of the entire loan outstanding, but not any part, will be redeemable at 108 per cent and accrued interest at the option of the Government after May 1, 1932, on giving three months' notice. Principal, interest, and premium payable in New York City in gold coin of the United States, of the present standard of weight and fineness, without deduction for any Czechoslovak taxes or duties, present or future, and payable in time of war as well as in time of peace, and whether the holders of the bonds be subjects of a friendly or hostile state.

The bonds of series B are to be redeemable by means of a separate annual cumulative sinking fund of 1 per cent to commence October 1, 1924, to be applied semiannually to the purchase of bonds under par, or to drawings at par should the bonds be unobtainable under par, the first redemption by lot taking place April 1, 1925. All bonds not previously retired by the sinking fund will be payable October 1, 1952.

The authorized issue of \$50,000,000, or £10,000,000, is secured by a first specific charge on the receipts from the customs duties and on the net profits of the tobacco monopoly, which together in 1922 yielded Kr. 1,824,795,188, in 1923 Kr. 1,864,880,249 (at the rate of 2.9 cents equivalent to \$54,081,527), and in 1924 are estimated to yield Kr. 1,543,636,768 (at 2.9 cents equivalent to \$44,765,446) or ten times the annual requirements for interest and sinking fund of the entire loan.

The Czechoslovak Republic has undertaken to pay weekly, for remittance to Messrs. Baring Bros. & Co. (Ltd.), London, at least one fifty-second part of the total annual requirements for the service of interest and sinking funds of the loan. Messrs. Baring Bros. & Co. (Ltd.) are to remit to New York a proportionate part of these weekly payments applicable to the dollar bonds.

All drawn bonds and matured coupons shall be accepted by the Czechoslovak Government at their full face value at the then current rate of exchange in payment of customs duties.

It is to be provided in a "general bond," which is to be deposited with Messrs. Baring Bros. & Co. (Ltd.), for the bonds of series B, that if at any time it may be necessary or expedient to obtain the sanction of the bondholders in respect to any matter in connection with the rights of the holders of the bonds of his loan, they may, by publication in 2 London, 2 New York, and 2 Amsterdam newspapers, convene a general meeting of the bondholders, to be held in the city of London, upon 30 days' notice, and the decision of the holders of a majority in nominal value of bonds present at the meeting, either in person or represented by proxy, shall be binding upon all bondholders, but such majority must be comprised of not less than 50 per cent of the sterling bonds and not less than 50 per cent of the dollar bonds of the first portion of the loan outstanding, and also of not less than 50 per cent of the sterling bonds and not less than 50 per cent of the dollar bonds of series B outstanding.

The above has been taken from the loan contract from the accompanying letter from Doctor Pospisil and Mr. Augustine Novak, financial delegates of the Republic of Czechoslovakia, to which letter reference is made for further information. As all documents have been received by cable the within is subject to correction.

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 96½ per cent and accrued interest to date of delivery, to yield about 8.30 per cent to maturity.

Application will be made to list these bonds on the New York Stock Exchange. The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the completion of their purchases and approval of their counsel. Interim receipts will be delivered against payment in New York funds for bonds allotted pending the receipt of the engraved bonds.

KUHN, LOEB & Co.
THE NATIONAL CITY COMPANY.
KIDDER, PEABODY & Co.

MAY 19, 1924.

PRAGUE, May 19, 1924.

Messrs. KUHN, LOEB & Co., KIDDER, PEABODY & Co.,
and THE NATIONAL CITY Co., *New York City.*

DEAR SIR: With reference to the proposed issue of £2,050,000 and \$9,250,000 bonds of the Czechoslovak state loan of 1922, being the second and last portion of the authorized total of £10,000,000 or \$50,000,000 secured by a first specific charge on the receipts from the customs duties and on the net profits from the tobacco monopoly, the Czechoslovak Government begs to submit the following items concerning the financial situation of the Czechoslovak Republic.

The customs receipts and the net profits from the tobacco monopoly have been as follows in Czechoslovak crowns:

	1922	Kronen
Customs	-----	947, 193, 301
Tobacco	-----	877, 601, 887
Total	-----	1, 824, 795, 188
	1923	
Customs	-----	784, 868, 784
Tobacco	-----	1, 080, 011, 465
Total	-----	1, 864, 880, 249
	1924	
Customs	-----	542, 965, 600
Tobacco	-----	1, 000, 071, 168
Total	-----	1, 542, 936, 768

¹ Equivalent, at 2.9 cents, to \$54,081,527.

² Equivalent, at 2.9 cents, to \$44,765,466.

The State budgets show the following figures in Czechoslovak crowns:

	1922	Kronen
Revenue	-----	17,733,034,982
Expenditure	-----	18,663,898,266
	1923	
Revenue	-----	15,616,205,608
Expenditure	-----	16,540,643,227
	1924	
Revenue	-----	16,391,293,591
Expenditure	-----	16,938,976,905

All 1924 figures estimated.

This is in addition to a budget amounting for 1924 to 2,220,230,000 kronen for capital expenditures, mainly on railroads, post, and telegraph services. The proceeds of the loan will be applied to essential works of public reconstruction and development, railways, canals, and similar purposes, and to the repayment of temporary advances in connection therewith.

We beg to state that the Czechoslovak Republic was originally recognized by the treaties of Versailles, St. Germain, and Trianon, which it signed as one of the Allied and Associated Powers. The Republic embraces a territory of 140,000 square kilometers. Its area is therefore nearly as large as that of England and Wales, and includes about 75 per cent of the principal industrial centers of the former Austro-Hungarian Empire. The population of Czechoslovakia is 13,500,000. The national debt, including the present issue, will not exceed \$77 per head of population, calculating the exchange at 2.90 cents.

The Czechoslovak State owns 13,362 kilometers of railroads and 127,257 kilometers of telegraph lines and 273,391 kilometers of telephone lines, which are operated at a profit. The gross receipts of the railways and telegraphs are included in the above budget figures.

The currency of Czechoslovakia is the Czechoslovak crown, issued in the form of notes by the banking office, which is specifically prohibited by law from making advances of any kind, directly or indirectly, to the Government. As a result of this policy Czechoslovakia has been remarkably successful in maintaining a great measure of stability in its currency. In proof of this it may be mentioned that the rate of exchange of the Czechoslovak crown has improved from 2 cents at the time of the issue of the first portion of this loan to over 2.90 cents at present, at which approximate level it has remained stable for one and one-half years. The amount of the bank notes in circulation on January 1, 1921, was 11,288,000,000 Czechoslovak crowns, and this amount has now been reduced to 8,198,000,000 Czechoslovak crowns.

The Government has also been successful in achieving a practical balance in its ordinary budgets. The special budget referred to above represents only capital expenditures, mainly on the productive services owned by the State.

The Czechoslovak Republic constitutes a natural economic unit, entirely capable of maintaining a well-balanced economic existence. This is evidenced by the soundness of its trade position as illustrated by the foreign trade figures, which for the last four years were as follows:

Foreign trade

[In millions of Czechoslovak crowns]

Year	Exports	Imports	Favorable balance
	Kronen	Kronen	Kronen
1920	27,169	22,433	5,136
1921	27,811	22,384	3,977
1922	18,065	12,095	5,390
1923	12,519	10,130	2,389

The decrease in the figures of the foreign trade in the years 1922 and 1923 in comparison with those of the years 1920 and 1921 is due to the improvement of the rate of exchange of the Czechoslovak crown.

Yours very truly,

POSPISIL,
NOVAK,
*Financial Delegates of the
Republic of Czechoslovakia.*

TWENTY-FIVE MILLION DOLLARS—THE CZECHOSLOVAK REPUBLIC—SECURED EXTERNAL SINKING FUND GOLD LOAN OF 1925, SERIES A 20-YEAR 7½ PER CENT BONDS

Secured by a first specific charge on revenues from excise duties on sugar and alcohol, and by a specific charge on customs duties and net profits of the tobacco monopoly, junior only to the charge created in favor of the 8 per cent secured external loan of 1922, now outstanding. Part of an issue of \$50,000,000 duly authorized under laws of the Czechoslovak Republic (Law No. 245 of December 14, 1923, Law No. 278 of December 12, 1924, and Law No. 110 of March 31, 1922).

Dated October 1, 1925; due October 1, 1945.

Redeemable in whole or in part, at the option of the Government, or through the operation of the sinking fund, on any interest date at 105. The bonds outstanding at maturity will be paid at 105 per cent of the principal amount thereof. Interest payable April 1 and October 1. Coupon bearer bonds in denominations of \$1,000 and \$500, registrable as to principal only. Principal, interest, and premium payable in New York City, at head office of the National City Bank of New York, fiscal agent, in gold coin of the United States of America of the present standard of weight and fineness, without deduction for any Czechoslovak taxes or duties present or future, and payable in time of war as well as in time of peace, whether the holders of the bonds be subjects of a friendly or hostile state. Principal, interest, and premium also collectible at the option of the holders at the city office of the National City Bank of New York, in London, England, in pounds sterling, or at the office of Messrs. Hope & Co., Amsterdam, Netherlands, in guilders, in each case at the then current buying rate of such office for sight exchange on New York City, N. Y. Sinking fund, starting immediately, sufficient to pay or redeem entire issue in substantially equal semiannual installments, either by purchase in the market, if obtainable at or below 105 and interest, or, if not so obtainable, by redemption by lot at 105. Drawn or matured bonds will be accepted by the Czechoslovak Government at 105 per cent of their principal amount, and matured coupons at their face value, in each case at the current rate of exchange, in payment of customs duties.

The following summary is based upon the accompanying letter of the Prime Minister, and the Minister of Finance, of the Czechoslovak Republic:

The Czechoslovak Republic received international recognition by the Treaties of Versailles, St. Germain, and Trianon, which it signed as one of the allied and associated powers. Its revenues, therefore, are not subject to control by the reparations commission and it has the unqualified and sovereign right to pledge them for the service of the loan of which this issue is a part.

The loan will be secured by first lien upon the sugar and alcohol taxes, and by a second lien upon its customs duties and the net profits of the tobacco monopoly, junior only to the specific charge created in favor of the holders of the bonds of the Czechoslovak state loan of 1922, now outstanding, the interest and cumulative sinking fund requirements of which amount to approximately \$4,436,000 per annum. Upon repayment of the loan of 1922, the Czechoslovak Republic will have the right to secure a new loan, not to exceed \$50,000,000 in aggregate principal amount, with a lien upon the customs duties and the net profits of the tobacco monopoly ranking equally and ratably with the lien created in favor of this loan. The pledged revenues constitute four of the most regular and productive items of income of the Czechoslovak Government. Their respective annual yields over the past three years were as follows:

	Sugar tax	Alcohol tax	Customs	Net profits tobacco monopoly	Total
1922	\$3,581,840	\$10,543,833	\$22,890,382	\$21,078,732	\$58,094,837
1923	4,995,606	11,187,616	23,192,873	31,406,864	70,784,859
1924	5,096,426	11,780,979	25,797,411	31,134,956	73,809,772

Converted on basis of yearly averages of monthly exchange quotations published by the Federal Reserve Board.

The combined revenues of the sugar tax and the alcohol tax amounted to \$16,877,405 during 1924, as compared with \$3,750,000, maximum interest charges, at 7½ per cent, upon the total authorized amount of the loan, and, with the customs duties and net profits of the tobacco monopoly, yielded \$73,809,772, as compared with \$10,818,000, the total of maximum interest and sinking fund charges both on the 8 per cent secured external loan of 1922 and on the total authorized amount of the loan of 1925 (assuming sinking fund requirements on the unissued balance identical with the present issue of series A bonds).

The proceeds of the present issue will be applied principally to the funding of Government short-term indebtedness pursuant to a program designed to add materially to the financial stability of the Government and to strengthen the national credit at home and abroad. Other objectives of this program have already been achieved, including the balancing of the budget and the stabilization of the currency.

Application will be made to list these bonds on the New York Stock Exchange.

We offer these bonds for subscription, subject to allotment, if, as, and when issued and received by us, subject to approval by our counsel of all legal proceedings in connection therewith. Subscription books will be opened at the office of the National City Co., 55 Wall Street, New York City, at 10 o'clock, a. m., Tuesday, October 27, 1925, and will be closed in our discretion. It is expected that delivery of interim certificates will be made on or about November 16, 1925. Of the present issue, \$3,500,000 has been taken by Messrs. Hope & Co. for offering in the Amsterdam market.

Price 98 and interest, to yield over 8 per cent.

KUHN, LOEB & Co.
THE NATIONAL CITY Co.
KIDDER, PEABODY & Co.
LEE, HIGGINSON & Co.
MARSHALL FIELD, GLOBE, WARD & Co.

The following letter has been received from the Prime Minister and the Minister of Finance of the Czechoslovak Republic.

THE CZECHOSLOVAK REPUBLIC,
Prague, October 21, 1925.

GENTLEMEN: In connection with your purchase of \$25,000,000, the Czechoslovak Republic secured external sinking fund gold loan of 1925, series A, 20-year 7½ per cent bonds, duly authorized under the laws of the Czechoslovak Republic (Law No. 245 of December 14, 1923, Law No. 278 of December 12, 1924, and Law No. 110 of March 31, 1922), and in answer to your specific questions regarding the financial situation and economic conditions in Czechoslovakia, I take pleasure in giving you the following summary information:

The Czechoslovak Republic received international recognition by the treaties of Versailles, St. Germain, and Trianon, which it signed as one of the allied and associated powers. Its revenues, therefore, are not subject to control by the reparations commission and it has the unqualified and sovereign right to pledge them for the service of the loan of which this issue is a part.

PURPOSE OF ISSUE

The proceeds of the present issue will be applied principally to the funding of short-term indebtedness pursuant to a program designed to add materially to

the financial stability of the Government and to strengthen the national credit at home and abroad. Other objectives of this program have already been achieved, including the balancing of the budget and the stabilization of the currency: The short-term debt, which reached its maximum at the end of 1923, was reduced during the year 1924 by about 16 per cent. In pursuit of its program the Government has determined to effect further consolidation and reduction of the floating debt through the medium of long-term internal credit operations.

PLEGDED REVENUES

The loan, of which the present issue of series A bonds forms a part, is authorized for a total amount limited to \$50,000,000, or its equivalent in other currencies, and will be secured by a specific lien or charge upon the revenues of the Republic arising from excise taxes now or hereafter levied upon sugar and alcohol, which lien or charge shall be superior to any and every other lien or charge now existing or hereafter created, and, by a specific lien or charge upon the customs duties of the Republic and upon the net profits of the tobacco monopoly, which lien or charge shall be junior only to the specific charge created in favor of the holders of the bonds of the Czechoslovak State loan of 1922, now outstanding, the interest and cumulative sinking fund requirements of which amount to approximately \$4,436,000 per annum. Upon repayment of the loan of 1922 the Czechoslovak Republic will have the right to secure a new loan, not to exceed \$50,000,000 in aggregate principal amount, with a lien upon its customs duties and the net profits of the tobacco monopoly ranking equally and ratably with the lien created in favor of this loan. The pledged revenues constitute four of the most regular and productive items of income of the Czechoslovak Government, as evidenced by their respective annual yields over the past three years, as follows:¹

Year	Sugar tax	Alcohol tax	Customs	Net profits, tobacco monopoly	Total
1922	\$3,881,840	\$10,543,883	\$22,890,352	\$21,078,732	\$58,394,807
1923	4,895,306	11,187,816	23,192,873	31,409,864	70,794,859
1924	5,096,426	11,780,979	25,797,411	31,134,956	73,809,772

The sugar tax and the alcohol tax during the past three years have together yielded an average return of approximately \$15,828,750. The customs receipts and the net profits from the tobacco monopoly over the same period have averaged approximately \$51,834,408. The revenues specifically pledged, on the basis of the past three years, and after making due allowance from the receipts of the customs duties and the net profits of the tobacco monopoly for the requirements of the 8 per cent secured external loan of 1922, would leave available for the service of the loan \$63,227,156 per annum, or over nineteen times the maximum interest and sinking fund charges on the present issue of Series A bonds, which will reach a maximum during the first year (not exceeding \$3,191,000), after which the interest charges for the series will decrease materially, year by year, through the action of the sinking fund.

The 8 per cent secured external sinking fund gold loan of 1922, authorized for a total amount of \$50,000,000, was offered simultaneously in New York, London, and Amsterdam, \$30,500,000 in 1922 and the balance in 1924, and is now outstanding, approximately, as follows: \$23,250,000 in the United States, \$23,250,000 in Great Britain, and \$3,500,000 in Holland. Pledged revenues during the last three years have been equivalent to more than eleven and one-half times interest and sinking fund requirements:

¹ Converted on basis of yearly averages of monthly exchange quotations published by the Federal Reserve Board.

DEBT

The total actual debt of the republic, officially computed as of approximately July 31, 1925, was kc. 30,540,724,334.10, made up as follows:

	Kc.
Consolidated debt.....	16, 045, 462, 152. 50
Short-term debt.....	6, 242, 794, 000. 00
Foreign credits.....	4, 478, 468, 181. 60
Bank loans.....	515, 000, 000. 00
Debts in pursuance of the treaties.....	3, 259, 000, 000. 00
Total of all public debts.....	30, 540, 724, 334. 10

This total, equivalent to \$887,681,000, represents a per capita debt of \$65.06 (1921 census), and includes Czechoslovakia's indebtedness to the United States Government, the principal amount of which has been fixed by mutual agreement at \$115,000,000, as of June 15, 1925. The United States Government has accorded Czechoslovakia terms of payment generally similar to those granted the British Government, with certain alleviations in the schedule of cash payments during the earlier years which will protect Czechoslovakia from undue financial hardships. As regards the debts in pursuance of the treaties referred to above, there remain unsettled only liabilities concerning properties taken over from former Austria-Hungary and an eventual "liberation" indemnity. The government, however, is convinced that these questions will be settled in a manner favorable to Czechoslovakia.

Of the above consolidated debt, amounting to approximately \$465,318,400, some \$146,000,000 represents pre-war debt of the former Austro-Hungarian Empire definitely assumed by Czechoslovakia, while about \$209,000,000 represents capital expenditures of the government during the period 1919-1925, devoted to railroads, telegraphs, telephones, bridges, roads, public buildings, etc.

REVENUES AND EXPENDITURES

Since 1922 there has been a constant reduction in expenditures, and during 1924, especially, remarkable progress has been made in attaining a balanced budget. The accounts for 1924 show that ordinary revenues exceeded ordinary expenses by a surplus, applied mostly to the reduction of government short-term debt. Budget estimates for 1925 indicate a surplus of ordinary revenues.

In 1924 the net yield of the main items of taxation amounted to \$243,688,621, as compared with budget estimates of \$221,655,864, and actual returns for 1923 of \$220,826,660. Actual returns from these sources, therefore, exceeded budget estimates by 10 per cent and the yield of the previous year by 7½ per cent, reflecting both the healthy condition of the revenues and the conservative basis on which budget estimates are computed. The government is making every effort to reduce total expenditure, especially by the reduction of personnel, so that the proposed relief in the matter of the present heavy direct taxation may be realized. On the other hand, a proposed increase in the sugar tax is estimated to yield about \$9,500,000 additional revenue annually.

CURRENCY

The currency of Czechoslovakia is the Czechoslovak crown, issued in the form of notes by the banking office of the ministry of finance, which is specifically prohibited by law from making advances of any kind, directly or indirectly, to the government. As a result of this policy Czechoslovakia has been remarkably successful in maintaining a great measure of stability in its currency. The rate of exchange has improved from around 2 cents at the time of the issue of the first portion of the 8 per cent secured external loan of 1922 to over 2.90 cents at present, at which approximate level it has remained stable for the past 3 years. The amount of State notes in circulation on January 1, 1921, was Kc. 11,288,000,000, as against Kc. 7,605,077,000 on August 31, 1925. Beginning with 1926, another step in advance will be taken by the creation, upon the basis of laws already passed, of a new central bank of issue, which will take over the functions of the banking office of the ministry of finance, and will be known as the Czechoslovak National Bank. This bank will be charged with the legal duty of maintaining the value of the Czechoslovak crown at the level at which it has been stabilized and within certain maximum

and minimum relations to the United States dollar. This bank will be independent in its management and privately controlled. It will have the sole right of note issue.

AREA AND POPULATION

The Czechoslovak Republic comprises the territories of the ancient Kingdom of Bohemia (Bohemia, Moravia, and a part of Silesia) and the Slovak and Ruthenian portions of former Hungary. Czechoslovakia lies almost exactly in the center of Europe in the form of a zone some 600 miles in length, with a maximum width of 175 miles. It has a total area of 54,877 square miles and a population of 13,613,172, tenth among the countries of Europe. Prague, the capital city, has a population of 676,657 (1921), and there are some 25 smaller cities with populations ranging from 200,000 to 20,000. Czechoslovakia in area, population, and density of population is practically identical with the combined areas and populations of the States of New York and New Jersey. About 40 per cent of the population are engaged in agriculture, 34 per cent in the manufacturing industries, and 11 per cent in trade.

NATURAL RESOURCES

Czechoslovakia comprises territories which are relatively rich in natural resources except for certain raw materials. These resources together with a thrifty and industrious population are the elements which form the basis of Czechoslovakia's well-balanced agricultural and industrial development. Of the total area, 42 per cent is arable land, 19 per cent meadows and pastures, and 33 per cent forests. Agriculture is highly developed and intensive farming is practiced. The intensity of the agricultural production is due to the fertility of the soil, the favorable climate, the application of modern farming methods, and, further, to a highly developed system of agricultural education, and to a carefully constructed network of cooperative societies for the purpose of affording credit to production, purchase and sale, and the providing of agricultural machinery. The characteristic feature of Czechoslovak agriculture is the cultivation of crops which yield greater profits than cereals, namely, those which form a basis for important agricultural industries, such as the sugar beet, barley for malting, chicory roots, etc., and other products which can be profitably exported, such as hops, seeds and seed grain, fruits, and vegetables. For this reason a part of the national requirements of cereals and fodder must be imported.

It is estimated that the forest areas in Czechoslovakia are capable of producing annually over 4,000,000,000 board feet of marketable timber. Exports of timber and woodware have amounted to approximately \$39,266,000 in 1922, \$34,684,000 in 1923, and \$36,772,000 in 1924.

Czechoslovakia has deposits of both hard coal and lignite, the output of which is sufficient to meet home requirements and leave substantial amounts for export. The main deposits of hard coal are situated in the great Silesian coal basin, of which Czechoslovakia includes about 273 square miles. Total production for 1924 amounted to 35,000,000 metric tons (14,500,000 tons of hard coal and 20,500,000 tons of lignite), marking an increase of 25 per cent as compared with the output of the previous year. Of the 1924 production 12 per cent was exported. Among other important mineral resources are kaolin (porcelain clay), graphite, and magnesite, which are exported in substantial quantities.

INDUSTRIES

Czechoslovakia includes about 75 per cent of the principal industries of the former Austro-Hungarian Empire. Production of raw sugar in the season 1924-25 amounts to 1,450,000 tons (estimated), as compared with 1,002,216 tons in 1923-24. During 1924, 733,193 tons of sugar were exported, representing a value of about \$70,470,000. By the end of July, 1925, exports of sugar for the current season exceeded 500,000 tons, of a value of about \$40,600,000. Of importance, too, are the efficient malting, brewing, and distilling industries, the products of which are known the world over. The textile industry employs about 200,000 workmen. Cotton and wool are imported in large quantities and are worked up by some 4,600,000 spindles and 150,000 mechanical looms, besides some 30,000 hand looms; flax is worked up by 285,000 spindles and 28,000 looms; hemp by 12,000 spindles and jute by 36,000 spindles and over

¹A metric ton equals 2,204 pounds, and subsequent references are to metric tons.

2,000 looms, while the silk industry has over 14,000 looms. Total exports of textile manufactures, including clothing, millinery, embroideries, laces, trimmings, etc., show a value in excess of total imports of raw and semi-manufactured textile materials.

The country has an ancient and well-developed iron and steel industry, a large part of the annual production being exported in the shape of manufactures. The engineering industries employ about 150,000 workmen, a large number being employed in the production of agricultural implements. The manufacture of machinery, especially of locomotives, passenger and freight cars, and of sugar-refining machinery, in which Czechoslovak engineers excel, is equally important. In 1924 the exports of iron, steel, nonferrous metals, and manufactures thereof and machinery amounted to about \$31,000,000.

Bohemia has long been known for its glassware, and in recent years the glass and porcelain industries have made considerable progress. There are 140 large glass works, besides smaller factories devoted to special products. Exports of glassware in 1924 were valued at over \$35,000,000, representing nearly 8 per cent of the total export trade. The annual production of porcelain is estimated at a value of \$20,300,000, and large quantities of porcelain, china, and pottery are exported. The timber resources make possible a substantial paper industry, the annual output of paper and cardboard being estimated at 185,000 tons. Other important industries are the manufacture of leather and of chemicals.

FOREIGN TRADE

The Czechoslovak Republic constitutes a national economic unit, capable of maintaining a balanced economic existence. This is evidenced by the fact that its visible trade has shown in all recent years a considerable excess of exports over imports.

(In millions of Kc)

Year	Exports	Imports	Favorable balance	Year	Exports	Imports	Favorable balance
1920	27,569	23,384	4,185	1923	12,573	10,222	2,351
1921	27,312	22,433	4,879	1924 ¹	17,022	18,862	1,160
1922	18,086	12,690	5,390	1925 ¹	10,387	8,992	1,395

¹ 1924 figures provisional, 1925 figures for first 7 months.

The decrease in the figures of the foreign trade since 1922 is due to the improvement of the rate of exchange of the Czechoslovak crown. Increased imports in 1924 were due largely to raw materials, especially cotton and wool. Large quantities of raw cotton, wheat, flour, and bacon, mineral oils, copper machinery, etc., are imported from the United States. The principal exports in 1924 were textiles, sugar, glass and chinaware, timber, coal, ironware and machinery, malt and hops, leather goods, and chemical products. Up to the present Czechoslovakia has concluded with 24 different countries commercial agreements providing for reciprocal most-favored-nation treatment. Besides tariff treaties have been concluded with Austria, Italy, France, Poland, and Spain, and mark a serious effort toward a sound development of international trade, especially in central Europe.

The Czechoslovak people during the seven years of restored national independence have exhibited political and economic stability of a high order. They have fully demonstrated their ability to govern themselves, and through the trying post-war years have exerted a helpful and stabilizing influence in Europe.

Unless otherwise stated, Czechoslovak crowns have been converted into United States dollars at the rate of 2.90 cents to the crown.

Yours very truly,

ANTONÍN SVEHLA,

Prime Minister of The Czechoslovak Republic.

ING. BOHDAN BEČKA,

Minister of Finance of The Czechoslovak Republic.

The information in this circular has been obtained, partly by cable, from official statements and statistics. While we do not guarantee it, we believe it to be correct.

\$7,500,000 CITY OF GREATER PRAGUE (CZECHOSLOVAKIA) 7½ PER CENT MORTGAGE LOAN BONDS OF 1922, DUE MAY 1, 1952

Total amount of loan, \$7,500,000 dollar bonds and £1,500,000 sterling bonds. Authorized by the municipal council, under date of May 12, 1922, under acts of legislature No. 116 of February 6, 1920, and No. 329 of August 12, 1921, and sanctioned by the Minister of Finance under date of May 27, 1922.

Coupon bearer bonds in denominations of \$1,000 and \$500. Not subject to redemption before November 1, 1932, except for the sinking fund as stated below.

The bonds are to have the benefit of a cumulative sinking fund calculated to redeem the entire issue by May 1, 1952. This sinking fund will begin in 1923, and is to operate by purchases of the bonds at or below 100 per cent and interest or by the redemption at 100 per cent and interest of bonds to be drawn by lot.

The entire issue outstanding, but not any part, will be redeemable at 102 per cent and accrued interest, at the option of the city, on November 1, 1932, or on any interest date thereafter.

For further information regarding this issue of bonds, reference is made to the accompanying letter from Doctor Baxa, president of the central administrative commission of Greater Prague.

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 92½ per cent and accrued interest to date of delivery, at which price the bonds will yield 8.17 per cent if held to maturity.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for, and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the completion of their purchase and approval of their counsel. Interim receipts will be delivered against payment in New York funds for bonds allotted pending the receipt of the engraved bonds.

KUHN, LOEB & Co.

NEW YORK, June 5, 1922.

PRAGUE, May 22, 1922.

MESSRS. KUHN, LOEB & Co.,

New York.

DEAR SIRS: In reference to the city of Greater Prague (Czechoslovakia) 7½ per cent mortgage loan of 1922, consisting of \$7,500,000 dollar bonds to be issued by you and of £1,500,000 sterling bonds to be issued in London by Messrs. Helbert, Wagg & Co. (Ltd.), I beg to submit the following information:

The city of Greater Prague was constituted on January 1, 1922, under an act of legislature dated February 6, 1920, by inclusion with the older city of 38 suburbs. It is the capital as well as the commercial and financial center of the Czechoslovak Republic. It has a population of about 676,000. The most important industries of Czechoslovakia are located in the city and its vicinity.

The total debt of the city, not including this loan, amounts to Kr. 662,569,895, which, at the approximate present rate of exchange of 2 cents, is equivalent to \$13,250,000. Of the old loans Kr. 11,026,000 are specifically secured by mortgages on real estate. Including the present loan the per capita debt will be approximately \$41.50 at present rates of exchange.

The total assets owned by the city have a value of Kr. 297,711,000 gold (\$59,500,000). The city's total investment in productive enterprises is Kr. 136,468,000, of which Kr. 92,179,000 was invested at pre-war values, viz, \$18,435,000.

The loan will be the direct liability and obligation of the city and will further be secured by a first specific mortgage on the electric, gas, and waterworks and tramways owned by the city in favor of a trustee for the loan to be approved by the fiscal agents of the loan. The proceeds of the loan will, for the greatest part, be utilized for the construction of an electric power station, the purchase or erection of gas plants, and the extension of the waterworks and of the tramways throughout the former suburbs, all of which will be included in the mortgage, and for reimbursing the city for previous expenditures effected for the same purposes. The city undertakes to credit the gross receipts of the pledged enterprises to a special account, out of which there will be paid fortnightly to an approved bank in Prague, for

monthly remittance to the fiscal agents of the loan, one twenty-sixth of the total amount annually required for the service of interest and sinking fund of the loan.

The gross receipts of the pledged enterprises amounted in 1921 to Kr. 285,440,000 and are estimated for 1922 at Kr. 318,000,000, which, at the approximate present rate of exchange, is equivalent to over \$6,000,000, while the service of the loan will require not over \$1,270,000. All drawn bonds and matured coupons shall be accepted by the Czechoslovak Government at their full face value at the then current rate of exchange in payment of customs duties, and by the city of Prague in payment of all municipal taxes.

The budgetary estimates of the city of Greater Prague for 1922 show revenue and expenditure each amounting to Kr. 574,219,000. The expenditure of Old Prague in 1921 was Kr. 375,754,000, which was fully within its total income.

The value of improved real estate within the limits now included in the greater city was estimated in 1915 at Kr. 2,000,000,000 practically at gold value (\$400,000,000).

The 7½ per cent mortgage loan of 1922 has been duly authorized by the municipal council under date of May 12, 1922, under acts of legislatures No. 116 of February 6, 1920, and No. 329 of August 12, 1921, and has been sanctioned by the Minister of Finance under date of May 27, 1922.

The dollar bonds of the loan will be issued in coupon-bearer form in denominations of \$1,000 and \$500, will be dated May 1, 1922, will mature on May 1, 1952, and will bear interest from May 1, 1922, payable semiannually on May 1 and November 1 in each year. Principal and interest and premium in case of anticipated redemption, will be payable in gold coin of the United States of America, of or equal to the standard of weight and fineness existing May 1, 1922, at the office of Kuhn, Loeb & Co., fiscal agents of the dollar bonds, in the city of New York, free from all taxes, stamp duties, transfer and other duties or deductions of any nature, present or future, whether levied by the Czechoslovak Government, the city or other Czechoslovak authorities, and payable in time of war as well as in time of peace, and whether the holders of the bonds be subjects of a friendly or hostile State.

Beginning with 1923 the loan will be redeemed through a cumulative sinking fund by purchases at or below par and accrued interest, or, to the extent to which purchases shall not have been so effected, by annual drawings at par and accrued interest, in amounts sufficient to redeem the whole issue by May 1, 1952.

In case of drawings, the numbers of the bonds to be redeemed shall be determined by lot, and notice of redemption specifying the numbers of the bonds designated for redemption shall be published twice a week for at least three weeks preceding the redemption date in two newspapers of general circulation in the city of New York by Kuhn, Loeb & Co., the fiscal agents of the dollar bonds.

On November 1, 1932, or on any interest payment date thereafter, the city may, at its option, redeem all the bonds of this loan then outstanding, but not a part thereof, at 102 per cent of the principal amount thereof and accrued interest, provided notice of such redemption be published once a week for 12 successive weeks preceding the redemption date in two newspapers of general circulation in the city of New York. Application will be made to list the dollar bonds of the 7½ per cent mortgage loan of 1922 on the New York Stock Exchange.

Very truly yours,

DR. BAXA,
*President of the Central Administrative
Commission of Greater Prague.*

The above letter having been received by cable is subject to correction.

**\$55,000,000 GOVERNMENT OF THE ARGENTINE NATION SIX MONTHS 6 PER CENT
TREASURY GOLD NOTES, DATED SEPTEMBER 1, 1923, DUE MARCH 1, 1924**

Principal and interest payable in the city of New York in United States gold coin without deduction for any Argentine taxes or impositions, present or future.

For further information regarding this issue of notes reference is made to a letter received by the undersigned from Felipe A. Espil, Esq., chargé d'affaires of the Government of the Argentine Nation at Washington, copies of which

may be obtained from the undersigned, and which he has summarized as follows:

General: "The Argentine Republic has an area of approximately 1,100,000 square miles or over one-third of the area of the United States, and leads all South American countries in volume of foreign trade. There are to-day 22,355 miles of railroad. The Government itself has considerable mileage under construction."

Purpose: "The proceeds of this issue will be applied to the payment of the \$50,000,000 Government of the Argentine Nation 2-year 7 per cent treasury gold notes which mature on October 1, 1923, and for other purposes."

Gold reserve: "The total note circulation amounts to ₧1,362,564,000 paper, which is covered by a gold reserve of over 80 per cent, one of the highest in the world."

Finances: "The national debt as of July 31, 1923, at gold parities of exchange, amounts to ₧908,000,000 gold, being equivalent to \$98 United States per capita as against over \$200 per capita for the United States. In addition the nation guarantees the bonds of the National Mortgage Bank, which is self-supporting and has a large reserve of its own."

The undersigned offer the above notes, subject to prior sale, at 90½ per cent and accrued interest to date of delivery to yield over 7 per cent.

Government of the Argentine Nation 2-year 7 per cent treasury gold notes due October 1, 1923, will be accepted in payment for these notes on a 4 per cent interest basis, provided that notice of the amount of maturing notes to be tendered in payment is given not less than five days prior to the date fixed for delivery of and payment for the new notes.

The above notes are offered if, when, and as issued and received by the undersigned and subject to the completion of their purchase and approval of counsel. Temporary certificates or interim receipts exchangeable for definitive notes when prepared may be delivered against payment in New York funds.

KUHN, LOEB & Co.
BLAIR & Co. (INC.).

New York, September 6, 1923.

WASHINGTON, D. C., September 5, 1923.

Messrs. KUHN, LOEB & Co. and
BLAIR & Co. (Inc.),
New York, N. Y.

DEAR SIR: Referring to the \$55,000,000 Government of the Argentine Nation six months 6 per cent treasury gold notes due March 1, 1924, I beg to submit the following information:

The Argentine Republic has an area of 1,100,000 square miles, or over one-third of the area covered by the United States. It has a population of 9,000,000. The capital, Buenos Aires, with a population of 1,670,000, is far the most important port of South America and one of the largest of the entire Western Hemisphere.

In regard to climate and soil, the country presents the most nearly perfect area the world contains for the production of cereals and for cattle raising. The cultivated area has increased at a remarkably rapid pace in the last 15 years. Among the chief products for exportation are wheat, corn, linseed, meat, hides, and wool. In addition, the country also produces alfalfa, oats, barley, quebracho, sugar, cotton, tobacco, potatoes, rice, and grapes in large quantities. The oil industry, a more recent development, is attracting considerable interest and making very promising strides. The country possesses vast mineral resources, which are in the process of development.

Argentina leads all South American countries in the volume of foreign trade. The figures for the last six years in United States dollars (at the average rate of exchange) were as follows:

Year	Imports	Exports
1917	\$366,571,000	\$559,511,000
1918	511,746,000	818,181,000
1919	647,581,000	1,017,769,000
1920	789,362,000	881,394,000
1921	532,717,000	477,240,000
1922 (provisional figures)	552,113,000	540,845,000

The principal imports are textiles, iron and steel manufactures, agricultural implements, chemicals, and building materials.

There are to-day 22,355 miles of railroad in Argentina, of which 3,865 miles are Government owned and 18,490 miles are privately owned. The Government has considerable additional mileage under construction.

The national debt of the Republic as of July 31, 1923, at gold parities of exchange, amounts to ₧908,000,000, being equivalent to \$98 United States per capita, as against over \$200 per capita for the United States. In addition, the Argentine Nation guarantees the bonds of the National Mortgage Bank. These bonds are somewhat similar to the United States Federal farm loan bonds, and are favored as an investment in Europe. The National Mortgage Bank is self-supporting and has a large reserve of its own.

Argentine credit in Europe ranks very high. A large number of pre-war Argentine loans are listed in London and on the continental stock exchanges of Europe, none of which carries a higher rate than 5 per cent. The Argentine Republic during the war made large advances to some of the Allies, besides repurchasing a large part of the Argentine securities previously placed in European markets.

The budgetary figures since 1910 are as follows:

Year	Receipts (gold pesos) ¹	Expenditures (gold pesos) ¹
1919.....	168,388,000	188,276,000
1920.....	218,416,000	214,456,000
1921.....	190,784,000	248,664,000
1922 (budgetary estimates).....	193,952,000	278,696,000

¹ 1 gold peso equals \$0.96½ at gold par of exchange.

The above receipts do not include funds raised through loans, but the expenditures do include capital expenditures for which loans were contracted. The capital expenditures for 1922 were not less than ₧28,000,000 gold.

Budgetary receipts for 1923 thus far are ₧24,000,000 gold in excess of those for 1922. Furthermore, as expenditures are being curtailed, it is expected that there will be no deficit for this year.

The total note circulation of Argentina amounts to ₧1,362,564,000 paper, which is covered by a gold reserve of over 80 per cent, one of the highest in the world.

The proceeds of this issue will be applied to the payment of the \$50,000,000 Government of the Argentine nation 2-year 7 per cent treasury gold notes, which mature on October 1, 1923, and for other purposes.

The notes are a direct liability and obligation of the Government, which pledges its good faith and credit for the punctual payment of their principal and interest.

The notes will be issued in bearer form, in denominations of \$1,000, will be dated September 1, 1923, and will mature March 1, 1924. Principal and interest will be payable in gold coin of the United States of America of or equal to the present standard of weight and fineness, in the city of New York, without deduction for any taxes or impositions now or hereafter established or levied by or within the territory of the Government of the Argentine nation against the notes or the income therefrom or the holders thereof, and shall be payable as well in time of war as in time of peace, whether the holder be a citizen or resident of a friendly or hostile state.

Very truly yours,

FELIPE A. ESPIL,

Chargé d'Affaires of the Government of the Argentine nation.

\$40,000,000 GOVERNMENT OF THE ARGENTINE NATION EXTERNAL SINKING FUND 6 PER CENT GOLD BONDS OF 1923, SERIES A, DATED SEPTEMBER 1, 1923, DUE SEPTEMBER 1, 1957

Principal and interest payable in the city of New York in United States gold coin without deduction for any Argentine taxes or impositions present or future. Interest payable March 1 and September 1. Coupon bonds in denominations of \$1,000 and \$500 registerable as to principal only.

Redeemable through the operation of a cumulative sinking fund calculated to retire the bonds of this issue not later than September 1, 1957.

For further information regarding this issue of bonds reference is made to the accompanying letter received from Felipe A. Espil, Esq., chargé d'affaires of the Government of the Argentine Nation at Washington, copies of which may be obtained from the undersigned and which he has summarized as follows:

General: "The Argentine Republic has an area of approximately 1,100,000 square miles or over one-third of the area of the United States, and leads all South American countries in volume of foreign trade. There are to-day 22,355 miles of railroad. The Government itself has considerable mileage under construction."

Purpose: "The proceeds of this issue will be applied toward the payment of short-term notes included in the total debt as stated below."

Gold reserve: "The total note circulation of Argentina amounts to ₧1,362,564,000 paper, equal to ₧599,528,000 gold, which is covered by a gold reserve of ₧475,003,000 (=U. S. \$483,300,000) or 79 per cent, one of the highest in the world."

Finances: "The national debt as of December 31, 1923, at gold parities of exchange, amounts to ₧932,000,000 gold, being equivalent to \$100 U. S. per capita as against over \$200 per capita for the United States. In addition, the nation guarantees the bonds of the National Mortgage Bank which is self-supporting and has a large reserve of its own."

The undersigned offer the above bonds, subject to prior sale, at 98½ per cent and accrued interest to date of delivery to yield 6¼ per cent to maturity.

Government of the Argentine Nation six months 6 per cent treasury gold notes due March 1, 1924, will be accepted in payment for these bonds on a 4 per cent interest basis, provided that notice of the amount of such notes to be tendered in payment is given not less than five days prior to the date fixed for delivery of and payment for the new bonds.

The above bonds are offered if, when and as issued and received by the undersigned and subject to the completion of their purchase and approval of counsel. Temporary bonds or interim receipts exchangeable for definitive bonds when prepared may be delivered against payment in New York funds.

BLAIR & Co. (Inc.).
KUHIN, LOEB & Co.

New York, January 16, 1924.

WASHINGTON, D. C., January 16, 1924.

MESSRS. KUHIN, LOEB & Co. and BLAIR & Co. (INC.),
New York, N. Y.

DEAR SIR: Referring to the \$40,000,000 Government of the Argentine Nation external sinking fund 6 per cent gold bonds of 1923, series A, which you are offering, I beg to submit the following information:

The Argentine Republic has an area of 1,100,000 square miles, or over one-third of the area covered by the United States. It has a population of 9,000,000. The capital, Buenos Aires, with a population of 1,750,000, is far the most important port of South America, and one of the largest of the entire Western Hemisphere.

In regard to climate and soil, the country presents the most nearly perfect area the world contains for the production of cereals and for cattle raising. Among the chief products for exportation are wheat, corn, linseed, meat, hides, and wool. In addition, the country produces alfalfa, oats, barley, quebracho, sugar, cotton, tobacco, potatoes, rice, and grapes in large quantities. The country possesses vast mineral resources, which are in process of development.

Argentina leads all South American countries in volume of foreign trade. The figures for the last six years in United States dollars (at the average rate of exchange for each year) were as follows:

Year	Imports	Exports
1917	356,571,000	559,511,000
1918	511,746,000	818,181,000
1919	647,581,000	1,017,769,000
1920	789,362,000	881,354,000
1921	532,717,000	477,240,000
1922	551,308,000	541,649,000

The principal imports are textiles, iron and steel manufacturers, agricultural implements, chemicals, and building materials.

There are to-day 22,355 miles of railroad in Argentina, of which 3,865 miles are Government owned and 18,490 miles are privately owned. The Government has considerable additional mileage under construction.

The national debt of the Republic as of December 31, 1923, at gold parities of exchange, amounts to ₧1932,000,000 gold, being equivalent to \$100 U. S. per capita, as against over \$200 per capita for the United States. In addition, the Argentine Nation guarantees the bonds of the National Mortgage Bank. These bonds are somewhat similar to the United States Federal farm-loan bonds, and are favored as an investment in Europe. The National Mortgage Bank is self-supporting and has a large reserve of its own.

Argentine credit in Europe ranks very high. A large number of pre-war Argentine loans are listed in London and on the continental stock exchanges of Europe, none of which carries a higher interest rate than 5 per cent. During the war the Argentine Republic made large advances to some of the Allies, besides repurchasing a large part of the Argentine securities previously placed in European markets.

The budgetary figures since 1919 are as follows:

Year	Receipts (gold pesos †)	Expenditures (gold pesos)
1919.....	163,388,000	188,278,000
1920.....	218,416,000	214,456,000
1921.....	190,784,000	246,664,000
1922.....	193,952,000	278,696,000
1923 ‡.....	249,054,000	292,160,000

† One gold peso = \$0.96½ at gold par of exchange.

‡ Budgetary estimates for 1923.

The above receipts do not include funds raised through loans, but the expenditures do include capital expenditures for which loans were contracted. The capital expenditures for 1922 were about ₧28,000,000 gold, and for 1923 about ₧31,000,000 gold.

The total note circulation of Argentina amounts to ₧1,362,564,000 paper, equal to ₧599,528,000 gold, which is covered by a gold reserve of ₧475,003,000 (= U. S. \$458,300,000) or 79 per cent, one of the highest in the world.

The proceeds of this issue will be applied toward the payment of short-term notes which are included in the amount of the total debt as above stated.

The external sinking fund 6 per cent gold loan of 1923 has been duly authorized by acts of the National Congress of the Government of the Argentine Nation, known as laws Nos. 11206 and 11207, and is limited to an amount of 150,000,000 Argentine gold pesos (\$100=103.64 gold pesos at gold par of exchange) or the equivalent thereof in American dollars or pounds sterling of Great Britain.

The loan is a direct liability and obligation of the Government, which pledges its good faith and credit for the punctual payment of the principal and interest thereof and of the installments of the sinking fund, in accordance with the terms of the bonds, and otherwise for the service of the loan; and the Government covenants, and the bonds shall so provide that, if, while any of the bonds of the external loan of 1923 shall be outstanding, the Government shall create or issue or guarantee any loan or bonds secured by lien on any of its revenues or assets, or assign any of its revenues or assets as security for any guaranty of any obligation, the bonds of the external loan of 1923 shall be secured equally and ratably with such other loan or bonds or such guaranty.

The bonds of series A of the loan will be issued in coupon bearer form, registerable as to principal, in denominations of \$1,000 and \$500, will be dated September 1, 1923, will mature September 1, 1957, and will bear interest from September 1, 1923, payable semiannually on March 1 and September 1 in each year. Principal and interest will be payable in the city of New York in gold coin of the United States of America or equal to the standard of weight and fineness existing September 1, 1923, without deduction for any taxes or impositions now or hereafter established or levied by, or within the territory of, the Government of the Argentine Nation against the bonds or the income therefrom or the holder thereof, and shall be paid as well in time of war as in time of

peace and whether the holder be a citizen or resident of a friendly or a hostile state.

Beginning March 1, 1924, and thereafter semiannually on March 1 and September 1 in each year, the Government of the Argentine Nation will pay to Kuhn, Loeb & Co., Blair & Co., and the Chase National Bank, of the city of New York, the fiscal agents of the loan, as a sinking fund, in United States gold coin of the standard of weight and fineness aforesaid, (a) an amount equal to one-half of 1 per cent of the maximum principal amount of the bonds of series A at any time theretofore issued, plus (b) an amount equal to the interest accrued and unpaid on all bonds acquired through the operation of the sinking fund to the date of each such sinking-fund payment. The fiscal agents shall apply each instalment of the sinking fund toward the purchase of bonds below par through tenders, and to the extent that such instalment shall not within a period of 90 days after its payment have been so applied bonds shall be drawn by lot for retirement at par. Notice of the numbers of the bonds drawn for retirement shall be advertised and the bonds so indicated shall become due and payable on the next interest payment date and shall bear no interest thereafter. Sinking-fund payments may be increased by the government in its discretion.

A part of the series A bonds of the external sinking fund 6 per cent gold loan of 1923 may be issued as sterling bonds in denominations of £200, £100, and £20, interest and sinking fund payable in London in sterling of the United Kingdom of Great Britain and Ireland, and such sterling bonds shall in all other respects be similar to the dollar bonds of series A.

Application will be made for the listing of the dollar bonds of series A on the New York Stock Exchange.

Very truly yours,

FELIPE A. ESPIL,
Charge d'Affaires of the Government of the Argentine Nation.

CONFIDENTIAL

NEW YORK, February 7, 1924.

DEAR SIR: We have agreed to purchase \$20,000,000 principal amount Government of the Argentine Nation six months 5½ per cent treasury gold notes due August 25, 1924, to be issued in bearer form in denominations of \$1,000 and \$5,000, principal and interest to be payable in United States gold coin without deduction for any taxes or impositions now or hereafter established or levied by or within the territory of the Government of the Argentine Nation against the notes or the income therefrom or the holders thereof. The proceeds of this issue are to be applied toward the payment of the \$55,000,000 notes maturing March 1, 1924, provision having been made for the balance of such notes through the recent sale of \$40,000,000 6 per cent gold bonds of 1923, series A, due September 1, 1927. The balance remaining of the proceeds of these two issues is available to the Government of the Argentine Nation for other purposes.

We have reserved for you \$—— principal amount of these notes at 100 per cent and accrued interest to date of delivery. Payment for the notes is to be made in New York on or about February 25, 1924, against delivery of the notes or interim receipts therefor, deliverable if, when, and as issued and received by us and subject to the approval of counsel.

Government of the Argentine National six months 6 per cent treasury gold notes due March 1, 1924, will be accepted in payment for notes allotted on a 4 per cent interest basis, provided that notice of the amount of maturing notes to be tendered in payment is given not less than five days prior to the date fixed for delivery of and payment for the new notes.

Please notify us promptly whether you desire to accept the notes reserved for you, and believe us,

Very truly yours,

CHASE SECURITIES CORPORATION,
By _____, *Assistant Treasurer.*
P. P. KUHN, LOEB & Co.

\$20,000,000 MORTGAGE BANK OF CHILE (CAJA DE CRÉDITO HIPOTECARIO) GUARANTEED SINKING FUND 6½ PER CENT GOLD BONDS, DUE JUNE 30, 1957

Unconditionally guaranteed, as stated below, as to principal, interest, and sinking fund, by indorsement, by the Republic of Chile.

Coupon bearer bonds in denominations of \$1,000 and \$500 each. Principal and interest to be payable, at the option of the holders, in New York City at the office of Kuhn, Loeb & Co. or of Guaranty Trust Co. of New York, in United States gold coin of or equal to the standard of weight and fineness existing June 30, 1925, or in Santiago, Chile, at the office of the Caja by sight draft on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile or by any State, Province, municipality, or other taxing authority thereof or therein, and to be payable in time of war as well as in time of peace, and whether the holder be a citizen or a resident of a friendly or a hostile State.

Interest payable June 30 and December 31.

For further information regarding this issue of bonds, reference is made to the accompanying letter received from His Excellency the Hon. Beltrán Mathien, ambassador extraordinary and plenipotentiary of the Republic of Chile, and from which the following is summarized:

The bonds are unconditionally guaranteed as to principal, interest, and sinking fund, by indorsement, by the Republic of Chile, pursuant to decree law of the governing council, dated March 9, 1925, and an executive decree, dated June 15, 1925 (supplementing said decree law), issued under the authority of President Alessandri and his cabinet, who are functioning as the Government of Chile, Congress having been dissolved in September, 1924, pending the adoption of a new constitution, which is now being drafted. The guaranty thus authorized is valid and binding upon the Republic of Chile.

Beginning December 31, 1925, the bonds will be redeemable through a cumulative sinking fund calculated to retire the whole issue by June 30, 1957, to be applied on each semiannual interest date to the redemption by lot of bonds at par. The Caja will have the right to increase the amount of any sinking-fund payment for the redemption of additional bonds on any interest date, and in any such case appropriate reductions will be made in subsequent sinking-fund payments. This right is reserved because repayments on the mortgage loans can be made by the borrowers either in cash or in bonds of the Caja in excess of the fixed minimum amortization payments, and the Caja is not permitted by law to have its bonds outstanding in excess of the mortgage loans against which they are issued.

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 97½ per cent and accrued interest to date of delivery, to yield 6.70 per cent to maturity.

The undersigned reserves the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for, and to make allotments in their uncontrolled discretion.

The bonds and guaranty are, in the opinion of American and Chilean counsel, valid obligations, respectively, of the Caja de Crédito Hipotecario and the Republic of Chile.

The above bonds are offered if, when, and as issued and received by the undersigned, and subject to the approval of counsel. In the first instance, interim certificates of Guaranty Trust Co. of New York will be delivered against payment in New York funds for bonds allotted, which interim certificates will be exchangeable for definitive bonds when prepared.

Application will be made in due course to list these bonds on the New York Stock Exchange.

KUHN, LOEB & Co.
GUARANTY CO. OF NEW YORK.

NEW YORK, *June 25, 1925.*

WASHINGTON, D. C., *June 25, 1925.*

MESSRS. KUHN, LOEB & Co., GUARANTY CO. OF NEW YORK,
New York.

DEAR SIR: Referring to the issue of \$20,000,000 guaranteed sinking fund 6½ per cent gold bonds, due June 30, 1957, of the Mortgage Bank of Chile (Caja de Crédito Hipotecario, Chile), I beg to give you the following information:

The bonds are unconditionally guaranteed as to principal, interest, and sinking fund, by endorsement, by the Republic of Chile, pursuant to decree law of the governing council, dated March 9, 1925, and an Executive decree, dated June 15, 1925 (supplementing said decree law), issued under the authority of President Alessandri and his cabinet, who are functioning as the Government of Chile, congress having been dissolved in September, 1924, pending the adoption of a new constitution which is now being drafted. The guaranty thus authorized is valid and binding upon the Republic of Chile.

The Caja de Crédito Hipotecario was created by law of August 29, 1855, for the purpose of making available credit facilities on reasonable terms for the development and improvement of real property in Chile. The board of directors is selected by both legislative chambers of Chile, and the chairman of the board, the chief counsel, the cashier, the controller and the secretary are appointed by the president of the Republic.

During its entire existence of 70 years, the Caja has operated successfully and has never failed to meet its obligations. The record of its loan collections is very satisfactory. The losses incurred by the Caja on property foreclosed under its mortgages have not exceeded \$40,000 in the aggregate for the last 10 years. In his report, published February 1, 1924, to the Department of Commerce of the United States, Mr. Charles A. McQueen, special agent of the Bureau of Foreign and Domestic Commerce of the department, states that in the course of its long existence the Caja has conducted its affairs with uniform safety and success.

The Caja has no capital stock and is not operated for profit. It has power to charge a commission to provide for its expenses and for a reserve fund, as additional security for its bonds, but having accumulated a sufficient reserve, the Caja has now discontinued charging such commission.

The Caja issues its bonds only against mortgages registered in its name. It makes only first mortgage loans. The loans are made on a conservative basis and the risk is greatly diversified. On December 31, 1924, the Caja had outstanding various issues of bonds aggregating \$84,995,700, at approximate present rates of exchange, against which it had made more than 9,800 mortgage loans, being an average of not more than \$9,000 per loan. The aggregate appraised improved value of the properties mortgaged as security for these loans amounted to more than four times the amount of the loans. As further security for its bonds, the Caja has accumulated a reserve fund of approximately \$5,118,000, at approximate present rates of exchange.

The law of September 10, 1892, authorizes the Caja to issue bonds and to make mortgage loans payable in foreign currencies. It is the practice of the Caja to make its mortgage loans, against which bonds payable in a foreign currency are issued, also payable in the same currency, except in cases where it has obtained a guaranty of the Republic of Chile for any loss resulting from exchange fluctuations. This was done in 1912 when Fcs. 58,823,500 gold bonds were issued (of which there are still Fcs. 28,444,500 gold now outstanding), and is also being done in the case of the present issue against \$15,000,000 of which mortgage loans in Chilean currency will be outstanding. The mortgage loans against the balance of \$5,000,000 of this issue will be made at the request of the Republic of Chile, for special purposes at lower interest rates than the Caja is paying on the bonds and the Republic has agreed to pay the difference and to guarantee these mortgage loans. The entire present issue of bonds will also be guaranteed by indorsement by the Republic of Chile. No other issue of bonds of the Caja is indorsed with the guaranty of the Republic.

The bonds of the Caja are legal investments for savings banks and trust funds in Chile.

Prior to the war, in 1911 and 1912, three issues of 5 per cent bonds of the Caja, not indorsed with the guaranty of the Government, were made in Europe, at prices from 96¼ to 99¼ per cent.

The present debt of the Republic of Chile, including the present and all other obligations guaranteed by it, aggregates about \$250,000,000, at approximately present rates of exchange. The proceeds of the Government loans have been largely used for the construction or improvement of railways, harbors, and other public works. The Government owns 3,624 miles of railroads, telegraph lines, and other property, of an estimated value of approximately \$650,000,000, at approximate present rates of exchange, which is well in excess of the entire amount of the debt. In addition, the Government owns large and very valuable tracts of nitrate lands.

Chile is a mining and agricultural country. Its mineral products are largely raw materials for essential industries. Exports consist chiefly of nitrates and by-products of the nitrate industry, copper, borax, wool, and a limited amount of agricultural products. The nitrate deposits are the only large natural deposits so far discovered in the world. The copper industry has been extensively developed, largely by American capital.

The trade balance of Chile is favorable. The total foreign trade for 1923 (the last year for which official figures are available) aggregated \$318,000,000 at the approximate present rate of exchange, and the balance of exports over imports amounted to \$78,000,000. The unofficial estimates for 1924, both for the total trade and for the favorable balance, exceed the results for 1923. Since 1915 imports have exceeded exports in only one year.

The present currency circulation of Chile at the present rate of exchange of about 11½ cents per peso, is equivalent to \$35,855,045. Part of this currency is covered by gold reserves, part by commodities and part by mortgage loans and other obligations. The total gold reserve amounts to approximately \$41,800,000, which is in excess of the dollar equivalent, as stated above, of the present currency circulation.

The \$20,000,000 guaranteed sinking-fund 6½ per cent gold bonds of the Caja, constituting the loan designated *Emprestito oro Caja Hipotecaria*, 1925, which you have agreed to purchase, will be in coupon bearer form, in denominations of \$1,000 and \$500, will be dated June 30, 1925, will mature June 30, 1957, and will bear interest at the rate of 6½ per cent per annum from June 30, 1925, payable semiannually on June 30 and December 31 of each year. Principal and interest will be payable, at the option of the holders, in the Borough of Manhattan, in the city of New York, at the office of Kuhn, Loeb & Co., or at the principal office of Guaranty Trust Co. of New York, in gold coin of the United States of America of or equal to the standard of weight and fineness existing June 30, 1925, or in Santiago, Chile, at the office of the Caja, by sight draft on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile, or by any state, province, municipality, or other taxing authority thereof or therein, and will be paid in time of war as well as in time of peace, and whether the holder be a citizen or a resident of a friendly or a hostile state.

Beginning December 31, 1925, the bonds will be redeemable through a cumulative sinking fund calculated to retire the whole issue by June 30, 1957, to be applied on each semiannual interest date to the redemption by lot of bonds at par. Notice of redemption is to be given by advertisement, the first advertisement to appear at least 30 days before each redemption date. The Caja will have the right to increase the amount of any sinking fund payment for the redemption of additional bonds on any interest date, and in any such case appropriate reductions will be made in subsequent sinking fund payments. This right is reserved because repayments on the mortgage loans can be made by the borrowers either in cash or in bonds of the Caja in excess of the fixed minimum amortization payments, and the Caja is not permitted by law to have its bonds outstanding in excess of the mortgage loans against which they are issued.

Application will be made to list the bonds on the New York Stock Exchange.

Very truly yours,

BELTRAN MATHIEU,
*Ambassador Extraordinary and Plenipotentiary
of the Republic of Chile to the United States.*

**\$20,000,000 MORTGAGE BANK OF CHILE (CAJA DE CRÉDITO HIPOTECARIO, CHILE)
GUARANTEED SINKING-FUND 6½ PER CENT GOLD BONDS OF 1926, DUE JUNE
30, 1961**

Unconditionally guaranteed as to principal, interest, and sinking fund, by indorsement, by the Republic of Chile.

Coupon-bearer bonds in denominations of \$1,000 and \$500 each. Principal and interest to be payable at the option of the holders, in New York City, at the office of Kuhn, Loeb & Co. or of Guaranty Trust Co. of New York, in United States gold coin of or equal to the standard of weight and fineness existing June 30, 1926, or in Santiago, Chile, at the office of the Caja by sight draft

on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile or by any state, province, municipality, or other taxing authority thereof or therein and to be payable in time of war as well as in time of peace and whether the holder be a citizen or a resident of a friendly or a hostile state. Interest payable June 30 and December 31.

For further information regarding this issue of bonds, reference is made to the accompanying letter received from His Excellency, the Hon. Miguel Cruchaga, ambassador extraordinary and plenipotentiary of the Republic of Chile to the United States, and from which the following is summarized:

The bonds are to be unconditionally guaranteed as to principal, interest, and sinking fund, by indorsement, by the Republic of Chile, pursuant to the law of August 29, 1855, creating the Caja, as amended by decree law, dated December 15, 1925, and pursuant to decree law, dated March 9, 1925, and to decree of the President of the Republic of Chile, dated July 27, 1926.

Beginning December 31, 1926, the bonds will be redeemable through a cumulative sinking fund calculated to retire the whole issue by June 30, 1961, to be applied on each semiannual interest date to the redemption by lot of bonds at par. The Caja will have the right to increase the amount of any sinking fund installment for the redemption of additional bonds on any interest date, and in any such case appropriate reductions will be made in subsequent sinking fund installments. This right is reserved because repayments on the mortgage loans to be made by the Caja, against which these bonds are to be issued, can be made by the borrowers either in cash or in bonds of the Caja in excess of the fixed minimum amortization payments and the Caja is not permitted by law to have its bonds outstanding in excess of the mortgage loans against which they are issued.

Application will be made in due course to list these bonds on the New York Stock Exchange.

The undersigned will receive subscriptions for \$18,330,000 bonds, subject to allotment, at 99¼ per cent and accrued interest to date of delivery, to yield over 6.80 per cent to maturity.

The mortgage bank is withdrawing the remaining \$1,670,000 bonds for its reserve fund.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for, and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when and as issued and received by the undersigned, and subject to the approval of counsel. In the first instance, interim certificates of Guaranty Trust Co. of New York will be delivered against payment in New York funds for bonds allotted, which interim certificates will be exchangeable for definitive bonds when prepared.

GUARANTY Co. OF NEW YORK,
KUHNS, LOEB & Co.

NEW YORK, July 29, 1926.

WASHINGTON, D. C., July 29, 1926.

Messrs. KUHN, LOEB & Co. and
GUARANTY Co. OF NEW YORK,
New York.

DEAR SIRS: Referring to the issue of \$20,000,000 principal amount of guaranteed sinking-fund 6½ per cent gold bonds of 1926, due June 30, 1961, of the Mortgage Bank of Chile (Caja de Credito Hipotecario, Chile), of which you have agreed to purchase \$18,330,000, the Caja withdrawing the balance of \$1,670,000 for its reserve fund, I beg to give you the following information:

The bonds are to be unconditionally guaranteed as to principal, interest, and sinking fund by indorsement by the Republic of Chile, pursuant to the law creating the Caja, as amended by decree law dated December 15, 1925, and pursuant to decree law dated March 9, 1925, and to decree of the President of the Republic of Chile dated July 27, 1926.

The Caja de Credito Hipotecario was created by law of August 29, 1855, for the purpose of making available credit facilities on reasonable terms for the development and improvement of real property in Chile. The board of directors, the president of the board, the chief counsel, the cashier, the comptroller, and the secretary are appointed by the President of the Republic.

During its entire existence of over 70 years the Caja has operated successfully and has never failed to meet its obligations. The record of its loan collections is very satisfactory. The losses incurred by the Caja on property foreclosed under its mortgages have not exceeded \$40,000 in the aggregate for the last 10 years. In his report, published February 1, 1924, to the Department of Commerce of the United States, Mr. Charles A. McQueen, special agent of the Bureau of Foreign and Domestic Commerce of the department, states that in the course of its long existence the Caja has conducted its affairs with uniform safety and success.

The Caja has no capital stock and is not operated for profit. It has power to charge a commission to provide for its expenses and for a reserve fund as additional security for its bonds, but, having accumulated a sufficient reserve, the Caja has now discontinued charging such commission.

The Caja issues its bonds only against mortgages registered in its name. It makes only first-mortgage loans. The loans are made on a conservative basis and the risk is greatly diversified. On December 31, 1925, the Caja had outstanding various issues of bonds aggregating \$100,219,000, at gold par of exchange, against which it had made 10,198 mortgage loans, being an average of less than \$10,000 per loan. These loans aggregated less than 25 per cent of the aggregate appraised improved value of the properties mortgaged as security therefor. As further security for its bonds the Caja has accumulated a reserve fund of approximately \$5,028,450 at gold par of exchange.

The law authorizes the Caja to issue bonds and to make mortgage loans payable in foreign currencies. It is the practice of the Caja to make its mortgage loans, against which bonds payable in a foreign currency are issued, also payable in the same currency, except in cases where it has obtained a guaranty of the Republic of Chile for any loss resulting from exchange fluctuations. This was done in 1912 when Pes. 58,823,500 gold bonds were issued (of which there are still Pes. 27,982,500 gold now outstanding) and in 1925 when \$20,000,000 United States gold bonds were issued in the United States by you.

The mortgage loans against \$5,000,000 of the present issue will be made at the request of the Republic of Chile for special purposes at lower interest rates than the Caja is paying on the bonds and the Republic has agreed to pay the difference and to guarantee those mortgage loans. The entire present issue of bonds will also be guaranteed by endorsement by the Republic of Chile.

The bonds of the Caja are legal investments for savings banks and trust funds in Chile.

Prior to the war, in 1911 and 1912, three issues of 5 per cent bonds of the Caja, not indorsed with the guaranty of the Government, were made in Europe, at prices from 96¼ to 99¼ per cent. These issues are listed on the stock exchanges of Paris and Berlin.

The present debt of the Republic of Chile, including the present and all other obligations guaranteed by it, aggregates about \$270,000,000, at gold par of exchange. The proceeds of the Government loans have been largely used for the construction or improvement of railways, harbors, and other public works. The Government owns 3,624 miles of railroads, telegraph lines, and other property, of an estimated value of approximately \$650,000,000, at gold par of exchange, which is well in excess of the entire amount of the debt. In addition, the Government owns large and very valuable tracts of nitrate lands.

Chile is a mining and agricultural country. Its mineral products are largely raw materials for essential industries. Exports consist chiefly of nitrates, by-products of the nitrate industry, copper, borax, wool, and a limited amount of agricultural products. The nitrate deposits are the only large natural deposits so far discovered in the world. The copper industry has been extensively developed, largely by American capital.

The trade balance of Chile is favorable. The total foreign trade for 1924 (the last year for which official figures are available) aggregated \$352,000,000 at the present gold parity of exchange, and the balance of exports over imports amounted to \$86,000,000. Since 1915 imports have exceeded exports in only one year.

Chile is on a gold basis. Its currency is the peso, equivalent to United States \$0.12166. Currency notes are issued by the central bank of Chile, similar to the Federal Reserve banks of the United States.

The above-mentioned \$20,000,000 principal amount of guaranteed sinking fund 8¼ per cent gold bonds of 1926 of the Caja, constituting the loan designated *Emprestito oro Caja Hipotecaria, 1926*, will be in coupon-bearer form, in denom-

inations of \$1,000 and \$500, will be dated June 30, 1926, will mature June 30, 1931, and will bear interest at the rate of 6½ per cent per annum from June 30, 1926, payable semiannually on June 30 and December 31 of each year. Principal and interest will be payable at the option of the holders, in the borough of Manhattan, in the city of New York, at the office of Kuhn, Loeb & Co., or at the principal office of Guaranty Trust Co. of New York, in gold coin of the United States of America of or equal to the standard of weight and fineness existing June 30, 1926, or in Santiago, Chile, at the office of the Caja, by sight draft on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile, or by any State, Province, municipality or other taxing authority thereof or therein, and will be paid in time of war as well as in time of peace, and whether the holder be a citizen or a resident of a friendly or a hostile state.

Beginning December 31, 1926, the bonds will be redeemable through a cumulative sinking fund calculated to retire the whole issue by June 30, 1931, to be applied on each semiannual interest date to the redemption by lot of bonds at par. Notice of redemption is to be given by advertisement, the first advertisement to appear at least 30 days before each redemption date. The Caja will have the right to increase the amount of any sinking-fund installment for the redemption of additional bonds on any interest date, and in any such case appropriate reductions will be made in subsequent sinking-fund installments. This right is reserved because repayments on the mortgage loans can be made by the borrowers either in cash or in bonds of the Caja in excess of the fixed minimum amortization payments and the Caja is not permitted by law to have its bonds outstanding in excess of the mortgage loans against which they are issued.

Application will be made in due course to list the bonds on the New York Stock Exchange.

Very truly yours,

MIGUEL CRUCHAGA,
*Ambassador Extraordinary and Plenipotentiary
of the Republic of Chile to the United States.*

\$10,000,000 MORTGAGE BANK OF CHILE (CAJA DE CRÉDITO HIPOTECARIO, CHILE)
GUARANTEED 5-YEAR 6 PER CENT AGRICULTURAL GOLD NOTES OF 1926, DUE
DECEMBER 31, 1931.

UNCONDITIONALLY GUARANTEED, BY INDORSEMENT, BY THE REPUBLIC OF CHILE, AS
TO PRINCIPAL AND INTEREST—NOT REDEEMABLE BEFORE MATURITY

Coupon bearer notes in denomination of \$1,000 each. Principal and interest to be payable at the option of the holders, in New York City at office of Kuhn, Loeb & Co. or of Guaranty Trust Co. of New York, in United States gold coin of or equal to the standard of weight and fineness existing December 31, 1926, or in Santiago, Chile, at the office of the Caja by sight draft on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile or by any State, Province, municipality, or other taxing authority thereof or therein and to be payable in time of war as well as in time of peace and whether the holder be a citizen or a resident of a friendly or a hostile state.

Interest payable June 30 and December 31.

For further information regarding this issue of notes, reference is made to the accompanying letter received from his excellency the Hon. Miguel Cruchaga, ambassador extraordinary and plenipotentiary of the Republic of Chile to the United States, who has authorized the following statement:

The notes are to be unconditionally guaranteed, by indorsement, by the Republic of Chile, as to principal and interest, and are being issued for the purpose of making loans secured by agricultural products or implements, which loans, as provided by law, may not exceed 50 per cent of the estimated value of the collateral.

The undersigned offer the above notes, subject to prior sale, at 98¾ per cent and accrued interest to date of delivery, to yield about 6.30 per cent at maturity.

The above notes are offered if, when, and as issued and received by the undersigned, and subject to the approval of counsel. In the first instance, interim certificates of Guaranty Trust Co. of New York will be delivered

against payment in New York funds for notes allotted, which interim certificates will be exchangeable for definitive notes when prepared.

KUHN, LOEB & Co.
GUARANTY Co. OF NEW YORK.

NEW YORK, December 22, 1926.

WASHINGTON, D. C., December 22, 1926.

Messrs. KUHN, LOEB & Co. and GUARANTY Co. OF NEW YORK,
New York.

DEAR SIR: Referring to the issue of \$10,000,000 principal amount of guaranteed 5-year 6 per cent agricultural gold notes of 1926, due December 31, 1931, of the Mortgage Bank of Chile (Caja de Crédito Hipotecario, Chile), I beg to give you the following information:

The notes are to be unconditionally guaranteed by indorsement, by the Republic of Chile, as to principal and interest and are to be issued in accordance with the law of the Republic of Chile, dated August 29, 1855, establishing the Caja, as amended by the decree law dated December 15, 1925 (which decree law was duly approved by the commission appointed for that purpose by both Houses of Congress), with the law No. 4074, dated July 27, 1926, with decrees No. 834, dated November 17, 1926, and No. 998, dated December 16, 1926, and with the decree of the President of the Republic of Chile, dated December 22, 1926, for the purpose of making loans secured by agricultural products or implements, which loans may not exceed 50 per cent of the estimated value of the collateral.

The Caja de Crédito Hipotecario was created by law of August 29, 1855, for the purpose of making available credit facilities on reasonable terms for the development and improvement of real property in Chile. The board of directors, the president of the board, the chief counsel, the cashier, the controller and the secretary are appointed by the President of the Republic.

During its entire existence of over 70 years, the Caja has operated successfully and has never failed to meet its obligations. The record of its loan collections is very satisfactory. The losses incurred by the Caja on property foreclosed under its mortgages have not exceeded \$40,000 in the aggregate for the last ten years.

The Caja has no capital stock and is not operated for profit. It has power to charge a commission to provide for its expenses and for a reserve fund, as additional security for its bonds and notes, but having accumulated a sufficient reserve, the Caja has now discontinued charging such commission.

On December 31, 1925, the Caja had outstanding various issues of bonds aggregating \$100,219,000, at gold par of exchange, against which it had made 10,198 mortgage loans, being an average of less than \$10,000 per loan. These loans aggregated less than 25 per cent of the aggregate appraised improved value of the properties mortgaged as security therefor. As further security for its bonds and notes, the Caja has accumulated a reserve fund of approximately \$5,028,450, at gold par of exchange.

The bonds and notes of the Caja are legal investments for savings banks and trust funds in Chile.

Prior to the war, in 1911 and 1912, three issues of 5 per cent bonds of the Caja, not indorsed with the guaranty of the government, were made in Europe at prices from 96¼ to 99¼ per cent. These issues are listed on the stock exchanges of Paris and Berlin.

The present debt of the Republic of Chile, including the present and all other obligations guaranteed by it, aggregates about \$208,000,000, at gold par of exchange. The proceeds of the Government loans have been largely used for the construction or improvement of railways, harbors, and other public works. The Government owns 3,624 miles of railroads, telegraph lines, and other property, of an estimated value of approximately \$650,000,000, at gold par of exchange.

Chile is a mining and agricultural country. Its mineral products are largely raw materials for essential industries. Exports consist chiefly of nitrates, by-products of the nitrate industry, copper, borax, wool, and a limited amount of agricultural products. The largest known copper deposits in the world are in Chile. They occur near the surface and are of exceptionally high quality, resulting in the lowest cost production of any large-scale copper producing

area in the world. These deposits are being extensively developed, mainly by American capital.

Chile's total foreign trade for 1925 aggregated \$376,000,000 at the present gold parity of exchange, and the balance of exports over imports amounted to \$78,000,000. The average annual favorable trade balance for the six years, 1920 to 1925, was \$69,000,000.

Chile is on a gold basis. Its currency is the peso, equivalent to United States \$0.12166. Currency notes are issued by the Central Bank of Chile, similar to the Federal reserve banks of the United States.

The above-mentioned \$10,000,000 principal amount of guaranteed 5-year 6 per cent agricultural gold notes of 1926 of the Caja will be in coupon-bearer form, in the denomination of \$1,000, will be dated December 31, 1926, will mature December 31, 1931, will not be redeemable before their maturity, and will bear interest at the rate of 6 per cent per annum from December 31, 1926, payable semiannually on June 30 and December 31 of each year. Principal and interest will be payable at the option of the holders, in the borough of Manhattan, in the city of New York, at the office of Kuhn, Loeb & Co., or at the principal office of Guaranty Trust Co. of New York, in gold coin of the United States of America of or equal to the standard of weight and fineness existing December 31, 1926, or in Santiago, Chile, at the office of the Caja, by sight draft on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile, or by any state, province, municipality, or other taxing authority thereof or therein, and will be paid in time of war as well as in time of peace, and whether the holder be a citizen or a resident of a friendly or a hostile state.

Very truly yours,

MIGUEL CRUCHAGA,
*Ambassador Extraordinary and Plenipotentiary
of the Republic of Chile to the United States.*

**\$20,000,000 MORTGAGE BANK OF CHILE (CAJA DE CRÉDITO HIPOTECARIO, CHILE)
GUARANTEED SINKING FUND 6 PER CENT GOLD BONDS OF 1928, DUE APRIL 30,
1961**

UNCONDITIONALLY GUARANTEED AS TO PRINCIPAL, INTEREST, AND SINKING FUND, BY
INDORSEMENT, BY THE REPUBLIC OF CHILE

Coupon bearer bonds in denominations of \$1,000 and \$500 each. Principal and interest will be payable at the option of the holders, in New York City at the office of Kuhn, Loeb & Co. or of Guaranty Trust Co. of New York, in United States gold coin of or equal to the standard of weight and fineness existing April 30, 1928, or in Santiago, Chile, at the office of the Caja, by sight draft on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile, or by any State, Province, municipality, or other taxing authority thereof or therein, and will be paid in time of war as well as in time of peace and whether the holder be a citizen or a resident of a friendly or a hostile State.

Interest payable April 30 and October 31.

For further information regarding this issue of bonds reference is made to the accompanying letter received from His Excellency the Hon. Carlos G. Davila, ambassador extraordinary and plenipotentiary of the Republic of Chile to the United States, and from which the following is summarized:

The bonds are to be unconditionally guaranteed as to principal, interest, and sinking fund, by indorsement by the Republic of Chile, and are to be issued in accordance with the law of the Republic of Chile, dated August 29, 1855, establishing the Caja, as amended by decree law, dated December 15, 1925, which was duly approved by the commission appointed for that purpose by both Houses of Congress, and with the decree Law No. 308 of March 9, 1925, and with the decree of the President of the Republic of Chile, dated January 31, 1928.

"Beginning October 31, 1928, the bonds will be redeemable through a cumulative sinking fund calculated to retire the whole issue by April 30, 1961, to be applied on each semiannual interest date to the redemption by lot of bonds at par. The Caja will have the right to increase the amount of any sinking-fund

installment for the redemption of additional bonds on any interest date, and in any such case appropriate reductions will be made in subsequent sinking-fund installments. This right is reserved because repayments on the mortgage loans to be made by the Caja, against which these bonds are to be issued, can be made by the borrowers either in cash or in bonds of the Caja in excess of the fixed minimum amortization payments and the Caja is not permitted by law to have its bonds outstanding in excess of the mortgage loans against which they are issued.

"Application will be made in due course to list these bonds on the New York Stock Exchange."

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 95¾ per cent and accrued interest to date of delivery, to yield over 6.30 per cent to maturity.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for, and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when and as issued and received by the undersigned, and subject to the approval of counsel. In the first instance, interim certificates of Guaranty Trust Co. of New York will be delivered against payment in New York funds for bonds allotted, which interim certificates will be exchangeable for definitive bonds when prepared.

KUHN, LOEB & Co.
GUARANTY Co. of NEW YORK.
THE NATIONAL CITY Co.

NEW YORK, April 30, 1928.

WASHINGTON, D. C., April 30, 1928.

DEAR SIR: Referring to the issue of \$20,000,000 principal amount of guaranteed sinking fund 6 per cent gold bonds of 1928, due April 30, 1961, of the mortgage bank of Chile (Caja de Crédito Hipotecario, Chile), which you have agreed to purchase, I beg to give you the following information:

The bonds are to be unconditionally guaranteed as to principal, interest, and sinking fund, by indorsement, by the Republic of Chile, and are to be issued in accordance with the law of the Republic of Chile, dated August 29, 1855, establishing the Caja, as amended by decree law, dated December 15, 1925, which was duly approved by the commission appointed for that purpose by both houses of Congress, and with the decree law No. 308 of March 9, 1925, and with the decree of the President of the Republic of Chile dated January 31, 1928.

The Caja de Crédito Hipotecario was created for the purpose of making available credit facilities on reasonable terms for the development and improvement of real property in Chile. The board of directors, the president of the board, the chief counsel, the cashier, the controller, and the secretary are appointed by the President of the Republic.

During its entire existence of over 70 years, the Caja has operated successfully and has never failed to meet its obligations. The record of its loan collections is very satisfactory. The losses incurred by the Caja on property foreclosed under its mortgages have not exceeded \$40,000 in the aggregate for the last 10 years.

The Caja has no capital stock and is not operated for profit. It has power to charge a commission to provide for its expenses and for a reserve fund, as additional security for its bonds and notes, but having accumulated a sufficient reserve, the Caja has now discontinued charging such commission.

On December 31, 1927, the Caja had outstanding various issues of bonds aggregating \$126,846,150 at gold par of exchange and an issue of \$10,000,000 of notes. The Caja issues its bonds only against first mortgages registered in its name. On December 31, 1927, the Caja had made against its outstanding bonds 11,754 mortgage loans, being an average of less than \$1,000 per loan, and these loans aggregated less than 25 per cent of the aggregate appraised improved value of the properties mortgaged as security therefor. Against its notes the Caja had on that date made 2,572 loans, being an average of less than \$5,000 per loan. All its loans are made on a conservative basis and the risk is greatly diversified. As further security for its bonds and notes the Caja has accumulated a reserve fund of approximately \$5,028,450 at gold par of exchange.

The law authorizes the Caja to issue bonds and to make mortgage loans payable in foreign currencies. It is the practice of the Caja to make its mortgage loans, against which bonds payable in a foreign currency are issued, also payable in the same currency, except in cases where it has obtained a guaranty of the Republic of Chile for any loss resulting from exchange fluctuations. This was done in 1912 when Pcs. 58,823,500 gold bonds were issued (of which there are still Pcs. 25,000,000 gold now outstanding) and in 1925 and 1926 when \$40,000,000 United States gold bonds and \$10,000,000 5-year United States gold notes were issued in the United States by you, and is also being done in the case of the present issue, against \$12,000,000 of which mortgage loans in Chilean currency will be outstanding.

The mortgage loans against \$8,000,000 of the present issue will be made at the request of the Republic of Chile for construction purposes at lower interest rates than the Caja is paying on the bonds and the Republic has agreed to pay the difference and to guarantee those mortgage loans. The entire present issue of bonds will also be guaranteed by indorsement by the Republic of Chile.

The bonds and notes of the Caja are legal investments for savings banks and trust funds in Chile.

Prior to the war, in 1911 and 1912, three issues of 5 per cent bonds of the Caja, not indorsed with the guaranty of the government, were made in Europe, at prices from 96 $\frac{1}{4}$ to 99 $\frac{1}{4}$ per cent. These issues are listed on the stock exchanges of Paris and Berlin.

The present debt of the Republic of Chile, including the present and all other obligations guaranteed by it, aggregates about \$350,000,000 at gold par of exchange. The proceeds of the government loans have been largely used for the construction or improvement of railways, harbors, and other public works. The government owns 3,390 miles of railroads, telegraph lines and other property, of an estimated value of approximately \$650,000,000 at gold par of exchange.

Chile is a mining and agricultural country. Its mineral products are largely raw materials for essential industries. Exports consist chiefly of nitrates, by-products of the nitrate industry, copper, borax, wool, and a limited amount of agricultural products. The largest known copper deposits in the world are in Chile. They occur near the surface and are of exceptionally high quality, resulting in the lowest cost production of any large scale copper producing area in the world. These deposits are being extensively developed, mainly by American capital.

The trade balance of Chile is favorable. The total foreign trade for 1927 aggregated \$336,000,000 at the present gold parity of exchange and the balance of exports over imports amounted to \$75,000,000. Since 1915 imports have exceeded exports in only one year.

Chile is on a gold basis. Its currency is the peso, equivalent to U. S. \$0.12166. Currency notes are issued by the Central Bank of Chile, similar to the Federal reserve banks of the United States.

The above-mentioned \$20,000,000 principal amount of guaranteed sinking fund 6 per cent gold bonds of 1928 of the Caja, constituting the loan designated *Emprestito oro Caja Hipotecaria, 1928*, will be in coupon bearer form, in denominations of \$1,000 and \$500, will be dated April 30, 1928, will mature April 30, 1961, and will bear interest at the rate of 6 per cent per annum from April 30, 1928, payable semiannually on April 30 and October 31 of each year. Principal and interest will be payable at the option of the holders, in the Borough of Manhattan, in the city of New York, at the office of Kuhn, Loeb & Co., or at the principal office of Guaranty Trust Co. of New York, in gold coin of the United States of America of or equal to the standard of weight and fineness existing April 30, 1928, or in Santiago, Chile, at the office of the Caja, by sight draft on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile, or by any State, Province, municipality, or other taxing authority thereof or therein, and will be paid in time of war as well as in time of peace and whether the holder be a citizen or a resident of a friendly or a hostile State.

Beginning October 31, 1928, the bonds will be redeemable through a cumulative sinking fund calculated to retire the whole issue by April 30, 1961, to be applied on each semiannual interest date to the redemption by lot of bonds at par. Notice of redemption is to be given by advertisement, the first advertisement to appear at least 30 days before each redemption date. The Caja will have the right to increase the amount of any sinking fund installment for the redemption of additional bonds on any interest date, and in any such case appropriate reductions will be made in subsequent sinking fund installments.

This right is reserved because repayments on the mortgage loans can be made by the borrowers either in cash or in bonds of the Caja in excess of the fixed minimum amortization payments and the Caja is not permitted by law to have its bonds outstanding in excess of the mortgage loans against which they are issued.

Application will be made in due course to list the bonds on the New York Stock Exchange.

Very truly yours,

CARLOS G. DAVILA,
*Ambassador Extraordinary and Plenipotentiary
of the Republic of Chile to the United States.*

**\$20,000,000 MORTGAGE BANK OF CHILE (CAJA DE CRÉDITO HIPOTECARIO, CHILE)
GUARANTEED SINKING FUND 6 PER CENT GOLD BONDS OF 1920; DUE MAY 1,
1962**

Unconditionally guaranteed as to principal, interest, and sinking fund, by indorsement by the Republic of Chile.

Coupon bearer bonds in denomination of \$1,000 and \$500 each. Principal and interest payable, at the option of the holders, in New York City at the office of Kuhn, Loeb & Co. or of Guaranty Trust Co. of New York, in United States gold coin of or equal to the standard of weight and fineness existing May 1, 1920, or in Santiago, Chile, at the office of the Caja, by sight draft on New York City, without deduction for any taxes, imposts, levies, or duties of any nature now or at any time hereafter imposed by the Republic of Chile, or by any state, province, municipality, or other taxing authority thereof or therein, and payable in time of war as well as in time of peace and whether the holder be a citizen or a resident of a friendly or a hostile state.

Interest payable May 1 and November 1.

For further information regarding this issue of bonds, reference is made to the accompanying letter from his excellency, Carlos G. Davila, ambassador extraordinary and plenipotentiary of the Republic of Chile to the United States, from which the following is summarized:

"The bonds are to be unconditionally guaranteed as to principal, interest, and sinking fund, by indorsement by the Republic of Chile, and are to be issued in accordance with the law of the Republic of Chile, dated August 20, 1855, establishing the Caja, as amended by decree law No. 743, dated December 15, 1925, which was duly approved by the commission appointed for that purpose by both houses of Congress, and with law No. 4074, dated July 27, 1926, as amended by law No. 4327, dated March 26, 1928, and with the decree of the President of the Republic of Chile, No. 2604, dated June 25, 1929.

"The Bonds will be redeemable through a cumulative sinking fund beginning November 1, 1929, calculated to retire the entire issue by May 1, 1962, to be applied on each semiannual interest date to the redemption of bonds by lot at par. The Caja will have the right to increase the amount of any sinking fund installment for the redemption of additional bonds on any interest date and in any such case appropriate reductions may be made in subsequent sinking fund installments.

"Application will be made in due course to list these bonds on the New York Stock Exchange."

The undersigned will receive subscriptions for the above bonds, subject to allotment, at 92 per cent and accrued interest to date of delivery, to yield about 6.6 per cent to maturity.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for and to make allotments in their uncontrolled discretion.

The above bonds are offered if, when, and as issued and received by the undersigned and subject to the approval of counsel. In the first instance, interim certificates of Guaranty Trust Co. of New York will be delivered against payment in New York funds for bonds allotted, which interim certificates will be exchangeable for definite bonds when prepared.

KUHN, LOEB & Co.
GUARANTY Co. OF NEW YORK.
THE NATIONAL CITY Co.

NEW YORK, June 26, 1929.

WASHINGTON, D. C. June 26, 1929.

DEAR SIRS: Referring to the issue of \$20,000,000 principal amount of guaranteed sinking fund 6 per cent gold bonds of 1929, due May 1, 1962, of the Mortgage Bank of Chile (Caja de Credito Hipotecario, Chile), which you have agreed to purchase, I beg to state the following for your information:

The bonds are to be unconditionally guaranteed as to principal, interest and sinking fund, by indorsement, by the Republic of Chile and are to be issued in accordance with the law of the Republic of Chile, dated August 29, 1855, establishing the Caja, as amended by Decree Law No. 743, dated December 15, 1925, which was duly approved by the commission appointed for that purpose by both houses of Congress, and with Law No. 4074, dated July 27, 1926, as amended by Law No. 4327, dated March 26, 1928, and with the decree of the President of the Republic of Chile No. 2694, dated June 25, 1929.

The Caja de Credito Hipotecario was created for the purpose of making available credit facilities on reasonable terms for the development and improvement of real property in Chile. The board of directors, the president of the board, the chief counsel, the cashier, the controller and the secretary are appointed by the President of the Republic.

During its entire existence of over 73 years, the Caja has operated successfully and has never failed to meet its obligations. The record of its loan collections is very satisfactory. The losses incurred by the Caja on property foreclosed under its mortgages have not exceeded \$40,000 in the aggregate for the last 15 years.

The Caja has no capital stock and is not operated for profit. It has power to charge a commission to provide for its expenses and for a reserve fund, as additional security for its bonds and notes, but having accumulated a sufficient reserve, which now amounts to approximately \$5,022,900 at gold parity of exchange, the Caja has discontinued charging such commission.

On December 31, 1928, the Caja had outstanding various issues of bonds aggregating \$143,606,682 at gold parity of exchange and an issue of \$10,000,000 of notes due December 31, 1931. The Caja is not permitted by law to have its bonds outstanding in an aggregate amount exceeding the aggregate amount of loans made by it. Such loans may be repaid by the borrowers in cash or in bonds or notes of the Caja at par. All loans are secured by first mortgages or pledges registered in the name of the Caja. They are made on a conservative basis and the risk is greatly diversified. On December 31, 1928, the Caja had made 11,839 mortgage loans against its outstanding bonds, being an average of less than \$12,130 per loan, and these loans aggregated less than 25 per cent of the aggregate appraised improved value of the properties mortgaged as security therefor. Against its notes the Caja had on that date made 2,356 loans, being an average of less than \$4,250 per loan.

Of the present issue of bonds \$10,000,000, principal amount, are to provide for loans secured by agricultural products or farm machinery and implements, which loans may not exceed 50 per cent of the appraised market value of such collateral, and \$10,000,000, principal amount, are to provide for the redemption of bonds of the Caja which it deems advantageous to retire.

The law authorizes the Caja to issue bonds and to make mortgage loans payable in foreign currencies. It is the practice of the Caja to make its mortgage loans, against which bonds payable in a foreign currency are issued, also payable in the same currency, except in cases where it has obtained a guaranty of the Republic of Chile for any loss resulting from exchange fluctuations. This was done in 1912 when Fcs. 58,823,500 gold bonds were issued (of which there are still Fcs. 24,360,000 gold now outstanding) and in 1925, 1926, and 1928 when \$60,000,000 United States gold bonds and \$10,000,000 5-year United States gold notes were issued in the United States by you, and is also being done in the case of the present issue, against \$10,000,000 of which mortgage loans in Chilean currency will be outstanding.

The bonds and notes of the Caja are legal investments for savings banks and trust funds in Chile. In 1911 and 1912 three issues of 5 per cent bonds of the Caja, not indorsed with the guaranty of the Government, were made in Europe, at prices ranging from 96¼ to 99¼ per cent. These issues are listed on the stock exchanges of Paris, Berlin, and Zurich.

The present debt of the Republic of Chile, including the present and all other obligations guaranteed by it, aggregates about \$460,600,000 at gold parity of exchange. The proceeds of the Government loans have been largely used for the construction or improvement of railways, harbors, and other public

works. The Government owns 3,390 miles of railroads, telegraph lines, and other property, of an estimated value of approximately \$650,000,000 at gold parity of exchange.

Chile is a mining and agricultural country. Its mineral products are largely raw materials for essential industries. Practically the only nitrate deposits in the world are located in Chile and their exploitation forms its major industry. The largest known copper deposits in the world are in Chile. They occur near the surface and are of exceptionally high quality, resulting in the lowest cost production of any large-scale copper producing area in the world. These deposits are being extensively developed, mainly by American capital. Exports consist chiefly of nitrates, by-products of the nitrate industry, copper, iron ore, borax, wool, and a limited amount of agricultural products.

The trade balance of Chile is favorable. Imports for 1928 totaled \$142,303,000 at the present gold parity of exchange while exports totaled \$239,181,000 resulting in a favorable trade balance for the year of over \$96,800,000. Since 1915 imports have exceeded exports in only one year.

Chile is on a gold basis. Its currency is the peso, equivalent to United States \$0.12166. Currency notes are issued by the Central Bank of Chile, which is similar to the Federal reserve banks of the United States. The gold and gold exchange held by the Banco Central de Chile on May 17, 1929, amounted to \$64,224,000, providing a ratio of gold cover to notes outstanding and deposits of over 98 per cent.

The above mentioned \$20,000,000 principal amount of guaranteed sinking fund 6 per cent gold bonds of 1929 of the Caja, constituting the loan designated "Empresito oro Caja Hipotecaria, 1929," will be in coupon-bearer form, in denominations of \$1,000 and \$500, will be dated May 1, 1929, will mature May 1, 1962, and will bear interest at the rate of 6 per cent per annum from May 1, 1929, payable semi-annually on May 1 and November 1 of each year. Principal and interest will be payable at the option of the holders, in the Borough of Manhattan, in the city of New York, at the office of Kuhn, Loeb & Co., or at the principal office of Guaranty Trust Co. of New York, in gold coin of the United States of America, of or equal to the standard of weight and fineness existing May 1, 1929, or in Santiago, Chile, at the office of the Caja, by sight draft on New York City, without deduction for any taxes, imposts, levies or duties of any nature now or at any time hereafter imposed by the Republic of Chile, or by any state, province, municipality, or other taxing authority thereof or therein, and will be paid in time of war as well as in time of peace and whether the holder be a citizen or a resident of a friendly or a hostile state.

The bonds will be redeemable through a cumulative sinking fund beginning November 1, 1929, calculated to retire the entire issue by May 1, 1962, to be applied on each semi-annual interest date to the redemption of bonds by lot at par. Notice of redemption is to be given by advertisement, the first advertisement to appear at least 30 days before each redemption date. The Caja will have the right to increase the amount of any sinking fund installment for the redemption of additional bonds on any interest date and in any such case appropriate reductions may be made in subsequent sinking fund installments.

Application will be made in due course to list the bonds on the New York Stock Exchange.

Very truly yours,

CARLOS G. DAVILA,
*Ambassador Extraordinary and Plenipotentiary
of the Republic of Chile to the United States.*

**\$20,000,000 PROVINCE OF ONTARIO, DOMINION OF CANADA, 20-YEAR 5 PER CENT
GOLD BONDS, NONCALLABLE, DATED OCTOBER 2, 1922; DUE OCTOBER 1, 1942**

Principal and semiannual interest (April 1 and October 1) payable at the option of the holder at the agency of the Bank of Montreal, New York, in gold coin of the United States of America of the present standard of weight and fineness, or at the office of the Treasurer of the Province of Ontario, Toronto, or at the Bank of Montreal, Montreal, Canada, in gold coin of the lawful money of Canada. Coupon bonds of \$1,000 each, registerable as to principal only.

Legal opinion: E. G. Long, K. C., Toronto.

The following financial information has been furnished by the Hon. C. A. Matthews, assistant provincial treasurer:

Approximate assessed value of all property within the Province of Ontario-----	\$2, 054, 212, 000
Total funded debt (including present issue)-----	224, 693, 420
Sinking fund-----	6, 251, 640
In the above debt are included \$134,545,479 which are invested in revenue-producing enterprises.	
Contingent liabilities, fully secured (of which \$7,800,000 represents guarantees of bonds of the Canadian Northern Ontario Ry., now owned and operated by the Dominion Government).-----	36, 882, 468
Assets of the Province, including cash, sinking funds, government buildings, crown lands, water power, etc.-----	716, 601, 479
Revenue for last fiscal year, ended Oct. 31, 1921-----	29, 261, 477
Expenditure for last fiscal year, ended Oct. 31, 1921-----	28, 579, 637

A large part of the above bonds having been sold, the undersigned offer the balance, subject to previous sale, at 99¼ per cent and accrued interest to date of delivery, at which price the bonds yield about 5.06 per cent if held to maturity.

The undersigned reserve the right to reject any application in whole or in part. The above bonds are offered if, when, and as issued and received by the undersigned, which is expected to be on or about October 18. Pending the receipt of the engraved bonds, interim certificates will be delivered against payment in New York funds for bonds allotted.

KUHN, LOEB & Co.
 KIDDER, PEABODY & Co.
 WOOD, GUNDEY & Co.
 HALLGARTEN & Co.
 UNITED FINANCIAL CORPORATION (LTD.).

OCTOBER 13, 1922.

\$6,000,000, PROVINCE OF ALBERTA, DOMINION OF CANADA, 30-YEAR 4½ PER CENT GOLD DEBENTURES, NONCALLABLE, DATED OCTOBER 1, 1926, DUE OCTOBER 1, 1958

Principal and semiannual interest (April 1 and October 1) payable at the Imperial Bank of Canada in Toronto, Montreal, or Edmonton, or, at the option of the holder, in gold coin of the United States of America of the the present standard of weight and fineness, at the Bank of the Manhattan Co. in New York.

Coupon debentures in \$1,000 denomination, registrable as to principal at the provincial treasurer's office at Edmonton, Alberta, at the head office of the Imperial Bank of Canada, Toronto, or at the Bank of the Manhattan Co. in New York City.

Exempt from any present or future taxes imposed by the Province of Alberta, including any income taxes, and from municipal and school taxation in the Province.

Legal Opinion: E. G. Long, K. C., Toronto.

The following information has been furnished by W. V. Newson, Esq., deputy provincial treasurer:

General: The Province of Alberta comprising over 255,000 square miles has an estimated present population of 650,000. It is preeminently an agricultural province, but also has large deposits of coal, natural gas, and petroleum. Its coal reserves are reputed to contain 14 per cent of the coal reserves of the world, with an estimated content of 1,035,629 million tons. In addition, its important industries comprise dairying, wool growing, and stock raising. It has excellent facilities for distributing its products, being traversed by two transcontinental railways, namely, the Canadian Pacific Railway and the Canadian National Railway systems, which also have a network of branch lines. The Province also owns and operates the Alberta & Great Waterways Railway, the Edmonton, Dunvegan & British Columbia Railway, and the Lacombe & North Western Railway, all of which serve a rich territory.

The debentures represented by the present issue are issued for general and refunding purposes and are a direct obligation of the Province of Alberta. The Province has the power to levy direct taxes upon all the taxable property within the Province to provide for principal, interest, and sinking funds on

its debentures, but only finds it necessary to exercise this taxing power to a small degree, as revenue from other sources is almost sufficient.

Purpose: These debentures are being issued for the purpose of providing funds to refund \$3,000,000 5½ per cent debentures due November 1, 1926, and \$3,000,000 for public works and other public purposes.

Financial statement

Approximate assessed value of all land within Province of Alberta.....	\$505,205,040
Gross funded debt (including present issue and after allowance for repayment of \$3,000,000 5½ per cent debentures due Nov. 1, 1926).....	86,946,982
In the above are included \$28,521,728 which are invested in self-sustaining assets. In addition, there are upward of \$7,000,000 invested in assets which are revenue producing but not entirely self-supporting.	
Sinking fund.....	2,472,904
Contingent liabilities per last published statement.....	48,188,854
Of this amount, \$22,539,957 represents debentures of railways now owned and operated by the Dominion Government under the Canadian National Ry. system and upon which interest is paid by Dominion Government.	
Total provincial assets.....	174,091,689
Annual dominion subsidy.....	1,674,435

The undersigned offer the above debentures, subject to prior sale, at 94½ per cent and accrued interest to date of delivery, to yield 4.85 per cent to maturity.

The above debentures are offered if, when and as issued and received by the undersigned. Payment for the debentures is to be made in New York funds against delivery of permanent debentures.

KUHN, LOEB & Co.

New York, October 4, 1926.

\$25,000,000 AUSTRIAN GOVERNMENT GUARANTEED LOAN, 1923-1943, 7 PER CENT SINKING-FUND GOLD BONDS

Dated June 1, 1923. Interest payable June 1 and December 1. Due June 1, 1943.

Subject to redemption at par as a whole on any interest date after June 1, 1934, and in part through the sinking fund in any year.

Coupon bonds in denominations of \$1,000, \$500, and \$100.

Principal and interest payable in New York at the office of J. P. Morgan & Co., in United States gold coin of the present standard of weight and fineness, without deduction for any Austrian taxes, present or future.

Guaranteed severally as to principal, interest, and redemption payments, in the proportion stated below, by the Governments of Great Britain, France, Czechoslovakia, Italy, Belgium, Sweden, Denmark, and Holland.

Before each issue forming part of the loan is made, every guarantor state will deposit with the National Bank of Switzerland in the name of the trustees its own bonds of like tenor and currency to cover the amount of its guaranty in respect of such issue. Thus, dollar bonds of the several states by which the service of this issue is guaranteed will be held by the National Bank of Switzerland in the name of the trustees.

These bonds are part of an international loan to be issued in Great Britain, France, Italy, Switzerland, Belgium, Holland, Sweden, Austria, and the United States of America in bonds of various denominations and in various currencies for amounts sufficient to yield in the aggregate an effective sum equivalent to 630,000,000 Austrian gold crowns, or about \$126,000,000. They are to be secured by a first charge, as stated below, on the gross receipts of the Austrian customs and tobacco monopoly. Such receipts for the first five months of 1923 have been at the rate of 150,000,000 Austrian gold crowns (about \$30,000,000) per annum. Interest charges and sinking fund sufficient to amortize the loan by maturity will not exceed 67,000,000 Austrian gold crowns (about \$13,600,000) per annum.

The Austrian Government covenants to pay during the life of the loan a fixed annual sum which, after deducting the annual interest on the bonds at the time outstanding, is to be sufficient to redeem the entire loan in annual installments by maturity. The quota available for amortization of the American issue, increasing from about \$800,000 in the first year to about \$2,200,000 in the last year, will be used in the redemption of bonds of the American issue by lot at 100 per cent and accrued interest, or, if the Austrian Government shall so elect, in the purchase of bonds in the market, if obtainable at less than 100 per cent and accrued interest.

As to particular features of the loan and the security therefor, the following summary has been prepared by Doctor Zimmerman, formerly burgomaster of Rotterdam, appointed as commissioner general of Austria in connection with the plan for Austria's financial rehabilitation:

(1) The bonds of this issue (including an existing Czechoslovakian advance of not exceeding 13,500,000 Austrian gold crowns, about \$2,700,000), and any loan which the Austrian Government may raise to provide for the redemption after June 1, 1934, of the outstanding balance of any particular issue forming part of this loan, are secured by a first charge on the gross receipts of the customs and tobacco monopoly of Austria. Such receipts for the first five months of 1923 were at the rate of 150,000,000 Austrian gold crowns (about \$30,000,000) per annum. No further charge on the said receipts and properties may be created ranking in priority to, or *pari passu* with, the above charges.

(2) By the concerted action of the principal nations of the world, including the United States of America, claims against Austria for relief bond charges have been subordinated to this loan, and claims for reparation charges have likewise been subordinated by the reparations commission.

(3) A protocol has been signed by the European Governments directly interested, including the neighboring States of Italy and of Czechoslovakia, insuring the economic and political independence of Austria.

(4) The hypothecated revenues pass directly into an account controlled by the commissioner general, whose first duty is to see that sufficient sums are retained for the service of the loan before releasing any sums for the uses of the Austrian Government. The commissioner general will also control the expenditure of the proceeds of this loan.

Guaranties: Of the total authorized loan, bonds to the amount required to yield an effective sum equivalent to not more than 585,000,000 Austrian gold crowns (of which the present issue of guaranteed dollar bonds forms part) are guaranteed as to principal, interest, and redemption payments by the under-mentioned States to the extent in each case of the proportion stated:

	Per cent
Great Britain.....	24½
France.....	24½
Czechoslovakia.....	24½
Italy.....	20½
Belgium.....	2
Sweden.....	2
Denmark.....	1
Holland.....	1
Total.....	100

In addition to the sum of 585,000,000 Austrian gold crowns thus obtained, a further amount of upwards of 45,000,000 Austrian gold crowns will be made available through advances to be made by the Swiss and Spanish Governments as part of the authorized total of this loan. These amounts together are now estimated to be sufficient for the requirements of the Austrian Government. The advances above described will rank equally on the pledged revenues, but will not have the government guarantee.

We offer the above bonds, subject to prior sale, at 90 per cent accrued interest, to yield over 8 per cent.

All orders will be received subject to the issue and delivery to us of the bonds as planned, and to the approval by our counsel of their form and execution. The right is reserved to reject any and all applications, and also, in any event, to award a smaller amount than applied for.

Amounts due on allotments will be payable at the office of J. P. Morgan & Co. in New York funds to their order, on or about June 20, 1923. Trust receipts will be delivered pending the preparation of the definite bonds.

J. P. Morgan & Co.; First National Bank, New York; Guaranty Co. of New York; Kidder, Peabody & Co.; Harris, Forbes & Co.; Kuhn, Loeb & Co.; The National City Co.; Bankers Trust Co., New York; Lee, Higginson & Co.; Dillon, Read & Co.

JUNE 11, 1923.

The following statement has been furnished by Dr. Alfred Zimmerman, formerly burgomaster of Rotterdam, who is the commissioner general for Austria in connection with Austria's financial and economic rehabilitation.

THE NEW AUSTRIA

The Republic of Austria, with its new political frontiers, has an area of about 33,250 square miles and a population of about 6,500,000 people. In area the new Austria is nearly three times as large as Belgium, about two and a half times as large as Holland, and more than twice as large as Switzerland. Its population is approximately equal to that of Holland and about 75 per cent greater than that of Switzerland.

The new Austria has large deposits of iron ore, sufficient to supply the entire needs of its important metal-working industry, which in normal times is capable of producing at least 1,000,000 tons of products annually. The finished products include machinery, railway rolling stock, automobiles and other vehicles, and electrical apparatus. The forests of Austria constitute one of its chief resources and about 38 per cent of the total area is wooded. This large supply of timber provides the basis for a highly developed wood-working industry, which produces largely for export, and for a considerable paper industry. One of the principal sources of the country's wealth consists in the hydraulic forces furnished by the innumerable mountain streams and cataracts that abound in nearly every part of the territory. Austria, possessing little coal, the development of this natural wealth will largely contribute to making the country independent of an expensive import which would weigh upon the trade balance. Even in the period of the worst financial depression, works have been started to make this potential power active. The electrification of the railways is making progress, and by the cooperation of government and private capital considerable work is now being carried on to make the water powers serviceable to industry. In Vienna there is a well-organized clothing industry, the production of which is sufficient to meet the entire consumption of the territory formerly comprised in Austria-Hungary and still leave a surplus for export to other markets.

The basis of a great commerce interchange is laid in the geographical situation of the country. Natural lines of distribution, which the railway routes now follow, extending from the north of Europe to the south; from western Europe to eastern Europe, Russia and the Near East; and from Czechoslovakia to the Adriatic, all cross Austria, intersecting at the city of Vienna. The Danube, flowing through nearly the whole of central and eastern Europe, also provides an important highway for commerce.

In consequence, Vienna for centuries past has been one of the chief commercial cities of the world, a market-place where the products of Europe and those of the Near East meet and are exchanged, and a distributing center for the entire surrounding territory of central Europe. The great banks, trading concerns, and industrial companies of Vienna have been the growth of generations of economic experience, and the old connections thus established have proved, in the main, too strong to be permanently disturbed by the new political frontiers. The services rendered by the industrial, commercial, and financial organizations in Vienna are indispensable to the economic life of central Europe. They give to Austria invisible exports which greatly benefit the trade balance.

CONDITIONS LEADING TO THE ADOPTION OF THE PLAN

During the period from the armistice to the autumn of 1922, while Austria was struggling to establish its new democratic form of government on a working basis and to adjust its economic life to the conditions arising from the

disruption of an economic unit which had been in existence for centuries, government finances not unnaturally steadily deteriorated. Although Austria was the recipient of relief credits and gifts of supplies from abroad on a large scale, all of the expenditure had been consumed for current needs, without any improvement in the country's financial position. Inflation continued to increase and the paper crown steadily declined in value, due to the continuous issue of uncovered currency. The unsound currency situation had strongly deterrent effects on the revival of industry, which in turn reacted unfavorably on the government's budget receipts; in brief, Austria was in the grip of a vicious circle of cause and effect from which it might have proved almost impossible for her to extricate herself unaided.

The end of this period is marked by September, 1922, when, at the request of Austria, a comprehensive plan for the financial and economic rehabilitation of Austria, formulated by the League of Nations, was adopted by the representatives of the chief countries of Europe.

THE PLAN OF REHABILITATION

The basis for the plan is the political integrity and economic independence of Austria and the declaration (protocol No. 1 of October 4, 1922) designed to maintain it. Aided by the confidence which this declaration has created, the Austrian Government has instituted a program of reform in order to ensure the balancing of its budget by the end of 1924.

This program of reform includes—

(a) The reduction of ministries, simplifying their organization and eliminating overlapping. This measure is in an advanced state of execution.

(b) Reorganization or eventual transfer to private management of State industrial enterprises.

(c) The reduction in the number of State employees, the number of whom was reduced by about 36,500 between October 1, 1922, and May 26, 1923, as part of the program for the release of 100,000 employees prior to July 1, 1924.

(d) The enactment of legislation providing for increased revenues from indirect taxation, customs duties, and duties of other kinds, and the introduction of a turnover tax. These measures have been introduced with success.

In the meantime, during this period of transition, the excess of the Government's expenditures over the revenues available from normal resources, estimated at not to exceed about 500,000,000 Austrian gold crowns, will be met from the proceeds of the Austrian Government guaranteed loan 1923-1943. In addition, advances from several foreign governments, aggregating about 130,000,000 Austrian gold crowns and made in 1922 in anticipation of this loan, are to be refunded with bonds of the loan, issued in the currencies of the respective lending countries.

NEW INDEPENDENT BANK OF ISSUE

Inflation through note issues for the Government's account definitely stopped on November 18, 1922; since then additional notes have been issued only against cover in gold or in foreign balances in stable currencies. A bank of issue, independent of Government control and having the sole power of note issue, has been established, with capital of 30,000,000 Austrian gold crowns subscribed in Austria, and has been functioning since January 2, 1923. At the 23d of May, 1923, its ratio of reserves (gold and foreign exchange balances) to note circulation (the latter in paper crowns being calculated in gold crowns, according to the statutes of the bank, at the average rate of the preceding half year) was more than 35 per cent.

As a result of the monetary measures taken, the Austrian crown has been stabilized; its exchange value, during the past seven months, has deviated hardly at all from the level established in October, 1922.

THE LOAN AND ITS GUARANTIES

The Austrian Government guaranteed loan 1923-1943 is to be an international loan to be issued in Great Britain, France, Italy, Switzerland, Belgium, Holland, Sweden, Austria, and the United States of America, in bonds of various denominations and in various currencies for amounts sufficient to yield in the aggregate an effective sum equivalent to 630,000,000 Austrian gold crowns, or about \$126,000,000.

Of the total authorized loan, bonds to the amount required to yield an effective sum of not exceeding 585,000,000 Austrian gold crowns (of which the present issue of guaranteed dollar bonds forms part) are guaranteed as to principal, interest, and redemption payments by the undermentioned States, to the extent, in each case, of the proportion stated:

	Per cent		Per cent
Great Britain.....	24½	Sweden.....	2
France.....	24½	Denmark.....	1
Czechoslovakia.....	24½	Holland.....	1
Italy.....	20½		
Belgium.....	2	Total.....	100

In addition to the sum of 585,000,000 Austrian gold crowns thus obtained, a further amount of upward of 45,000,000 Austrian gold crowns will be made available through advances to be made by the Swiss and Spanish Governments as part of the authorized total of this loan. These amounts together are now estimated to be sufficient for the requirements of the Austrian Government. The advances above described will rank equally on the pledged revenues, but will not have the Government guaranties.

Before each issue forming part of the loan is made, every guarantor State will deposit with the National Bank of Switzerland, in the name of the trustees for the loan, its own bonds of like tenor and currency to cover the amount of its guaranty in respect of such issue. Thus, dollar bonds of the several States by which the service of this issue is guaranteed will be held by the National Bank of Switzerland in the name of the trustees. Should funds for the payment of any coupons or of any sinking-fund installments of the loan not be in the hands of the trustees 30 days before the date due, these bonds and coupons are, at the instance of the trustees and without any action by the bondholders, to be immediately payable by each of the guaranteeing Governments to the extent provided by its guaranty.

The Austrian Government covenants to pay during the life of the loan a fixed annual sum which, after deducting the annual interest on the bonds at the time outstanding, is to be sufficient to redeem the entire loan in annual installments by maturity. The quota available for amortization of the American issue, increasing from about \$600,000 in the first year to about \$2,200,000 in the last year, will be used in the redemption of bonds of the American issue by lot at 100 per cent and accrued interest, or, if the Austrian Government shall so elect, in the purchase of bonds in the market, if obtainable at less than 100 per cent and accrued interest.

SECURITY FOR THE LOAN

In addition to being direct obligations—in respect of the payment of principal, interest, and sinking fund of the Federal Republic of Austria—the bonds of this loan are secured by a first charge on the gross receipts of the customs and the tobacco monopoly of the Austrian Government. This charge extends also to an existing advance from the Czechoslovakian Government of not exceeding 13,500,000 Austrian gold crowns and to any loan which the Austrian Government may raise to provide for the redemption, after June 1, 1934, of the outstanding balance of any particular issue forming part of the loan now to be contracted. No further charge on these revenues may be created ranking in priority to, or *pari passu* with, the above charges.

The gross receipts from the customs and the tobacco monopoly during the first five months of 1923 have been at the rate of 150,000,000 Austrian gold crowns (about \$30,000,000) per annum. Interest charges and sinking fund sufficient to amortize the loan by maturity will not exceed 67,000,000 Austrian gold crowns (about \$13,600,000) per annum.

If for any reason now unforeseen the gross receipts of the customs and the tobacco monopoly pledged as security for this loan, should not appear to be sufficient, in themselves, other revenues are to be hypothecated on the action of a committee representing the interests of the guarantor States.

The hypothecated revenues pass directly into an account controlled by the commissioner general, whose first duty is to see that sufficient sums are retained for the service of the loan, before releasing any sums for the uses of the Austrian Government. Also, the proceeds of this loan will pass into an account of which the commissioner general has absolute control.

THE COMMISSIONER GENERAL'S CONTROL

Since December 15 of last year the commissioner general has been functioning. It is his duty not only to see that the necessary reforms and economies in the administration are carried through, but also that the expenditure of the State does not exceed the limits which the Government has agreed to and which have the balancing of the budget for object.

To guarantee that the annual budget sanctioned by Parliament and authorized by the commissioner general is not exceeded, the Government has to submit the budgets for the expenditure of every month to the approval of the commissioner general and these monthly budgets must be reduced when he is of opinion that either the total or individual items are too high. He keeps in the closest and daily contact with the movements of the Treasury, because the Government requires his authorization for disposing of the amounts passed on the accounts already mentioned. In giving this authorization he must always see that the sums for the service of the loan remain available. The commissioner general states with satisfaction that the monthly budgets have kept within the limits laid down from the beginning and that even a surplus has been obtained.

SUBORDINATION OF OTHER LIENS

The Reparation Commission, by their decision dated February 20, 1923, have suspended for the purpose of the guaranteed loan, for the period of 20 years and for such further period as may be necessary until the full repayment of the loan, the lien for reparation charges on any revenues which may be pledged as security for this loan.

By the concerted action of the principal nations of the world, including the United States of America by a joint Resolution of Congress approved April 6, 1922, liens against Austrian assets created after the armistice in respect to relief credits, have also been postponed for the period of 20 years.

RELATIONS WITH OTHER EUROPEAN GOVERNMENTS

A protocol has been signed by the European Governments directly interested, including the neighboring States of Italy and of Czechoslovakia, to insure the economic and political independence of Austria. Under the terms of this Protocol No. 1, dated October 4, 1922, the signatory States declared: "That they will respect the political independence, the territorial integrity and the sovereignty of Austria; that they will not seek to obtain any special or exclusive economic or financial advantage calculated directly or indirectly to compromise that independence."

The Government of the Federal Republic of Austria on its part "undertakes, in accordance with the terms of article 88 of the treaty of St. Germain, not to alienate its independence; it will abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise this independence."

The guaranty which has been given with respect to the bonds of this loan on behalf of eight of the principal nations of Europe gives these nations a very definite interest in assisting in the maintenance of Austria's political and economic position.

**\$25,000,000 AUSTRIAN GOVERNMENT INTERNATIONAL LOAN 1930 SINKING FUND
7 PER CENT GOLD BONDS, AMERICAN TRANCHE**

Bonds dated July 1, 1930; due July 1, 1957. Interest payable January 1 and July 1. Bank for International Settlements, trustee.

A cumulative sinking fund computed to be sufficient to retire the entire amount of the bonds of the American tranche at or before maturity is to be applied to the purchase of bonds at or below 103 per cent and accrued interest if obtainable, or otherwise to the redemption of bonds drawn by lot.

Redeemable at 103 per cent and accrued interest, upon not less than 60 days' published notice, as follows: For the sinking fund, on January 1, 1932, and yearly thereafter; at the option of the government as a whole on July 1, 1935, or on any interest payment date thereafter.

Coupon bonds in denominations of \$1,000, \$500, and \$100.

Principal and interest payable in New York at the office of J. P. Morgan & Co., in United States gold coin of the standard of weight and fineness existing on July 1, 1930, without deduction for any Austrian taxes, present or future.

Dr. Otto Juch, Federal Minister of Finance of the Republic of Austria, has furnished us with the following statement regarding the Austrian Government international loan 1930, a more complete statement being printed within:

The loan.—The bonds of the Austrian Government International loan 1930 now to be issued are to provide an effective sum equivalent to over \$55,000,000 and form part of an international loan limited to an amount sufficient to yield in the aggregate an effective sum of 725,000,000 schillings (equivalent to about \$102,000,000) and issuable in the form of bonds of various currencies all of equal rank. Concurrently with the present issuance of the American tranche in the United States of America, other tranches are being issued in the following-named countries in the following principal amounts: Great Britain, £3,000,000 sterling; Holland, £500,000 sterling; Sweden, 10,000,000 kronor; Switzerland, 25,000,000 Swiss francs; Italy, 100,000,000 lire; Austria, 50,000,000 schillings.

Purpose of issue.—The bonds of this loan, which has been approved by the committee of control constituted in 1923, are issued to provide for capital expenditures incurred and to be incurred for improvements upon the Austrian railways and the properties of the postal and telegraph administration. The investment program contemplated expenditures, from 1928 to 1932 inclusive, aggregating the equivalent of approximately \$102,000,000, of which about 55 per cent will be provided by the net proceeds of the bonds of this loan being issued presently.

Security.—The bonds of this loan are the direct and unconditional obligations of the Austrian Government and are secured by a charge upon the gross receipts of the customs and of the tobacco monopoly of Austria, subject only to the charges in favor of the Austrian Government guaranteed loan 1923-1943, herein referred to as the 1923 loan, and the Austrian Government Czechoslovakian conversion loan II. No further charge on the above-mentioned revenues may be created ranking in priority to or equally with the charges of this loan except that the Austrian Government reserves the right to secure ratably with the bonds of this loan the bonds of any future loan issued to provide for redemption prior to maturity of the bonds of any portion of the 1923 loan outstanding at the time of such redemption.

The gross receipts of the customs and of the tobacco monopoly for the year 1929 were approximately 600,000,000 Austrian schillings (or about \$81,400,000). The charges for interest and sinking fund on the 1923 loan and the above-mentioned Czechoslovakian loan, together with the charge for interest and sinking fund on the total authorized amount of the Austrian Government international loan 1930, computed for the entire authorized loan on the same basis as the present issues and at par of exchange, is estimated not to exceed approximately 177,100,000 Austrian schillings (or about \$21,900,000) per annum.

The pledged revenues are paid by the Austrian Government, as, and when collected, directly into an account under the control of the trustees of the 1923 loan, who, after providing each month for the service of that loan and the Czechoslovak loan in accordance with their terms, are to release the balance to the trustee for this loan, which, after reserving each month one-twelfth of the amount required for the current annual service of this loan, will release the balance to the Austrian Government.

An agreement has been made between Austria and the powers concerned, subject in the case of France to ratification by the legislature, by which the amounts payable in respect of relief bonds have been funded for gradual payment over a period of 40 years from 1929 to 1968. The charge upon the assets and revenues of Austria by which the relief bonds are secured has been subordinated to the charge in favor of the present loan. By an agreement entered into at The Hague, dated January 20, 1930, between Austria and all the European creditor powers, Japan, and other signatories, the financial obligations of Austria toward these powers arising under the armistice of November 3, 1918, and the treaty of St. Germain, and any treaties or agreements supplemental thereto, were finally discharged and the first charge in favor of these powers on all the assets and revenues of Austria created by the treaty of St. Germain has ceased to be operative.

The above bonds are offered for subscription, subject to the conditions stated below, at 95 per cent and accrued interest, to yield over 7.40 per cent to maturity.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m. Tuesday, July 15, 1930, and closed in their discretion. The right is reserved to reject any and all applications, and also, in any case, to allot a smaller amount than applied for. All subscriptions will be received subject to the foregoing and to the due issue and delivery to us of the bonds as planned and to the approval by counsel of the form and validity of the bonds and of the relevant proceedings and authorizations.

The amount due on allotments will be payable at the office of J. P. Morgan & Co., in New York, funds to their order, and the date of payment (on or about July 28, 1930) will be stated in the notices of allotment. Interim certificates, exchangeable for definitive bonds when received, are to be delivered.

J. P. MORGAN & Co.
FIRST NATIONAL BANK.
GUARANTY CO. OF NEW YORK.
KIDDER, PEABODY & Co.
HARRIS, FORBES & Co.
BANKERS CO. OF NEW YORK.

KUHN, LOEB & Co.
THE NATIONAL CITY Co.
CHASE SECURITIES CORPORATION.
LEE, HIGGINSON & Co.
DILLON, READ & Co.

NEW YORK, July 15, 1930.

STATEMENT REGARDING AUSTRIAN GOVERNMENT INTERNATIONAL LOAN, 1930

(Furnished by Dr. Otto Juch, Federal Minister of Finance of the Republic of Austria)

The loan.—The Austrian Government international loan, 1930, is a loan of a total authorized amount sufficient to yield in the aggregate a net effective sum not exceeding 725,000,000 Austrian schillings (\$102,012,101). The loan may be issued in various countries and currencies in bonds of such denominations and carrying interest at such rates and redeemable at such price as may be fixed by the terms of issue, the final maturity date in all cases being July 1, 1957. The bonds of the loan are the direct and unconditional obligation of the Austrian Government, and all rank *pari passu*. Principal and interest are payable without deduction for any Austrian taxes, present or future.

The present issues, carrying interest at the rate of 7 per cent per annum and redeemable at 103 per cent, are being made in the following nominal amounts: United States of America, \$25,000,000; Great Britain, £3,000,000; Holland, £500,000; Italy, 100,000,000 lire; Sweden, 10,000,000 kronor; Switzerland, 25,000,000 Swiss francs; and Austria, 50,000,000 Austrian schillings.

Purposes of issue.—The loan has been authorized for the purpose of meeting a program of capital expenditures incurred and to be incurred for productive investments upon the Austrian railways and postal and telegraph administration, not exceeding in the aggregate 725,000,000 Austrian schillings (\$102,012,101). This program was submitted to the committee of control, representing the various European Governments who cooperated in the program of Austrian stabilization in 1923, whose approval of the loan has been obtained. The net proceeds of the present issues will provide approximately 55 per cent of these expenditures. The balance of the loan may be issued from time to time to provide for completion of the program.

Security.—In addition to being the direct and unconditional obligation of the Austrian Government, the bonds of the loan are secured under a general bond in favor of the Bank for International Settlements as trustee by a charge upon the gross receipts of the Austrian customs and tobacco monopoly, together with any additional security which may be provided for the Austrian Government guaranteed loan, 1923-1943, and the Austrian Government Czechoslovakian Conversion Loan II, such charge being subject only to the charge in favor of the two last-mentioned loans. No further charge on such receipts and securities may be created ranking in priority to or *pari passu* with these charges, with the exception that the Austrian Government reserves the right to secure *pari passu* with the bonds of the loan any future loan issued to provide for redemption prior to maturity of the bonds of any portion of the guaranteed loan, 1923-1943, outstanding at the time of such redemption. The gross receipts of

the customs and tobacco monopoly for the five years ended December 31, 1929, have been as follows (expressed in millions of Austrian schillings):

	Years ended Dec. 31—				
	1925	1926	1927	1928	1929
Customs.....	194.0	214.0	241.1	259.2	285.5
Tobacco.....	268.6	283.5	290.9	304.6	314.1
Total.....	464.6	497.5	532.0	564.0	599.6
Deduct interest and sinking fund on the guaranteed loan, 1923-1943, and the Czechoslovakian Conversion Loan II.....	103.6	98.8	101.7	101.1	101.8
Balance.....	361.0	398.7	430.3	462.9	497.8

The annual charge for interest and sinking fund on the total authorized amount of the Austrian Government International loan, 1930, computed on the basis of the present issues at par of exchange would amount to approximately 68,600,000 schillings (\$9,652,455).

The pledged revenues are paid by the Austrian Government as and when collected directly into an account under the control of the trustees of the guaranteed loan, 1923-1943, who, after providing each month for the service of that loan and the Czechoslovakian Conversion Loan II, in accordance with their conditions, are to release the balance to the trustees for this loan, who, after reserving each month one-twelfth of the amount required for the annual service of this loan, will release the balance to the Austrian Government.

In the event that in any year the receipts of the pledged revenues are less than 150 per cent of the aggregate amount required for the services of the guaranteed loan, 1923-1943, any loan issued to refund the same and ranking *pari passu* with this loan, the Czechoslovakian Conversion Loan II, and this loan, the Government undertakes to furnish such further securities as the trustee may require, subject to the charge in favor of the guaranteed loan, 1923-1943, and the Czechoslovakian Conversion Loan II.

An agreement has been made between Austria and the powers concerned, subject in the case of France to ratification by the legislature, by which the amounts payable in respect of relief bonds have been funded for gradual payment over a period of 40 years from 1929 to 1968. The charge upon the assets and revenues of Austria by which the relief bonds are secured has been subordinated to the charge in favor of this loan.

By an agreement entered into at The Hague, dated January 20, 1930, between Austria and all the European creditor powers, Japan, and other signatories, the financial obligations of Austria toward these powers arising under the armistice of November 3, 1918, and the treaty of St. Germain, and any treaties or agreements supplemental thereto, have been finally discharged, and the first charge in favor of these powers on all the assets and revenues of Austria created by the treaty of St. Germain has ceased to be operative.

Loan service.—The Austrian Government covenants to pay during the life of the loan in respect of each separate issue a fixed annual sum which, after deducting the annual interest on the bonds of such issue at the time outstanding, is computed to be sufficient to redeem at its redemption price such entire issue by maturity.

In respect of the present issues the funds available for redemption will be used in the purchase of bonds, if obtainable, at or below 103 per cent and accrued interest, otherwise to the redemption at 103 per cent on the 1st day of January of each year of bonds drawn by lot, the Austrian Government reserving the right to redeem at 103 per cent and accrued interest the whole of the outstanding amount of any separate present issue or issues on July 1, 1935, or any interest date thereafter upon giving not less than 90 days' previous notice to the Trustee and published notice in accordance with the bonds of the respective issues.

General.—The years immediately following the armistice of 1918 were marked by the difficulties which Austria had to encounter in the adjustment of her economic life to the conditions arising from her new political frontiers.

In September, 1922, the Austrian Government, with the cooperation of the League of Nations, adopted a definite scheme of reconstruction which included a precise plan of budget reform, the organization of the National Bank of Austria and the stabilization of the Austrian currency. The successful issue of the guaranteed loan, 1923-1943, played an important part in the consummation of this scheme.

The effective working of the scheme has enabled Austria to maintain a stabilized currency. On July 7, 1930, the reserve ratio of the National Bank of Austria, including all foreign exchange holdings, was 80.13 per cent as compared with a legal requirement of 24 per cent. The scheme has also enabled Austria, as shown below, to establish a budgetary equilibrium, the Government's current revenues having been consistently in excess of its current expenditures for the past five years.

Total receipts and expenditures of the Government as shown in the completed accounts, (amounts expressed in millions of Austrian schillings)

	Years ended Dec. 31—				
	1925	1926	1927	1928	1929 (provisional)
Current receipts.....	913.5	985.5	1,122.9	1,174.3	1,197.0
Current expenditures.....	746.4	882.2	1,012.2	1,045.9	1,037.2
Balance.....	167.1	103.3	110.7	128.4	159.8
Capital expenditures not included above.....	90.6	135.6	196.7	212.5	1207.9

¹ This figure includes capital expenditures covered by short-term credits given by Austrian bankers.

NOTE.—In the above letter as received from the Federal Minister of Finance the approximate dollar equivalents of the amounts originally expressed in Austrian schillings have been inserted in brackets after the schilling figures converted at the rate of 7.107 Austrian schillings to \$1 United States gold.

\$110,000,000 GERMAN EXTERNAL LOAN, 1924, 7 PER CENT GOLD BONDS, INTEREST PAYABLE APRIL 15 AND OCTOBER 15; DATED OCTOBER 15, 1924; DUE OCTOBER 15, 1949

Nonredeemable prior to maturity, except for the sinking fund.

Sinking fund for this issue, \$4,620,000 a year, payable monthly, beginning November 15, 1924; sufficient to retire annually one-twentyfifth of the issue at 105 per cent; bonds to be retired through the Sinking Fund by purchase, if obtainable at or below 105 per cent and accrued interest, or if not so obtainable, by redemption by lot at 105 per cent and accrued interest, such accrued interest in either case to be paid otherwise than out of the sinking fund. The bonds are to be redeemable for the sinking fund on October 15 of each year, commencing October 15, 1925.

Coupon bonds in denominations of \$1,000, \$500 and \$100.

Principal and interest payable in New York City at the office of J. P. Morgan & Co. in United States gold coin of the present standard of weight and fineness, without deduction for any German taxes, present, or future.

Doctor Luther, Finance Minister of Germany, has prepared, and the Reparation Commission and Owen D. Young, agent-general for reparation payments, have approved, the following summary from his statement dated October 10, 1924, printed within:

THE LOAN

These bonds are part of an international loan to be issued for the purpose of carrying into effect the plan of the first committee of experts appointed by the Reparation Commission, for the double purpose of ensuring currency stability in Germany and of financing, especially, deliveries in kind during the preliminary period of economic rehabilitation. The loan is to be issued in Great Britain, France, Italy, Switzerland, Holland, Belgium, Sweden, Germany, and the United States of America, in bonds of various currencies, and for an amount estimated to be sufficient to yield in the aggregate a net sum equivalent, at current rates of exchange, to approximately 800,000,000 gold marks (approximately \$190,400,000).

SECURITY

The service of interest and amortization of the loan is:

(1) A direct and unconditional obligation of the German Government chargeable on all the assets and revenues of that Government.

(2) A specific first charge on all payments provided for under the Dawes plan to or for the account of the agent-general for reparation payments, such charge being prior to reparation and other treaty payments, which in turn have a specific precedence over the existing German debt.

(3) A first charge by way of collateral security on the "controlled revenues," i. e., the gross revenues of the German Government derived from the customs and from the taxes on tobacco, beer, and sugar, the net revenue of the German Government from the spirits monopoly and such tax (if any), as may hereafter be similarly assigned by the German Government in accordance with the terms of the final protocol of the London Conference. The "controlled revenues" are estimated as amounting annually to not less than 1,000,000,000 gold marks (approximately \$240,000,000). The German Government may not create any further charge upon the controlled revenues ranking prior to or equally with the charge created in favor of the bonds of the loan.

LONDON PROTOCOL

In the London Protocol, Annex IV, article 3, the governments of Belgium, Great Britain (with the governments of Canada, Australia, New Zealand, South Africa, and India), France, Greece, Italy, Japan, Portugal, Rumania, and Yugoslavia, agreed as follows:

"In order to secure the service of the loan of 800,000,000 gold marks contemplated by the experts' plan, and in order to facilitate the issue of that loan to the public, the signatory governments hereby declare that, in case sanctions have to be imposed in consequence of a default by Germany they will safeguard any specific securities which may be pledged to the service of the loan.

"The signatory governments further declare that they consider the service of the loan as entitled to absolute priority as regards any resources of Germany so far as such resources may have been subjected to a general charge in favor of the said loan, and also as regards any resources that may arise as a result of the imposition of sanctions."

At the London Conference, the allied governments adopted a resolution reading as follows:

"The allied governments, desiring that this loan should be successfully raised, and contemplating that the loan will be a first lien on the security pledged thereto, will invite the central banks in their respective countries to use their good offices to facilitate the placing of the loan."

In connection with this resolution, and at the request of the governments of Great Britain, France, and Belgium, J. P. Morgan & Co., in association with the undersigned, have undertaken the issue of the American portion of the loan.

The bonds are offered for subscription, subject to the conditions stated below, at 92 per cent and accrued interest, to yield over 7.70 per cent to maturity.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned and to the approval by counsel of the relevant documents and proceedings.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m., Tuesday, October 14, 1924. The right is reserved to reject any and all applications, and also, in any case, to award a smaller amount than applied for.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, on or about October 30, 1924, as called for, against the delivery of interim receipts exchangeable for definitive bonds when prepared and received.

J. P. Morgan & Co., Kuhn, Loeb & Co., First National Bank, The National City Co. Guaranty Co. of New York, Bankers Trust Co., New York, Harris, Forbes & Co., Lee, Higginson & Co., Kidder, Peabody & Co., Dillon, Read & Co.

New York, October 14, 1924.

STATEMENT—GERMAN EXTERNAL LOAN 1924

Arrangements have been made for portions of the loan to be issued in Great Britain, the United States of America, Belgium, France, Holland, Sweden, Switzerland, and Germany. The loan will be issued in the form of bonds to bearer carrying interest at 7 per cent per annum and repayable within 25 years by means of a sinking fund to be applied to the purchase and/or drawing of bonds of the issue in the manner set forth in the prospectuses relating to the several issues. Bonds issued in the United States of America and the interest thereon will be expressed and be payable in United States dollars; bonds issued elsewhere and the interest thereon will be expressed and be payable in sterling or in the currency of the country of issue, as may be provided in the relative prospectuses. The loan is issued for the purpose of carrying into effect the plan proposed to the Reparation Commission by the first committee of experts (the "Dawes committee") for the discharge of the reparation obligations and other pecuniary liabilities of Germany under the treaty of Versailles, which plan was confirmed by the various governments concerned and by the Reparation Commission at the London Conference of August, 1924. The German Government has undertaken to adopt all appropriate measures for carrying into effect the said plan and for insuring its permanent operation. The loan is intended to serve the double purpose of insuring currency stability in Germany and financing, especially, deliveries in kind during the preliminary period of economic rehabilitation.

The service of interest and amortization of the loan is:

(1) A direct and unconditional obligation of the German Government chargeable on all the assets and revenues of that Government.

(2) A specific first charge on all payments provided for under the plan of the Dawes committee to or for the account of the agent-general for reparation payments, such charge being prior to reparation and other treaty payments, which in turn have a specific precedence over the existing German debt.

(3) A first charge by way of collateral security on the "controlled revenues," i. e., the gross revenues of the German Government derived from the customs and from the taxes on tobacco, beer, and sugar; the net revenue of the German Government from the spirits monopoly and such tax (if any) as may hereafter be similarly assigned by the German Government in accordance with the terms of the final protocol of the London Conference.

The Reparation Commission have postponed in favor of the charges created in respect of the loan, all reparation and other charges upon the payments to the agent-general for reparation payments, including charges in respect of deliveries in kind or payments therefor, whether direct or through the operation of any reparation recovery act or decree.

The annual sum required for the service of interest and amortization of the loan, on the basis of present exchange rates, will not exceed about 91,500,000 gold marks. The payments to the agent-general for reparation payments have been fixed at 1,000,000,000 gold marks for the first year and are expected to increase thereafter until they reach 2,500,000,000 gold marks for the fifth and subsequent years. The annual gross receipts of the controlled revenues are estimated at not less than 1,000,000,000 gold marks. The German Government may not create any further charge upon the controlled revenues ranking in priority to or *pari passu* with the charge created in favor of the bondholders of this issue.

The German Government has executed a general bond whereby S. Parker Gilbert (the agent-general for reparation payments), N. D. Jay, and C. E. ter Meulen have been appointed trustees for the bondholders of the loan. In the event of the termination of the appointment of a trustee, other than the agent-general for reparation payments, the power of appointing a new trustee is vested in the remaining trustees.

The German Government have agreed that, 15 days prior to the due date of any installment of interest and 15 days prior to the due date of any redemption moneys, there shall be paid to the trustees the whole of the funds required to meet the service of such interest and redemption. With a view to carrying into effect this provision, arrangement is made for the payment to the trustees by the agent-general for reparation payments on the 15th day of each calendar month of a sum equivalent to at least one-twelfth of the amount necessary to meet the service of the loan for one year.

The Reparation Commission considers it desirable that the agent-general for reparation payments should, *ex officio*, be one of the trustees for the bond-

holders. In order to insure, if possible, the continuation of this arrangement, the Reparation Commission will, in the event of the post of agent-general becoming vacant, consult with the remaining trustees with a view to appointing to the vacant post a person satisfactory to them as representing the bondholders.

For the purpose of providing the necessary foreign currencies for the service of the loan, the German Government, the Reparation Commission, the transfer committee, and the agent general for reparation payments have agreed that funds required to be sent abroad for that purpose shall have an absolute right of remittance, which right shall have priority over the remittance of funds required to be remitted in discharge of reparation payments or other liabilities.

Article 3 of Annex IV of the final protocol of the London Conference, dated August 16, 1924:

"In order to secure the service of the loan of 800,000,000 gold marks contemplated by the experts' plan, and in order to facilitate the issue of that loan to the public, the signatory governments hereby declare that in case sanctions have to be imposed in consequence of a default by Germany they will safeguard any specific securities which may be pledged to the service of the loan.

"The signatory governments further declare that they consider the service of the loan as entitled to absolute priority as regards any resources of Germany so far as such resources may have been subjected to a general charge in favor of the said loan and also as regards any resources that may arise as a result of the imposition of sanctions."

DOCTOR LUTHER,

Minister of Finances of the German Reich.

OCTOBER 10, 1924.

REPARATION COMMISSION,

Paris, October 10, 1924.

DR. LUTHER,

Minister of Finances of the German Reich.

SIR: I am directed to inform you that the Reparation Commission has taken note of the statement signed by you which is appended to the prospectuses about to be issued in connection with the German external loan, 1924, and that they have taken the necessary action to enable the service of the loan to be fully secured under the charges referred to in that statement.

I am, sir,

Your obedient servant,

S. A. ARMITAGE-SMITH,
Secretary General.

OCTOBER 10, 1924.

J. P. MORGAN & Co.,

New York, N. Y., United States of America.

DEAR SIR: Having read the letter addressed to you by the German Finance Minister regarding the loan to produce 800,000,000 gold marks and having noted the security to be pledged by the German Government therefor, such pledge being made effective by action of the Reparation Commission, I am glad to advise you that, as agent general, I consider the pledge as made to be effective and the action taken by the Reparation Commission, the transfer committee, the agent general, and otherwise such as to insure the carrying out of the loan service.

Yours very truly,

OWEN D. YOUNG,
Agent General for Reparation Payments.

\$98,250,000 GERMAN GOVERNMENT INTERNATIONAL 5½ PER CENT LOAN, 1930 (35-YEAR GOLD BONDS)—UNITED STATES OF AMERICA ISSUE, DATED JUNE 1, 1930; DUE JUNE 1, 1965; INTEREST PAYABLE JUNE 1 AND DECEMBER 1—BANK FOR INTERNATIONAL SETTLEMENTS, TRUSTEE

A cumulative sinking fund, computed to be sufficient to retire the entire issue at or before maturity, is to be applied to the purchase of bonds at or below 100 per cent and accrued interest if available, or otherwise to the redemption at that price of bonds drawn by lot.

Redeemable at 100 per cent and accrued interest upon not less than 45 days' previous notice, on June 1 of any year through the sinking fund, and on June 1, 1935, and yearly thereafter in amounts of not less than \$7,500,000 principal amount at the option of the Government.

Coupon bonds in denominations of \$1,000, \$500, and \$100.

Principal and interest payable in New York City at the office of J. P. Morgan & Co. in United States gold coin of the standard of weight and fineness existing on June 1, 1930, without deduction for any German taxes, present or future.

Dr. Paul Moldenhauer, Minister of Finances of the German Reich, has furnished the following facts regarding the German Government international 5½ per cent loan, 1930, a more complete statement being printed within:

"The payment of the principal, interest, and sinking fund of the loan is the direct and unconditional obligation of the German Government to the bondholder, for which the full faith and credit of the German Government are pledged.

"Principal and interest of bonds of the United States of America issue are payable in dollars. Payment may, however, at the option of the holder, be effected on any foreign market where any of the bonds of the loan are quoted in the currency of that market at the then current rate of exchange, as set forth in the general bond of the loan.

"These bonds constitute part of the German Government international 5½ per cent loan, 1930, which is to provide an aggregate effective amount equivalent to approximately \$300,000,000 by the issuance of portions of the loan (in bonds of various currencies, all of equal rank, without priority of any bond over any other as to the payment of principal, interest, or sinking fund) in the following countries and in the following principal amounts: United States of America, \$98,250,000; France, 2,515,000,000 francs; Great Britain, £12,000,000 sterling; Holland, 73,000,000 florins; Sweden, 110,000,000 kronor; Switzerland, 92,000,000 Swiss francs; Germany, 36,000,000 reichsmarks; Italy, 110,000,000 lire; Belgium, 35,000,000 belgas.

"Two-thirds of this loan represents the capitalization of a portion of the unconditional annuities payable by Germany according to the new plan, and the proceeds thereof will be paid to the Bank for International Settlements for the account of the creditor powers concerned. The remaining one-third of the proceeds of the loan will be utilized by the German Government to provide for requirements of the German Railway Co. and the German Post Office and Telegraphs.

"The German Government international 5½ per cent loan, 1930, is authorized by law of March 13, 1930, and by law of May 30, 1930, enacted by the German Reich. The loan is issued in conformity with the new plan adopted by The Hague agreement and with the mobilization agreement, both of January 20, 1930, between Germany and the signatory creditor powers, which agreements were ratified by the above-mentioned law of March 13, 1930, and, for the purpose of issuing the bonds of this loan, the German Government has executed its general bond to the Bank for International Settlements as trustee. The Hague agreement, between Germany and the signatory creditor powers, states 'the new plan is definitely accepted as a complete and final settlement, so far as Germany is concerned, of the financial questions resulting from the war.'

For further particulars, reference is made to the more detailed statement printed within. The Bank for International Settlements has taken note of such statement and has agreed to act as trustee for the bondholders.

The above bonds are offered for subscription, subject to the conditions stated below, at 90 per cent and accrued interest, to yield 6.20 per cent to maturity.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m. Thursday, June 12, 1930, and closed in their discretion. The right is reserved to reject any and all applications, and also, in any case, to allot a smaller amount than applied for. All subscriptions will be received subject to the due issue and delivery to us of the bonds as planned and to the approval by counsel of the form and validity of the bonds and of the relevant proceedings and authorizations.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co. in New York funds to their order, and the date of payment (on or about June 28, 1930) will be stated in the notices of allotment. Interim receipts, exchangeable for definitive bonds when received, are to be delivered.

J. P. MORGAN & Co.
 KUHN, LOEB & Co.
 GUARANTY Co. OF NEW YORK.
 HARRIS, FORBES & Co.
 KIDDER, PEABODY & Co.
 FIRST NATIONAL BANK.

BANKERS Co. OF NEW YORK.
 THE NATIONAL CITY Co.
 CHASE SECURITIES CORPORATION.
 LEZ, HIGGINSON & Co.
 DILLON, READ & Co.

NEW YORK, June 12, 1930.

STATEMENT REGARDING GERMAN GOVERNMENT INTERNATIONAL 5½ PER CENT LOAN, 1930

(By Doctor Moldenhauer, Minister of Finances of the German Government)

Arrangements have been made for portions of the loan to be issued in Belgium, France, Germany, Great Britain, Holland, Italy, Sweden, Switzerland, and the United States of America. The loan will be issued in the form of bonds to bearer, which may be of various denominations and currencies carrying interest at 5½ per cent per annum, repayable in 35 years by means of a cumulative annual sinking fund to be applied in the purchase and/or drawing of bonds in the manner set forth in the prospectuses relating to the several issues. The German Government reserves the right on or after the 1st of June, 1935, to redeem at par (100 per cent) and accrued interest, the whole of the outstanding bonds of the loan or any part thereof, being the equivalent of approximately \$30,000,000 (United States), or multiples thereof, in the manner prescribed by the general bond.

The bonds will be expressed and payable in the currency of the country of issue at the equivalent of its present gold value. Both principal and interest will be payable in the respective countries of issue, but payment may be obtained in any foreign market where any issue of the loan is quoted in the currency of that country at the current rate of exchange. Any further particulars will be provided in the relative prospectuses.

The various portions of the loan will be for amounts sufficient to yield in the aggregate an effective sum, equivalent to approximately \$300,000,000 (United States), after providing for the expenses of issue, of negotiations, and of delivery.

Under the new plan adopted by The Hague agreement between Germany and the creditor powers signed on 20th January, 1930, the right is reserved to capitalize the unconditional (nonpostponable) annuities payable to the creditor powers by Germany in pursuance of the plan. The unconditional annuities amount to 612,000,000 reichsmarks (\$145,778,400), together with the sums required for the service of the German external loan, 1924, and are payable by Germany to the Bank for International Settlements in foreign currencies on a gold or gold exchange standard. Of the proceeds of the loan, two-thirds represent the capitalization of a portion of the unconditional annuities payable to the creditor powers by Germany according to the new plan, and such amount will be paid to the Bank for International Settlements, for the account of the creditor powers concerned. The remaining one-third of the proceeds of the loan will be paid to the Bank for International Settlements for the account of the German Government, and will be utilized to provide for the requirements of the German Railway Co. and the German Post Office and Telegraphs.

The payment of the principal, interest, and sinking fund of the loan is the direct and unconditional obligation of the German Government to the bondholder, for which the full faith and credit of the German Government are pledged.

The sums required for the service of the loan will be payable by equal monthly installments on the 15th day of each calendar month to the Bank for International Settlements, who as trustee for the bondholders will place the said sums in a single account exclusively and solely reserved to the service of the loan. These sums will comprise:

(a) As to two-thirds, currencies on a gold or gold exchange standard, the equivalent of approximately 63,800,000 reichsmarks (\$15,197,160), being part of the unconditional annuities to be paid to the Bank for International Settlements.

ments by Germany and distributed by the bank in accordance with the terms of the new plan.

(b) As to one-third, currencies on a gold or gold exchange standard, the equivalent of approximately 31,900,000 reichsmarks (\$7,598,580), to be paid by the German Government out of its general revenues.

By The Hague agreement the new plan was definitely accepted as a complete and final settlement, in so far as Germany is concerned, of the financial questions resulting from the war, thus carrying to a conclusion the work initiated by the adoption of the Dawes plan in 1924. The new plan came into force on the 17th of May, 1930. The German Government has adopted all appropriate measures for securing its continued operation and the Bank for International Settlements has been fully constituted and has undertaken to carry out the duties assigned to it under the plan.

The new plan provides for payment by German to the creditor powers of a series of unconditional annuities and postponable annuities out of her general revenues. These annuities increase from 1,641,600,000 reichsmarks (\$391,029,120) in the year ending March 31, 1931, to 2,352,700,000 reichsmarks (\$560,413,140) in the year ending March 31, 1936. Thereafter, the annuities are reduced to considerably smaller annual payments, ending in the year 1938.

The whole of the annuities under the new plan are payable to the Bank for International Settlements which is charged with the duty of paying and distributing therefrom in accordance with the provisions of the new plan and subject to the service of the German external loan, 1924 (which averages approximately 76,500,000 reichsmarks (\$18,222,300) annually till 1949), first, the amounts of the unconditional annuities, including the service of bonds issued in capitalization thereof, and next, the amounts of the postponable annuities referred to above.

Except in connection with an issue of bonds for the capitalization of part of the unconditional annuities for the purpose of the internal conversion of the national debt of a creditor power which can be quoted only on the market of issue, no further issue of bonds for capitalization can be made except through the Bank for International Settlements, acting as trustee for the creditor powers, if and in so far as is deemed opportune by the bank: such further loans, whether for the purpose of internal conversion or not, will rank as to payment *pari passu* with the present loan.

By way of guaranty for the service of the annuities, the German Government has, in accordance with the new plan, created a fixed annual direct tax of 660,000,000 reichsmarks (\$157,212,000) on the German Railway Co. for 37 years, such tax enjoying priority over any tax now or hereafter to be levied on the railway company. Under the new plan, the German Government has further undertaken, without prejudice to the securities for the German external loan, 1924, to reserve, free from any charge for any other loan or credit, the proceeds of the customs, tobacco, beer, and alcohol (monopoly, administration) duties, save with the consent of the Bank for International Settlements, and then only subject to the priority in favor of the annuities as provided for in the new plan.

Under the Dawes plan the standard annuity in 1928-29 amounted to 2,500,000,000 reichsmarks (\$595,500,000), while under the new plan the maximum amount payable during the first 10 years to the creditor powers is 1,938,100,000 reichsmarks (\$461,655,420). The average increase in the budgetary contribution during the first 20 years is approximately one-fourth of 1 per cent of the total revenues of the budget of the German Reich, which for the fiscal year 1929-30 were just below 10,000,000,000 reichsmarks (\$2,382,000,000).

DR. PAUL MOLDENHAUER,

Minister of Finances of the German Reich.

JUNE 10, 1930:

The Bank for International Settlements has taken note of the contents of the foregoing statement and has agreed to act as trustee for the bondholders of the German Government International 5½ per cent loan, 1930.

BANK FOR INTERNATIONAL SETTLEMENTS,
By GATES W. MCGARRAH, *President.*

BASLE, June 10, 1930.

NOTE.—In the above letter as received from the Minister of Finances the approximate dollar equivalents of the amounts originally expressed in reichsmarks have been inserted in parentheses after the reichsmark figures. One reichsmark equals \$0.2382 United States gold.

\$150,000,000 IMPERIAL JAPANESE GOVERNMENT EXTERNAL LOAN OF 1924, 30-YEAR SINKING FUND 6½ PER CENT GOLD BONDS, DATED FEBRUARY 1, 1924, INTEREST PAYABLE FEBRUARY 1 AND AUGUST 1. DUE FEBRUARY 1, 1954, NONREDEEMABLE FOR 15 YEARS

Principal and interest payable in New York City, in United States gold coin of the present standard of weight and fineness, without deduction for any Japanese taxes, present or future. Coupon bonds in denominations of \$1,000, \$500, and \$100. Redeemable as a whole or in part, at par and accrued interest, at the option of the Government, upon 90 days' notice, on or after February 1, 1939.

Monthly sinking-fund payments at the following annual rates, commencing August 1, 1924, and continuing while any of the dollar bonds are outstanding, will be used to purchase such bonds, in the market at not exceeding 100 per cent and accrued interest: From August 1, 1924, to July 1, 1929, inclusive, \$5,000,000 per annum; from August 1, 1929, to July 1, 1934, inclusive, \$4,000,000 per annum; from August 1, 1934, to maturity, \$3,000,000 per annum.

The following statement concerning the bonds has been prepared for us by Mr. Kengo Mori, special finance delegate of the Imperial Japanese Government:

Authorized issue: The Imperial Japanese Government external loan of 1924 is to be an international loan to be issued in the United States of America, England, and Holland, as follows:

United States and Holland.....	\$150,000,000
England.....	£25,000,000

The bonds of this loan are to be direct external obligations of the Imperial Japanese Government. Bonds of the American and Dutch issue are to be payable in United States gold coin or, at the option of the holder, in London in sterling at an exchange rate of \$4.8665 to the pound sterling. Bonds of the English issue are to be payable in sterling only. The issue in Holland will be made by Messrs. Hope & Co. and their associates, at the same price as in New York. The issue in England will be of 35-year 6 per cent bonds to be offered at 87½ per cent and interest, yielding about 6.00 per cent by the Westminster Bank (Ltd.), Hong Kong & Shanghai Banking Corporation, Yokohama Specie Bank (Ltd.), Messrs. Baring Bros. & Co. (Ltd.), Messrs. Morgan Grenfell & Co., Messrs. N. M. Rothschild & Sons, and Messrs. J. Henry Schröder & Co.

Special provisions: The Japanese Government covenants that if, while any of the bonds of this loan are outstanding, it shall secure any loan by a lien or charge upon any of its specific revenues or assets, it will secure the bonds of this loan equally and ratably with any obligations secured by such lien or charge.

Sinking fund: The Japanese Government covenants that, commencing August 1, 1924, and continuing while any of the dollar bonds are outstanding, it will deposit in New York with the Yokohama Specie Bank (Ltd.), its fiscal agents, in equal monthly installments, the following sums to be used as a sinking fund to purchase such dollar bonds in the market at not exceeding 100 per cent and accrued interest, viz.: For each of the five years from August 1, 1924, to July 31, 1929, \$5,000,000; for each of the five years from August 1, 1929, to July 31, 1934, \$4,000,000; and annually from August 1, 1934, to maturity, \$3,000,000.

If in any month bonds are not obtainable at or under 100 per cent and accrued interest, the unused portion of the monthly sinking fund payment at the end of the month will revert to the Japanese Government. A separate sinking fund will apply to the English issue.

Purpose of issue: The proceeds of this loan are to be used, in part, to retire the outstanding balance of the Imperial Japanese Government 4½ per cent sterling loan, first and second series, due February 15, 1925, and July 10, 1925, respectively, and, in part, to purchase materials and supplies for the reconstruction necessitated by the earthquake and fire of September, 1923.

Of the above-mentioned 4½ per cent sterling loan originally issued in the aggregate amount of £60,000,000, about £25,000,000, or 40 per cent, has already been retired by the Japanese Government through purchases in the market, leaving outstanding such bonds of a par value equivalent, at the fixed rate of exchange named in the bonds, to approximately \$170,500,000. The Japanese Government is to call these outstanding bonds for redemption on October 1, 1924, at par (\$974 per £200 bond) together with accrued interest to that date, in accordance with its right of redemption expressed in the bonds.

The Government's reconstruction program calls for an estimated expenditure by the Government of about \$700,000,000, of which it is expected that about \$300,000,000 will be spent in purchases outside of Japan. This latter sum is to be made available from the proceeds of this loan and from existing funds now at the disposal of the Japanese Government in New York and in London. It is the intention of the Government that the remainder of the funds for reconstruction purposes shall be raised in Japan.

This loan, together with the existing foreign balances mentioned, will, therefore, provide not only for the retirement of substantially the whole of the Japanese Government's external debt maturing prior to 1931, but also for the Japanese Government's entire estimated financial requirements in foreign markets for reconstruction work.

Previous issues: This loan is the first direct external issue made by the Imperial Japanese Government in the American market since 1905, the year of the Russo-Japanese War. In March and in July of that year, part of the 4½ per cent sterling loan, above referred to, was offered to yield about 5.32 per cent, and, in November, part of an international 4 per cent loan, maturing in 1931, was offered to yield approximately 4.67 per cent. These offerings in the United States aggregated about \$137,500,000 par value of bonds.

We offer the above bonds for subscription, subject to allotment, at 92½ per cent and accrued interest, to yield 7.10 per cent to maturity.

All subscriptions will be received subject to the issue and delivery to us of the bonds as planned and to the approval by our counsel of their form and validity.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m., Friday, February 15, 1924. The right is reserved to reject any and all applications, and also, in any case, to award a smaller amount than applied for.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, on or about March 3, 1924, as called for, against the delivery of interim receipts or temporary bonds, pending the preparation of definitive bonds.

Payments for bonds allotted may be made in the bonds of the Imperial Japanese Government 4½ per cent sterling loan of 1905, first and second series, due, respectively, February 15, 1925, and July 10, 1925, with unmatured coupons attached, which will be accepted at prices equivalent to a 4¾ per cent interest yield basis computed from the date of payment of subscriptions to October 1, 1924, the date as of which the 4½ per cent bonds are to be called for redemption as above stated.

The par value of all Japanese Government bonds quoted on the New York Stock Exchange is \$974 per £200 bond.

J. P. MORGAN & Co.,
 KUHN, LOEB & Co.,
 THE NATIONAL CITY Co.,
 FIRST NATIONAL BANK,
 New York.

NEW YORK, February 11, 1924.

The following information concerning the Imperial Japanese Government external loan of 1924 and the general resources of Japan, has been furnished by Mr. Kengo Mori, special finance delegate of the Imperial Japanese Government. Conversion of yen into dollars, where made, has been figured at two yen to the dollar, as against parity of 49.85 cents per yen.

THE LOAN AND ITS PURPOSE

The Imperial Japanese Government external loan of 1924 is to be an international loan to be issued in the United States of America, England, and Holland, as follows:

United States and Holland	\$150,000,000
England	£25,000,000

The bonds of this loan are to be direct external obligations of the Imperial Japanese Government. Bonds of the American and Dutch issue are to be payable, both as to principal and interest, in United States gold coin of the

present standard of weight and fineness in New York City at the office of the Yokohama Specie Bank (Ltd.) or, at the option of the holder, in London, in sterling at an exchange rate of \$4.8665 to the pound sterling. Such payment of principal and interest, whether in dollars or in sterling, is to be made without deduction for any tax or taxes now or at any time hereafter imposed by the Imperial Japanese Government, or by any taxing authority thereof or thereunder. The Japanese Government will require six months' notice of the intention of bondholders to present their bonds for payment at maturity in sterling or two months' notice for such payment pursuant to any call for earlier redemption. Bonds of the English issue are to be payable in sterling only.

The issue in Holland will be made by Messrs. Hope & Co., the Nederlandsche Handel-Maatschappij, Messrs. Lippman, Rosenthal & Co. and the Twentsche Bank, at the same price as in New York. The issue in England will be of 35-year 6 per cent bonds, to be offered at 87½ per cent and interest, yielding about 6.96 per cent, by the Westminster Bank (Ltd.), Hong Kong and Shanghai Banking Corporation, Yokohama Specie Bank (Ltd.), Messrs. Baring Bros. & Co. (Ltd.), Messrs. Morgan Grenfell & Co., Messrs. N. M. Rothschild & Sons, and Messrs. J. Henry Schröder & Co.

The proceeds of this loan are to be used, in part, to retire the outstanding balance of the Imperial Japanese Government 4½ per cent sterling loan, first and second series, due February 15, 1925, and July 10, 1925, respectively, and, in part, to purchase materials and supplies for the reconstruction necessitated by the earthquake and fire of September, 1923.

Of the above-mentioned 4½ per cent sterling loan issued in 1905 in the aggregate amount of £60,000,000, about £25,000,000, or 40 per cent, has already been retired by the Japanese Government through purchases in the market, leaving outstanding such bonds of a par value equivalent, at the fixed rate of exchange named in such bonds, to approximately \$170,500,000. The Japanese Government is to call these outstanding bonds for redemption on October 1, 1924, at par (\$974 per £200 bond) together with accrued interest to that date, in accordance with its right of redemption expressed in the bonds.

The Government's reconstruction program calls for an estimated expenditure by the Government of about \$700,000,000, of which it is expected that about \$300,000,000 will be spent in purchases outside of Japan. This latter sum is to be made available from the proceeds of this loan and from existing funds now at the disposal of the Japanese Government in New York and in London. It is the intention of the Government that the remainder of the funds for reconstruction purposes shall be raised in Japan.

This loan, together with the existing foreign balances mentioned, will, therefore, provide not only for the retirement of substantially the whole of the Japanese Government's external debt maturing prior to 1931, but also for the Japanese Government's entire estimated financial requirements in foreign markets for reconstruction work.

The Japanese Government covenants that if, while any of the bonds of this loan are outstanding, it shall secure any loan by a lien or charge upon any of its specific revenues or assets, it will secure the bonds of this loan equally and ratably with any obligations secured by such lien or charge.

The Japanese Government covenants that, commencing August 1, 1924, and continuing while any of the dollar bonds are outstanding, it will deposit in New York with the Yokohama Specie Bank (Ltd.), its fiscal agents, in equal monthly installments, the following sums to be used as a sinking fund to purchase such dollar bonds in the market at not exceeding 100 per cent and accrued interest, viz:

For each of the 5 years from Aug. 1, 1924 to July 31, 1929.....	\$5,000,000
For each of the 5 years from Aug. 1, 1929 to July 31, 1934.....	4,000,000
And annually from Aug. 1, 1934 to maturity.....	3,000,000

If in any month bonds are not obtainable at or under 100 per cent and accrued interest, the unused portion of the monthly sinking fund payment at the end of the month will revert to the Japanese Government. A separate sinking fund will apply to the English issue.

The bonds are to be redeemable as a whole, or in part, at par and accrued interest, at the option of the Government, upon 90 days' notice, on or after February 1, 1939.

NATIONAL WEALTH AND GOVERNMENT DEBT

The gross debt of the Japanese Government outstanding on October 31, 1923, amounted to 4,359,578,693 yen, of which 1,320,624,818 yen was external debt. The Government has reduced its external debt by more than 325,000,000 yen during the past 10 years, and even after giving effect to the present financing, the external debt will be less than the amount outstanding on March 31, 1914.

Over one-quarter of the Government's total debt is self-supporting, as it has been incurred in connection with the construction, purchase, and improvement of the state railway system. The state railways, comprising over 7,000 miles of line out of a total of some 8,500 miles of railway in Japan proper, are valued on the Government's books (at cost of construction or purchase) at over 1,915,000,000 yen. The income accounts of the state railways are kept entirely separate from the general budget of the Government and show that, in each of the past 15 years, the state railways have earned substantial profits after the payment of all expenses, as well as interest charges on the Government's debt allocated to the railway department. These profits have been invested in the improvement or extension of the railway system. The net profits for the fiscal year ending March 31, 1924, are estimated at approximately 120,000,000 yen.

In contrast with its general debt (exclusive of the railway debt) of about 3,200,000,000 yen on October 31, 1923, the Government owns state forests, harbor works, the telegraph and telephone systems, public buildings, special funds and other investments, all aggregating in excess of 12,000,000,000 yen in estimated value at the present time. The total wealth of the Japanese people at the end of 1921, including public wealth, has been estimated by the Government at close to 100,000,000,000 yen, or over twenty-one times the total indebtedness of the Government. This is considerably more favorable than the relation between the national wealth of the United States, according to current published estimates, and the total debt of the United States Government. Interest charges on the general debt of the Japanese Government, as estimated in the budget for the current fiscal year, amount to less than 12 per cent of the Government's total ordinary revenues.

During the past 15 fiscal years the Government has retired an average of over 39,000,000 yen of its debt annually by means of a statutory amortization fund, the appropriation for this purpose in the current budget being 42,000,000 yen. According to statute, at least 1.16 per cent of the Government's funded debt (and not less than 30,000,000 yen in any event) must be retired each year.

REVENUES AND EXPENDITURES

In every year since 1881-82 the ordinary revenues of the Japanese Government have exceeded its ordinary expenditures. Although extraordinary revenues (exclusive of proceeds of loan issues) have not always fully covered extraordinary expenditures the Government's indebtedness has arisen, not from a series of recurring budget deficits, but, apart from the expenses of the Russo-Japanese war, principally from the purchase and improvement of economic undertakings, such as the railway, telegraph and telephone systems, and the development of new territory.

Owing both to the reduction in military and naval expenditures consequent upon the international agreements made at the Washington Conference on Limitation of Armament in 1922, and to a general policy of reduction in expenditures, recently adopted to aid in financing reconstruction after the earthquake, the Government's appropriations for the coming fiscal year show a substantial reduction from those of a few years ago. Appropriations, ordinary and extraordinary, in the budget for 1924-25 (as presented to the Diet), amount to 1,298,837,000 yen, as compared with 1,562,543,000 yen in the budget for 1921-22, a reduction of over 263,000,000 yen. The revised budget for the present fiscal year, ending March 31, 1924, after making allowance for decreases in revenues resulting from the recent earthquake, shows an estimated excess of total expenditures over total revenues of less than 3,000,000 yen, eliminating receipts or expenditures arising from the issuance or retirement of public debt. The budget for the coming fiscal year, 1924-25, on the same basis, as presented to the Diet, estimates an excess of total expenditures over total revenues of less than 25,000,000 yen. These sums will be charged, if necessary, against the Government's accumulated surplus, or general fund, which amounted to 657,655,813 yen on March 31, 1923.

The revenues of the Government rest on a broad basis of taxation. In 1922-23 over 62 per cent of the ordinary revenues of 1,428,206,000 yen were derived from taxes. An income tax of practically universal application, with rates ranging from one-half of 1 per cent to 36 per cent, produced the largest single amount, 229,132,000 yen. Liquor taxes produced 222,585,000 yen; customs duties, 108,044,000 yen; and land tax, 74,326,000 yen. In addition to receipts from a number of other taxes, large revenues are obtained from the postal, telephone and telegraph services, from the State forests, and from the net profits of the Government monopolies of the manufacture and sale of tobacco, salt, and camphor.

After the retirement of the 4½ per cent Sterling loan above referred to none of the Government's revenues will be subject to any specific lien, charge, or pledge of any nature.

MONETARY SYSTEM AND GOLD HOLDINGS

Japan adopted a gold monetary standard in 1897, with a unit of currency, the gold yen, equivalent to 49.85 cents in United States currency. The Bank of Japan has the sole power of note issue in Japan proper, and on January 16, 1924, held gold reserves totalling 1,057,000,000 yen against its outstanding note circulation of 1,337,000,000 yen, resulting in the high reserve ratio of 79 per cent. In addition to the gold reserves of the Bank of Japan, the bank and the Government have bank deposits and short term foreign Government securities in New York and London aggregating over \$250,000,000, part of which will be used in the Government's reconstruction program referred to above.

LOCATION, POPULATION, AND RESOURCES

Japan is the eastern gateway of Asia. In Japan itself are important sources of wealth which have been highly exploited by an energetic population of 56,000,000 people now actively engaged in agriculture, industry, shipping, and foreign commerce. Behind Japan lies a vast continent, rich in natural resources and a market for the manufactured goods of the world. By reason of its situation, at the northern approaches to this continent, Japan is in a favored position to play a large part in its future economic development. Korea, on the mainland, but an integral part of the Japanese Empire, the island of Formosa, and other outlying possessions, bring the total population of the empire up to nearly 80,000,000 people.

Rice is the great staple food of Japan and the country's production is sufficient to supply, on the average, about 95 per cent of the home consumption. Other important crops are sugar, barley, wheat, soybeans, potatoes, tea, and tobacco.

Japan is by far the largest producer of raw silk in the world, and supplies about 90 per cent of the world's consumption. The average annual value of the silk production for the five years ending in 1921 was approximately 620,000,000 yen. Japan's exports of silk during the past five years have averaged about 530,000,000 yen in value, of which the United States has taken, on the average, nearly 90 per cent.

From her mines, Japan procures sufficient coal to satisfy the domestic requirements of about 25,000,000 tons annually, and to export some 2,000,000 tons a year, but is dependent on the near-by continent for supplies of iron ore. Japan's copper mines are valuable sources of wealth; before the war Japan stood next to the United States as an exporter of copper, but a rapidly rising domestic consumption, coupled with an increasing tendency to export in the form of finished articles, has caused the figures of copper exports practically to disappear.

Japan possesses extremely valuable reserves of water power, recently shown by a government survey to total 13,643,000 horsepower, of which 1,694,092 horsepower had been developed as of December 31, 1921. Electrification of the railways has made progress and plans have been approved for large extensions of this work, to be spread over a period of several years.

INDUSTRIES

Cotton manufacturing occupies first place among Japan's industries. Japan is now the third or fourth largest producer of cotton yarns and textiles in the world, being surpassed only by the United States, the United Kingdom, and

possibly by India. Japanese mills consume over 1,200,000 bales of Indian cotton annually, and from 600,000 to 800,000 bales of American cotton. The production of cotton textiles is sufficient to supply the home demand and to provide a large surplus for export, chiefly in China. In fact, exports of cotton yarns and cloths are exceeded in value only by exports of silk.

It is well-known that the rapid industrial and commercial development of Japan during the past 30 years has been one of the outstanding features of this period. Cotton spinning, the chemical industry, and the electrical supply business were early developed. During the war conditions gave rise to a period of unprecedented activity in which expansion in shipbuilding and in the manufacture of iron and steel products and machinery were especially prominent.

A few figures illustrative of the extent of Japan's industrial and commercial expansion during the relatively short period of the past 15 years follow:

	1908	1923	Increase
			Per cent
Factory employees.....	924,696	1,898,004	105
Cotton spindles.....	1,785,879	4,067,416	161
Corporations: Paid-up capital.....yen..	1,037,456,000	10,053,250,000	869
Banks:			
Paid-up capital.....do.....	458,827,000	1,561,337,000	306
Deposits.....do.....	1,408,031,000	5,049,188,000	259
Shipping: Tonnage of steamers.....	1,152,575	3,321,071	138
Total foreign commerce.....yen..	846,208,000	3,435,000,000	306

¹ 1921.

SHIPPING

By reason of its geographic situation and the necessities of its foreign commerce, Japan has developed into one of the chief maritime nations of the world. Japanese ships carry a substantial share of the sea traffic of the Pacific, and the income derived by the Japanese from this business is of great benefit to their balance of trade. Having ranked sixth among the nations of the world in steam tonnage owned in 1914, Japan to-day stands third, being outranked only by the United Kingdom and the United States. The latest records show that Japan had a steam fleet of 3,321,071 gross tons at the end of 1923, and that this fleet is fully occupied is shown by the fact that less than 1 per cent of the tonnage was reported idle.

FOREIGN COMMERCE

One of the chief features in Japan's economic development during the past 30 years has been the rapid expansion in her trade with the rest of the world. From a total of less than 200,000,000 yen in 1893 Japan's foreign trade increased to 1,361,000,000 yen in 1913, and in 1923 amounted to approximately 3,435,000,000 yen. The excess of merchandise imports over exports during recent years is being covered to an increasing degree, according to Japanese economists, by the earnings of the Japanese merchant marine and other so-called invisible items in the balance of trade.

The largest items of exports are raw silk and cotton yarns and textiles, which in 1922 constituted about 62 per cent of Japan's total exports. The most important imports are raw cotton, iron and steel, machinery, fertilizers, wool and woolen textiles.

Japan's trade relations with the United States are particularly close and the importance of this trade to both countries can hardly be overemphasized. The United States has consistently been Japan's best customer and her chief source of supply, in 1923 taking 43 per cent in value of her exports, and providing 25 per cent of her imports. In the 12 months ended November 3, 1923, according to United States trade figures, the United States sold \$247,000,000 worth of goods to Japan, and bought \$347,000,000 worth from her. The United Kingdom, Canada, France, and Germany were the only countries to which the United States sold more, and the United Kingdom, Canada, and Cuba were the only countries from which the United States bought more. American exports to Japan in this period were over 90 per cent as great as American exports to all of South America.

RECOVERY FROM THE RECENT EARTHQUAKE

The earthquake and fire of September 1-3, 1923, in Tokyo, Yokohama, and neighboring districts were unprecedented in their extent and in the loss of life and damage to property which they occasioned. The last previous earthquake in any degree comparable with the recent one, took place in 1854, about 70 years ago, and was not nearly as serious as the recent one.

Although the seriousness of the recent earthquake and fire should not be minimized, yet it should be realized that the area affected was but a small part of the Japanese Empire and in the main a center of consumption rather than of production. Fatalities were less than one-eighth of 1 per cent of the population of the Japanese Empire and the estimated property loss less than 3 per cent of the total estimated wealth of the empire. Practically none of the silk filatures (where the silk is reeled from the cocoons) were in the damaged territory, and the effect on Japan's premier export industry has been only temporary. Only about 10 per cent of the country's cotton spindles were destroyed by the earthquake and fire.

The Japanese authorities and the people of the damaged areas have attacked the problems of restoration of living conditions with the vigor characteristic of their race. As an indication of the progress already made, in Tokyo, by the end of September, electric-light service had been entirely restored; by the end of October gas service had been restored in most parts of the city, and by the end of December the same could be said for the city's water supply. At the end of the year, four months after the earthquake, street-railway service was 70 per cent of normal, and practically all the railroad lines are now functioning. In a word, communications and public services are now in working order.

The formulation of general plans for the complete restoration of the damaged areas has been placed in the hands of a capital restoration board, composed of representative men and headed by the Prime Minister. Under the direction of the ministry of home affairs, which is now charged with responsibility for the execution of these plans, Tokyo and Yokohama will be rebuilt, with buildings of modern types of construction and far superior in every way to the old cities. In Tokyo a new capital, suitable to modern requirements, with well-planned highway and rapid-transit systems, waterways, parks, and civic improvements will be laid out. Yokohama, according to present plans, will be rebuilt as a modern seaport, completely equipped with all of the best features to be found in the various ports of the world. The capacity of the Japanese people for industry and trade has been only slightly and temporarily affected; the actual loss due to damage and destruction of property will be made good in a comparatively short period by the energy and thrift of the Japanese people.

FIFTY MILLION DOLLAR IMPERIAL JAPANESE GOVERNMENT EXTERNAL LOAN OF 1930
THIRTY-FIVE YEAR SINKING FUND 5½ PER CENT GOLD BONDS, DATED MAY 1,
1930; DUE MAY 1, 1965

(Total issue in the United States \$71,000,000)

Interest payable May 1 and November 1 in New York in dollars and in London in sterling as set forth below:

A cumulative semiannual sinking fund, with payments beginning May 1, 1935, and calculated to be sufficient to redeem the entire issue on or before maturity, is to be applied to the purchase of bonds if obtainable at or below 100 per cent and accrued interest, or, if not so obtainable, to the semiannual redemption, commencing November 1, 1935, at 100 per cent and accrued interest, of bonds called by lot.

Coupon bonds in denomination of \$1,000.

Not redeemable prior to May 1, 1940, except for the sinking fund. Redeemable, at the option of the Government, on May 1, 1940, or on any interest-payment date thereafter, upon three months' published notice, at 100 per cent and accrued interest, but, except for the sinking fund, only as to the entire issue.

Juichi Tsushima, Esq., financial commissioner of the Imperial Japanese Government in London, Paris, and New York, has written us a letter under date of May 9, 1930, with reference to this loan, the finances of the Imperial Japanese

Government and present economic conditions in Japan. A copy of this letter, from which the following paragraphs are quoted, is printed within.

"The Imperial Japanese Government is issuing in the United States of America \$71,000,000 of its external loan of 1930 35-year sinking fund 5½ per cent gold bonds, and contemporaneously is issuing in London £12,500,000 bonds of its 5½ per cent conversion loan of 1930. The bonds of these loans are to be direct external obligations of the Imperial Japanese Government. Of the \$71,000,000 bonds of the United States issue, \$50,000,000 bonds are to be offered for public subscription and \$21,000,000 bonds are to be exchanged for bonds of the Imperial Japanese Government 4 per cent sterling loan of 1905, due January 1, 1931, now under control of the Japanese Government. Of the £12,500,000 bonds of the sterling issue, £2,500,000 bonds are to be exchanged for bonds of the Imperial Japanese Government 4 per cent sterling loan of 1905, due January 1, 1931.

"Principal and interest of bonds of the United States issue will be payable in New York City at the office of the Yokohama Specie Bank (Ltd.), in United States of America gold coin of the standard of weight and fineness existing on May 1, 1930, or in London at the office of the Yokohama Specie Bank (Ltd.), in pounds sterling at the fixed rate of \$4.8665 to the pound sterling, in either case without deduction for any Japanese taxes, present or future. Principal and interest of bonds of the sterling issue will be payable in London in pounds sterling or in New York in dollars at the fixed rate of \$4.8665 to the pound sterling. Payment of the principal of the United States issue in sterling or of the sterling issue in dollars shall not be obligatory unless at least one month's written request shall have been made and the holder shall have complied with the reasonable regulations of the Government to assure presentation for such payment.

"The proceeds of such of the bonds of these loans as are not exchanged for bonds of the Imperial Japanese Government 4 per cent sterling loan of 1905, due January 1, 1931, will be applied to their payment at maturity. The 4 per cent sterling loan of 1905 was originally issued in the amount of £25,000,000, of which £1,553,680 bonds have been retired, and £23,446,320 bonds are now outstanding in the hands of the public or under control of the Japanese Government."

The above bonds are offered for subscription, subject to the conditions stated below, at 90 per cent and accrued interest, to yield 6.2 per cent to maturity.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m., Monday, May 12, 1930. The right is reserved to reject any and all applications, and also, in any case, to allot a smaller amount than applied for. All subscriptions will be received subject to the issue and delivery to us of the bonds as planned and to the approval by counsel of the form and validity of the bonds and of the relevant documents, proceedings, and authorizations.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or about May 27, 1930) will be stated in the notices of allotment. Temporary bonds or interim certificates, exchangeable for definitive bonds when received, are to be delivered.

Payment for bonds allotted may be made in the bonds of the Imperial Japanese Government 4 per cent sterling loan of 1905, due January 1, 1931, with unmatured coupons attached, which will be accepted, up to an aggregate principal amount not exceeding £8,500,000, at 100½ per cent and accrued interest (viz., \$99.47 per £20 of bonds of said 4 per cent sterling loan if payment is made on May 27, 1930) equivalent to approximately a 3.15 per cent interest yield basis computed from May 27, 1930, to January 1, 1931. If payment is to be made in this manner, J. P. Morgan & Co. must be so advised on or before May 20, 1930.

J. P. MORGAN & CO.
 KUHN, LOEB & CO.
 THE NATIONAL CITY CO.
 FIRST NATIONAL BANK.
 THE YOKOHAMA SPECIE BANK (LTD.).

NEW YORK, May 12, 1930.

COPY OF LETTER FROM THE FINANCIAL COMMISSIONER OF THE IMPERIAL JAPANESE GOVERNMENT IN LONDON, PARIS, AND NEW YORK

LONDON, May 9, 1930.

Messrs. J. P. MORGAN & Co.,
 Messrs. KUHN, LOEB & Co.,
 THE NATIONAL CITY Co.,
 THE FIRST NATIONAL BANK OF THE CITY OF NEW YORK,
 THE YOKOHAMA SPECIE BANK (LTD.),
New York, N. Y.

DEAR SIR: With reference to the Imperial Japanese Government external loan of 1930 35-year sinking fund 5½ per cent gold bonds, I have the honor to supply the following information:

THE LOAN AND ITS PURPOSE

The Imperial Japanese Government is issuing in the United States of America \$71,000,000 of its external loan of 1930 35-year sinking fund 5½ per cent gold bonds, and contemporaneously is issuing in London £12,500,000 bonds of its 5½ per cent conversion loan of 1930. The bonds of these loans are to be direct external obligations of the Imperial Japanese Government. Of the \$71,000,000 bonds of the United States issue \$50,000,000 bonds are to be offered for public subscription and \$21,000,000 bonds are to be exchanged for bonds of the Imperial Japanese Government 4 per cent sterling loan of 1905, due January 1, 1931, now under control of the Japanese Government. Of the £12,500,000 bonds of the sterling issue £2,500,000 bonds are to be exchanged for bonds of the Imperial Japanese Government 4 per cent sterling loan of 1905, due January 1, 1931.

Principal and interest of bonds of the United States issue will be payable in New York City at the office of the Yokohama Specie Bank (Ltd.) in United States of America gold coin of the standard of weight and fineness existing on May 1, 1930, or in London at the office of the Yokohama Specie Bank (Ltd.) in pounds sterling at the fixed rate of \$4.8665 to the pound sterling, in either case without deduction for any Japanese taxes, present or future. Principal and interest of bonds of the sterling issue will be payable in London in pounds sterling or in New York in dollars at the fixed rate of \$4.8665 to the pound sterling. Payment of the principal of the United States issue in sterling or of the sterling issue in dollars shall not be obligatory unless at least one month's written request shall have been made and the holder shall have complied with the reasonable regulations of the Government to assure presentation for such payment.

Application will be made in due course by the Imperial Japanese Government for the listing of the bonds of the United States issue on the New York Stock Exchange.

The proceeds of such of the bonds of these loans as are not exchanged for bonds of the Imperial Japanese Government 4 per cent sterling loan of 1905, due January 1, 1931, will be applied to their payment at maturity. The 4 per cent sterling loan of 1905 was originally issued in the amount of £25,000,000, of which £1,553,680 bonds have been retired and £23,446,320 bonds are now outstanding in the hands of the public or under control of the Japanese Government.

None of the Government's revenues or assets is subject to any specific lien, charge, or pledge of any nature.

DEBT OF THE IMPERIAL JAPANESE GOVERNMENT

After giving effect to the retirement of the above-mentioned 4 per cent sterling loan, due January 1, 1931, and to the issuance of the bonds of these loans, the gross direct debt of the Japanese Government as of March 31, 1930, amounted to \$3,009,869,061, of which \$738,901,804 was external debt. The Government's contingent debt, represented by its guaranty of loans of the South Manchurian Railway Co., the Oriental Development Co. (Ltd.), the Industrial Bank of Japan (Ltd.), the city of Tokyo, and the city of Yokohama, amounts to \$129,193,091.

Over one-quarter (about \$800,000,000) of the Government's total debt is self-supporting, as it has been incurred in connection with the construction, purchase, and improvement of the State Railway System. The State Railways, comprising, as of March 31, 1930, 9,793 miles of line (out of the total railway mileage in Japan of 12,819 miles), represent a total capital investment of over \$1,526,900,000. In each of the past 15 years the State Railways have earned substantial profits after the payment of all expenses and interest charges on the Government's debt contracted for railway purposes. The net profits after such charges for the fiscal year ended March 31, 1929, amounted to \$111,024,257.

By statutory provisions a sinking fund in an amount equivalent to 1.16 per cent of the debt outstanding at the commencement of the preceding financial year, plus a sum equivalent to at least 25 per cent of the Government's net budget surplus in the second preceding year, must be applied annually to the redemption of debt. The amount of debt redeemed by sinking funds in the fiscal year ended March 31, 1930, was \$49,980,430. Appropriations to the sinking fund for 1930-31, including the sums which Japan is to receive under the new plan for the final settlement of German reparation payments, and the balance which was on hand April 1, 1930, is estimated to furnish over \$69,000,000, which will be available for redemption of debt in the present fiscal year.

RESTORATION OF THE GOLD STANDARD.

Japan adopted a gold monetary standard in 1897 with a unit of currency, the gold yen, equivalent to 49.85 cents in United States currency. In September, 1917, an embargo was imposed upon the export of gold from Japan, following a similar measure taken by the United States. The severe earthquake in 1923 added to the economic disturbances of the post-war period and delayed the contemplated removal of the embargo. After a period of careful preparation, during which time the Government and the Bank of Japan accumulated funds abroad and forward contracts aggregating over \$150,000,000, and after the Yokohama Specie Bank (Ltd.), with the support of the Government and the Bank of Japan, had arranged for external stabilization credits in New York and London amounting to approximately \$50,000,000, the Government in November, 1929, announced that the embargo on the exportation of gold would be removed on January 11, 1930. On the latter date Japan returned to the gold standard, thereby following the policy adopted in recent years by the other leading countries of the world, including the United States of America and Great Britain, and reestablished the external value of her currency at its pre-war level.

The attainment of this objective was effected contemporaneously with the present world-wide recession in commerce and trade, and has been attended by deflation and accompanying depression in general business. It is believed that the present policy of strict economy and retrenchment in public finance adopted by the Government should in due course lead to improvement in the economic condition of the Nation.

The Bank of Japan has the sole power of note issue in Japan proper, and on April 30, 1930, held gold reserves in Japan totaling \$443,339,000 against its outstanding note circulation of \$629,683,000 and demand deposits of \$70,648,000, resulting in a reserve ratio of 63.3 per cent.

Very truly yours,

JUICHI TSUSHIMA.

NOTE.—All figures in the above letter, originally stated in Japanese currency, have been converted into United States gold dollars at par of exchange (i. e., 1 yen equals \$0.4985 U. S.).

\$20,640,000 CITY OF TOKIO EXTERNAL LOAN OF 1927 SINKING-FUND 5½ PER CENT GOLD BONDS

Unconditionally guaranteed by the Imperial Japanese Government as to principal, interest, and sinking fund by indorsement on each bond.

Dated April 1, 1927, due October 1, 1961. Interest payable April 1 and October 1.

A cumulative sinking fund of 1 per cent per annum, payable semiannually, calculated to be sufficient to redeem the entire issue on or before maturity, is to be applied to the purchase of bonds if obtainable at or below 100 per cent.

and accrued interest, or, if not so obtainable, to the semiannual redemption, commencing October 1, 1927, at 100 per cent and accrued interest, of bonds called by lot.

Redeemable also in whole or in part, at the option of the city, on April 1, 1942, or on any interest date thereafter prior to maturity, at 100 per cent and accrued interest.

Coupon bonds in denominations of \$1,000.

Principal and interest payable in New York City at the office of The Yokohama Specie Bank (Ltd.), in United States of America gold coin of the present standard of weight and fineness, without deduction for any Japanese taxes present or future.

Kengo, Mori, Esq., financial commissioner of the Imperial Japanese Government in London, Paris, and New York, has written us a letter under date of March 19, 1927, with reference to the City's finances and the purposes of the Loan. A copy of this letter is printed within.

The above bonds are offered for subscription, subject to the conditions stated below, at 89½ per cent and accrued interest, to yield about 6.25 per cent to maturity.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m., Monday, March 21, 1927. The right is reserved to reject any or all applications, and also in any case to allot a smaller amount than applied for. All subscriptions will be received subject to the due delivery to us of the bonds bearing the Imperial Japanese Government guaranty, and to approval by counsel of the sufficiency of relevant documents and authorizations.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or about April 5, 1927) will be stated in the notices of allotment. Temporary bonds or interim certificates, exchangeable for definitive bonds when received, are to be delivered.

J. P. MORGAN & CO.
THE NATIONAL CITY CO.
KUHNS, LOEB & CO.
FIRST NATIONAL BANK.
THE YOKOHAMA SPECIE BANK (LTD.).

NEW YORK, March 21, 1927.

[COPY OF LETTER FROM THE FINANCIAL COMMISSIONER OF THE IMPERIAL JAPANESE GOVERNMENT IN LONDON, PARIS, AND NEW YORK]

MARCH 19, 1927.

MESSES. J. P. MORGAN & CO.,
New York, N. Y.

DEAR SIR: With reference to the \$20,040,000 city of Tokio external loan of 1927 sinking fund 5½ per cent gold bonds, which are to be guaranteed by indorsement as to principal, interest, and sinking-fund payments by the Imperial Japanese Government, I have the honor to supply the following information concerning the city and its finances, and the guaranty of the Imperial Japanese Government:

GENERAL

The city of Tokio is the capital of Japan and one of the chief financial and commercial centers of the Japanese Empire. It is one of the world's largest cities, having a present estimated population of over 2,000,000 people. Including the suburbs, the greater city of Tokio has a population of over 4,000,000 people and is surpassed in this respect only by the metropolitan districts of London, New York, and Berlin.

PURPOSE OF LOAN

The proceeds of the present issue are to be used in completing the city's general reconstruction work, as laid out after the earthquake of 1923, including the reconstruction of its self-supporting undertakings referred to below, and in refunding short-term loans raised for similar purposes. The general program of reconstruction of municipal property involved a total expenditure of \$312,414,735, of which only \$69,622,114 was to be raised directly by the city of Tokio.

the Imperial Japanese Government undertaking to bear over one-half of the expense of the reconstruction, and, in addition, to advance \$85,721,054 to the city to be repaid (free of interest as to an amount of \$64,912,168) within 30 years after the completion of reconstruction. The reconstruction of municipal property is to be completed by March 31, 1929, and the city's share of the cost thereof has been met in part by the issuance in London, in October, 1926, of the £6,000,000 city of Tokio 5½ per cent loan of 1926, guaranteed by the Imperial Japanese Government, and the balance will be provided by this issue and by utilizing the city's domestic resources.

The reconstruction of Tokio has been designed to improve the plan and equipment of the city, and to provide for its future development. In all important localities, fire-prevention zones have been planned, in which the construction of fireproof buildings only will be permitted.

CITY PROPERTIES

The city owns and operates the street-railway system and the waterworks, which are free from competition by private companies. The city also owns and operates an electric light and power system, which does approximately one-quarter of the electric light and power business of Tokio, the balance being done by private companies. All of these municipal undertakings are normally self-supporting, their net revenues being sufficient to cover interest and sinking-fund charges on the municipal debt contracted for their purchase, construction, and improvement.

The total value of the assets of the city, consisting of the above-mentioned undertakings, and of land, buildings, securities and cash, was estimated at \$233,745,529 as of November 30, 1926.

DEBT OF THE CITY

The city's debt as of January 31, 1927, giving effect to the issuance of the present loan, and to the retirement of certain short-term loans from the proceeds thereof, may be stated as follows:

Internal.....	\$93, 012, 741
External.....	70, 087, 192
Total.....	163, 099, 933

The external debt of the city is comprised of this issue, the £6,000,000 5½ per cent loan of 1926, a 5 per cent sterling loan of 1906, a 5 per cent sterling loan of 1912, and 5 per cent franc loan of 1912. The three latter loans are secured by general charge on all the revenues of the city and by special charges on certain specific revenues, but are not guaranteed by the Imperial Japanese Government.

CITY FINANCES

The Imperial Japanese Government exercises supervision over municipal finances; the borrowing powers of the municipalities are limited and subject to the approval of the Government.

The city of Tokio obtains its revenues from taxes and from the operation of the municipal utilities. Tax revenues are derived both from taxes levied directly by the city and from the city's share in certain taxes levied by the central and the prefectural governments. As the capital of Japan, and as a city, with increasing population, Tokio is favorably situated with respect to taxable resources.

Before the earthquake of 1923 the ordinary revenues of the city normally exceeded its ordinary expenditures. Following the earthquake, there was necessarily a temporary decrease in tax receipts and in the revenues of the municipal utilities. Tax receipts have since recovered substantially, however, and the earning power of the municipal undertakings has been virtually restored by the reconstruction already effected. It is expected that with the completion of reconstruction in 1929, the city will again be in a position to cover its ordinary expenditures entirely from its normal sources of revenue.

GUARANTY OF IMPERIAL JAPANESE GOVERNMENT

All the bonds of this loan will be unconditionally guaranteed by the Imperial Japanese Government as to the payment of principal, interest, and sinking fund, by indorsement on each bond.

The gross direct debt of the Japanese Government, outstanding on December 31, 1926 amounted to \$2,573,385,321, of which \$736,717,654 was external debt. The Government's contingent debt, represented by its guaranty of loans of the South Manchurian Railway Co., the Oriental Development Co. (Ltd.), the Industrial Bank of Japan (Ltd.), the city of Tokio, and the city of Yokohama amounts to approximately \$108,300,000. The population of Japan proper is over 60,000,000 people.

Over one-quarter (about \$660,000,000) of the Government's total debt is self-supporting, as it has been incurred in connection with the construction, purchase, and improvement of the State railway system. The State railways, comprising, as of March 31, 1926, 7,837 miles of line (out of the total railway mileage in Japan of 10,884 miles), represent a total capital investment of over \$1,246,000,000. In each of the past 15 years the State railways have earned substantial profits after the payment of all expenses and interest charges on the Government's debt contracted for railway purposes. The net profits for the fiscal year ended March 31, 1926, amounted to \$71,629,000.

In every year since 1881-82 the ordinary revenues of the Japanese Government have exceeded its ordinary expenditures. By statutory sinking fund provisions, at least 1.16 per cent of the Government's funded debt must be retired each year. By recent amendment the fixed amortization payment must be increased in each year by an amount equal to one-quarter of the Government's net budget surplus in the second preceding year. Under these provisions, the total amount to be provided for the amortization of Government debt in the fiscal year ending March 31, 1928, will be not less than \$49,000,000.

All figures in this letter, originally stated in Japanese currency, have been converted into United States gold dollars at par of exchange (i. e., 1 yen equals \$0.4985 United States).

Application will be made by the city of Tokio, in due course, for the listing of these bonds on the New York Stock Exchange.

Very truly yours,

KENGO MORI.

\$19,740,000 CITY OF YOKOHAMA EXTERNAL LOAN OF 1926 SINKING FUND 6 PER CENT GOLD BONDS

Unconditionally guaranteed by the Imperial Japanese Government as to principal, interest, and sinking fund by indorsement on each bond. Dated December 1, 1926. Due December 1, 1961.

Interest payable June 1 and December 1.

A cumulative sinking fund of 1 per cent per annum, calculated to be sufficient to redeem the entire issue on or before maturity, is to be applied to the purchase of bonds if obtainable at or before 100 per cent and accrued interest, or, if not so obtainable, to the redemption on June 1 of each year commencing June 1, 1928, at 100 per cent and accrued interest, of bonds called by lot.

Redeemable in whole or in part, at the option of the city, on December 1, 1941, or on any interest date thereafter prior to maturity, at 100 per cent and accrued interest.

Coupon bonds in denomination of \$1,000.

Principal and interest payable in New York City at the office of Yokohama Specie Bank, Ltd., in United States of America gold coin of the present standard of weight and fineness, without deduction for any Japanese taxes present or future.

Kengo Mori, Esq., Financial Commissioner of the Imperial Japanese Government in London, Paris, and New York, has written us a letter under date of November 22, 1926, with reference to the city's finances and the purposes of the loan. A copy of this letter is printed within.

The above bonds are offered for subscription, subject to the conditions stated below, at 103 per cent and accrued interest, to yield over 6.50 per cent to maturity.

Subscription books will be opened at the office of J. P. Morgan & Co. at 10 o'clock a. m., Tuesday, November 23, 1926. The right is reserved to reject any or all applications, and also in any case to allot a smaller amount than applied for. All subscriptions will be received subject to the due delivery to us of the bonds bearing the Imperial Japanese Government guaranty, and to approval by counsel of the sufficiency of relevant documents and authorizations.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or about December 13, 1926) will be stated in the notices of allotment. Temporary bonds or interim certificates, exchangeable for definitive bonds when received, are to be delivered.

KUHN, LOEB & Co.
FIRST NATIONAL BANK.
J. P. MORGAN & Co.
THE NATIONAL CITY Co.
YOKOHAMA SPECIE BANK (LTD.).

NEW YORK, *November 23, 1926.*

COPY OF LETTER FROM THE FINANCIAL COMMISSIONER OF THE IMPERIAL JAPANESE GOVERNMENT IN LONDON, PARIS, AND NEW YORK

NEW YORK, *November 22, 1926.*

MESSRS. J. P. MORGAN & Co.,
New York, N. Y.

DEAR SIR: With reference to the \$19,740,000 city of Yokohama external loan of 1926 sinking fund 6 per cent gold bonds, which are to be guaranteed by indorsement as to principal, interest, and sinking fund payments by the Imperial Japanese Government, I have the honor to supply the following information concerning the city and its finances, and the guaranty of the Imperial Japanese Government:

GENERAL

Yokohama is the leading seaport of Japan. Situated about 20 miles south of Tokyo, it is the gateway for that metropolis and the most suitable port for foreign trade on the eastern seaboard of Japan. About 40 per cent of the total exports and imports of Japan and over 60 per cent of the Japanese trade with the United States normally pass through Yokohama. Following the earthquake and fire of September, 1923, the tonnage of foreign trade handled through Yokohama declined sharply, but has since recovered to normal proportions. The central government undertook the reconstruction, at its own expense, of the State-owned port facilities; upon the completion of the reconstruction of these facilities, the capacity and efficiency of the port will be considerably greater than before the earthquake.

The population of the city, which fell from 441,048 to 309,550 immediately after the earthquake, has since increased to an estimated number of 406,000 at the end of 1925.

PURPOSE OF LOAN

The proceeds of the present issue are to be used in completing the reconstruction of the city's self-supporting undertakings, viz, the street railway system, the water works and the gas supply works, in completing its general reconstruction work, and in refunding short-term loans raised for similar purposes. The general program of reconstruction of municipal property, which involved a total expenditure of \$46,051,700, is to be completed by March 31, 1929. The Imperial Japanese Government undertook to bear approximately 41 per cent, and the city 59 per cent, of the total cost. Of the amount of \$27,082,059 to be borne by the city, the government has advanced \$9,257,725, to be repaid by the city within 30 years, and the balance of \$17,824,334 is to be provided from the proceeds of the present issue.

The reconstruction of Yokohama was planned not only with the purpose of restoring the damaged area, but also with the purpose of improving the plan and equipment of the city and of providing for its future development. In all important localities, the buildings erected are to be fireproof.

CITY PROPERTIES

The city owns and operates the street railway system, the water works, and the gas-supply works, none of which have any competition from private companies. All of these are normally self-supporting, their net revenues being sufficient to cover interest and sinking-fund charges on the municipal debt contracted for their purchase and improvement. The total value of the assets owned by the city of Yokohama, consisting of its self-supporting undertakings and of land, buildings, securities, and cash was estimated at \$38,671,209 as of December 31, 1925.

DEBT OF THE CITY

The city's debt as of June 30, 1926, giving effect to the issuance of the present loan and to the retirement of certain short-term loans from the proceeds thereof, was as follows:

Internal.....	\$25,205,343
External.....	24,426,418
Total.....	49,631,761

The external debt of the city in the amount stated above consists of this issue and of three loans issued in London in the years 1907 to 1912 in sterling form. These sterling loans bear 5 per cent coupons and are secured by general charge on all the taxes and other revenues of the city, but are not guaranteed by the Imperial Japanese Government. Two of the sterling loans are secured by special charge on certain specific revenues.

CITY FINANCES

The Imperial Japanese Government exercises a considerable measure of supervision over municipal finances, the borrowing powers of the municipalities being limited and subject to the approval of the central government. The city of Yokohama obtains its revenues from taxes and from the operation of the self-supporting municipal utilities. Tax revenues are derived both from taxes levied directly by the city and from the city's share in certain taxes levied by the central and prefectural governments. Before the earthquake and fire of September, 1923, the ordinary revenues of the city normally exceeded its ordinary expenditures, exclusive of capital expenditures for the extension or improvement of the city's properties. Following the earthquake, there was necessarily a considerable decrease in tax receipts and in the net revenues of the municipal utilities. Tax receipts are now increasing however, and the earning power of the municipal undertakings has been virtually restored by the reconstruction already effected.

GUARANTY OF IMPERIAL JAPANESE GOVERNMENT

All the bonds of this loan will be unconditionally guaranteed by the Imperial Japanese Government as to the payment of principal, interest, and sinking fund, by indorsement on each bond.

The gross direct debt of the Japanese Government outstanding on September 30, 1926, amounted to \$2,577,251,000, of which \$739,131,000 was external debt. The Government's contingent debt, represented by its guaranty of loans of the South Manchurian Railway Co., the Oriental Development Co. (Ltd.), the Industrial Bank of Japan (Ltd.), the city of Tokyo, and the city of Yokohama (this issue), amounts to approximately \$108,300,000. The population of Japan proper is over 60,000,000.

Over one-quarter (about \$600,000,000) of the government's total debt is self-supporting, as it has been incurred in connection with the construction, purchase, and improvement of the state railway system. The state railways, comprising, as of March 31, 1925, 7,837 miles of line (out of the total railway mileage in Japan of 10,884 miles), represent a total capital investment of over \$1,161,905,000. In each of the past 15 years the state railways have earned substantial profits after the payment of all expenses and interest charges on the government's debt contracted for railway purposes. The net profits for the fiscal year ended March 31, 1926, amounted to \$71,629,000.

In contrast with its general debt (exclusive of the railway debt) of about \$1,917,251,000 on September 30, 1926, the government owns state forests, harbor

works, telephone and telegraph systems, public buildings special funds, and other investments, having an estimated value in excess of \$6,000,000,000.

In every year since 1881-82 the ordinary revenues of the Japanese Government have exceeded its ordinary expenditures. Although extraordinary revenues (exclusive of proceeds of loan issues) have not always fully covered extraordinary expenditures, the government's indebtedness has arisen not from recurrent budget deficits but (apart from war and reconstruction expenses) principally from the purchase and improvement of economic undertakings, such as the railway, telegraph and telephone systems, and from the development of new territory.

All figures originally stated in Japanese currency have been converted in this letter at the rate of 2 yen to the United States dollar.

Application will be made by the city of Yokohama, in due course, for the listing of these bonds on the New York Stock Exchange.

Very truly yours,

KENGO MORI.

\$22,800,000 TAIWAN ELECTRIC POWER CO. (LTD.) 40-YEAR SINKING FUND 5½ PER CENT GOLD BONDS

Unconditionally guaranteed by the Imperial Japanese Government as to principal, interest, and sinking fund by indorsement on each bond. Dated July 1, 1931. Due July 1, 1971.

Interest payable January 1 and July 1.

A cumulative semiannual sinking fund, with payments beginning July 1, 1934, and calculated to be sufficient to redeem the entire issue on or before maturity, is to be applied to the purchase of bonds if obtainable at or below 100 per cent and accrued interest, or, if not so obtainable, to the semiannual redemption, commencing January 1, 1935, at 100 per cent and accrued interest, of bonds called by lot.

Redeemable also in whole or in part, at the option of the company, on 60 days' notice, on July 1, 1946, or any interest payment date thereafter prior to maturity, at 100 per cent and accrued interest.

Coupon bonds in denomination of \$1,000.

Principal and interest payable in New York City at the office of The Yokohama Specie Bank (Ltd.) in United States of America gold coin of the present standard of weight and fineness, without deduction for any Japanese taxes present or future.

His excellency Junnosuke Inouye, Minister of Finance of the Imperial Japanese Government, has addressed to us the following letter in connection with this issue of bonds:

"The proceeds of the \$22,800,000 Taiwan Electric Power Co. (Ltd.) 40-year sinking fund 5½ per cent gold bonds are to be used to provide funds for the expansion of the company's facilities by the completion of the 100,000 kilowatt hydroelectric development at Lake Jitsu-Getso-Tan. This expansion is to be carried out in accordance with a plan adopted as a result of studies and investigations conducted under Government supervision.

"The Imperial Japanese Government, under act of Parliament sanctioned and promulgated on March 27, 1929, has granted its guaranty as to the payment of principal, interest, and sinking fund by indorsement on each of these bonds. In taking such action the Government has been actuated by its interest in furthering industrial development in the island of Taiwan (Formosa). The Government was instrumental in the formation of the company and now owns slightly over 36 per cent of the paid-in capital stock."

A copy of a letter descriptive of Taiwan Electric Power Co. (Ltd.) from Mr. Kanichiro Matsuki, president of the company, is printed within.

The above bonds are offered for subscription, subject to the conditions stated below, at 93½ per cent and accrued interest, to yield over 5.90 per cent to maturity.

Subscription books will be opened at the office of J. P. Morgan & Co. at 10 o'clock a. m. Friday, June 26, 1931. The right is reserved to reject any and all applications, and also, in any case, to allot a smaller amount than applied for. All subscriptions will be received subject to the issue and delivery to us of the bonds as planned and to the approval by counsel of the form and validity of the bonds and of the relevant documents, proceedings, and authorizations.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co. in New York funds to their order, and the date of payment (on or about July 7, 1931) will be stated in the notices of allotment. Temporary bonds, exchangeable for definitive bonds when received, are to be delivered.

KUHN, LOEB & Co.
 FIRST NATIONAL BANK.
 J. P. MORGAN & Co.
 THE NATIONAL CITY Co.
 THE YOKOHAMA SPECIE BANK (LTD.).

New York, June 26, 1931.

TAIWAN ELECTRIC POWER Co. (LTD.),
 June 25, 1931.

MESSRS J. P. MORGAN & Co.,
 MESSRS. KUHN, LOEB & Co.,
 THE NATIONAL CITY Co.,
 THE FIRST NATIONAL BANK OF THE CITY OF NEW YORK,
 THE YOKOHAMA SPECIE BANK (LTD.),
 New York, N. Y.

DEAR SIR: With reference to the \$22,800,000 Taiwan Electric Power Co. (Ltd.) 40-year sinking fund 5½ per cent gold bonds due July 1, 1971, I have the honor to supply the following information concerning the company and this issue of bonds:

BUSINESS AND PARTICIPATION BY THE JAPANESE GOVERNMENT

Taiwan Electric Power Co. (Ltd.) (Taiwan Denryoku Kabushiki Kaisha) does approximately 95 per cent of the electric power and light business on the island of Taiwan (Formosa), which is an integral part of the Japanese Empire. Taiwan comprises approximately 13,000 square miles and has a population of approximately 4,000,000 persons. It is predominantly an agricultural country, the most important products being sugar, rice, and tea. Through its participation in Taiwan Electric Power Co. (Ltd.), and especially by means of the hydroelectric work now being carried out the Government expects to further the development of the island both industrially and agriculturally.

Taiwan Electric Power Co. (Ltd.) was organized in 1919 as a consolidation of electric plants previously developed and operated by the Government on the one hand and by private capital on the other. The paid-in capital then amounted to the equivalent of \$8,225,250, of which \$2,243,250 was supplied by private interests and \$5,982,000 by the Government. The capital stock has since been increased to \$16,298,457, consisting of 680,900 shares of a par value of 50 yen per share, as follows:

Stock fully paid, 320,000 shares.....	\$8, 222, 757
Stock 90 per cent paid, 360,000 shares.....	8, 075, 700
Total paid-in capital stock.....	16, 298, 457

The Government still holds its original investment of 240,000 fully-paid shares, which now represents a 36.7 per cent interest in the company's paid-in capital stock, the remaining 63.3 per cent being owned by the public.

As of December 31, 1930, the company operated 8 hydroelectric plants and 6 steam plants having a total installed capacity of approximately 31,700 kilowatts, with 2 additional steam plants, each having a capacity of 10,000 kilowatts, under construction. In the year ended December 31, 1930, the company sold 155,037,276 kilowatt-hours of electricity to about 160,000 customers. The company derives over 96 per cent of its gross operating revenues from the electric light and power business, and in addition furnishes gas and certain miscellaneous services.

PURPOSE OF ISSUE

At the time of the organization of Taiwan Electric Power Co. (Ltd.) plans were made for the construction of a large hydroelectric development at Jitsu-Getzu-Tan, a lake located among the mountains in the central part of the island, and an investment of approximately \$14,000,000 has already been made thereon, to be supplemented by the proceeds of this issue, which will

permit the completion of the work. It is planned to utilize the waters of the Dakusukei River, which will flow through canals to storage in Lake Jitsu-Getsu-Tan. The lake has an elevation of 1,058 feet above the site of the power house. The estimated maximum capacity of the plant to be constructed is 100,000 kilowatts.

Because of the importance of this project to the further development of the island, the imperial Japanese Government has granted its guaranty as to the payment of principal, interest, and sinking fund by indorsement on each of these bonds.

EARNINGS

While no revenue has yet been received from the development of the Jitsu-Getsu-Tan water power, the gross operating revenues, net operating revenues after taxes and depreciation, gross income of the company from its other plants, and interest charges for the past five years have been as follows:

Year	Gross operating revenues	Net operating revenues after depreciation	Gross income	Interest charges
1926.....	\$3,142,740	\$1,553,446	\$1,646,630	\$431,020
1927.....	3,329,969	1,087,550	1,255,873	716,326
1928.....	3,600,618	1,343,290	1,502,464	708,991
1929.....	4,005,997	1,576,602	1,719,564	668,489
1930.....	4,242,393	1,569,797	1,648,898	655,859

Annual interest charges on these \$22,800,000 guaranteed bonds due 1971, and on the 19,500,000 yen (\$9,720,750) unguaranteed debentures sold in Japan and due in 1933 and 1935, amount to \$1,887,095. While the issuance of these bonds will thus materially increase the company's interest charges, the company's operations will have the benefit of the greatly enlarged supply of power obtained from this development, for which power the company expects gradually to secure outlets throughout the island.

PROPERTY

The company's fixed properties, including its real estate, plants, and equipment, carried at cost, had a net value of \$20,376,095, according to the December 31, 1930, balance sheet, after deducting \$2,267,705 depreciation provided since the organization of the company. The outstanding funded debt on December 31, 1930, consisted of 19,500,000 yen (\$9,720,750) debentures due in 1933 and 1935 which do not bear the guaranty of the Japanese Government.

TERMS OF BONDS

These \$22,800,000 Taiwan Electric Power Co. (Ltd.) 40-year sinking fund 5½ per cent gold bonds are to be dated July 1, 1931, are to mature July 1, 1971, and are to bear interest at the rate of 5½ per cent per annum, payable semi-annually on January 1 and July 1 in New York City at the office of the Yokohama Specie Bank (Ltd.) in United States of America gold coin of the present standard of weight and fineness, without deduction for any Japanese taxes present or future. The bonds are to be redeemable by means of a cumulative semiannual sinking fund, with payments beginning July 1, 1934, calculated to be sufficient to redeem the entire issue on or before maturity. The sinking fund payments are to be applied to the purchase of bonds if obtainable at or below 100 per cent and accrued interest, or, if not so obtainable, to the semiannual redemption, commencing January 1, 1935, at 100 per cent and accrued interest, of bonds called by lot. The bonds are also to be redeemable in whole or in part, at the option of the company, on 60 days' notice, on July 1, 1946, or any interest payment date thereafter prior to maturity at 100 per cent and accrued interest. They are to be issued in coupon form in denomination of \$1,000.

The unconditional guaranty of the imperial Japanese Government as to principal, interest, and sinking fund will be indorsed on each bond.

All figures in this letter, originally stated in Japanese currency, have been converted into United States gold dollars at par of exchange (i. e., 1 yen equals \$0.4985 United States).

Application will be made by the Taiwan Electric Power Co. (Ltd.), in due course, for the listing of these bonds on the New York Stock Exchange.

Very truly yours,

KANICHIRO MATSUKI, *President.*

\$9,000,000 REPUBLIC OF CUBA SERIAL 5½ PER CENT GOLD BONDS, DATED JULY 1, 1927—DUE \$900,000 ANNUALLY JULY 1, 1928, TO JULY 1, 1937, INCLUSIVE—INTEREST PAYABLE JANUARY 1 AND JULY 1—NOT REDEEMABLE BEFORE THE RESPECTIVE MATURITIES

Coupon bonds in denomination of \$1,000. Principal and interest payable in gold coin of the United States of America of the present standard of weight and fineness, free from any Cuban taxes, present or future, at the office of J. P. Morgan & Co., in the city of New York, or, at the option of the holder, at the office of the National City Bank of New York in the city of Habana.

His Excellency, Santiago Gutierrez de Celis, Secretary of the Treasury of the Republic of Cuba, makes the following statement in connection with this issue:

Purpose of issue.—These serial bonds are being issued to fund internal floating debt now outstanding in the form of certificates of indebtedness.

Public debt.—The funded debt of the Republic of Cuba was reduced by approximately \$40,000,000 during the four years ended February 28, 1927, to an outstanding amount of \$90,130,100, of which \$70,464,900 was external debt. Upon the completion of this financing, the floating debt will amount to less than \$8,000,000.

Revenues and expenditures.—During the four fiscal years ended June 30, 1926, the ordinary revenues of the Government exceeded its ordinary expenditures by over \$24,000,000. This surplus of revenues was applied chiefly to the amortization of Government debt, in addition to the ordinary sinking-fund payments on Government loans included in the budget of ordinary expenditures. Preliminary figures indicate that the Government's budget for the year ending June 30, 1927, may be closed with a small deficit.

Monetary system.—Apart from a comparatively small amount of gold coin and subsidiary coins minted by the Government, the money in circulation in Cuba consists entirely of United States currency. The United States currency held in the treasury, in the banks, and in general circulation in Cuba was estimated, as of June 30, 1926, to amount to more than \$200,000,000.

The above serial bonds are offered for subscription, subject to the conditions stated below, at prices to yield 5.25 per cent for all maturities, plus accrued interest.

Subscription books will be opened at the office of J. P. Morgan & Co. at 10 o'clock a. m. Friday, July 1, 1927. The right is reserved to close the subscription books at any time, to reject any and all applications, and also in any case to allot smaller amounts than applied for. Orders for an equal amount of each maturity will receive prior consideration. All subscriptions will be received subject to due delivery to us of the bonds and to approval by counsel of the relevant documents and authorizations.

The amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds to their order, and the date of payment (on or before July 25, 1927) will be stated in the notices of allotment. Temporary bonds, exchangeable for definitive bonds when received, are to be delivered.

J. P. MORGAN & Co.
KUHNS, LOEB & Co.
THE NATIONAL CITY CO.
GUARANTY CO. OF NEW YORK.
BANKERS TRUST CO. OF NEW YORK.
HARRIS, FORTHE & Co.
J. & W. SELIGMAN & Co.
DILLON, READ & Co.

NEW YORK, July 1, 1927.

[Issued with the acquiescence of the United States Government under the provisions of the treaty dated May 22, 1903]

\$50,000,000 REPUBLIC OF CUBA EXTERNAL LOAN 30-YEAR SINKING FUND 5½ PER CENT GOLD BONDS

Bonds to be dated January 15, 1923, and to mature January 15, 1953. Interest to be payable January 15 and July 15. Not redeemable for 20 years except for sinking fund. Coupon bonds in denominations of \$1,000, \$500, and \$100, registerable as to principal only. Principal and interest payable in United States gold coin of the present standard of weight and fineness in New York City at the office of J. P. Morgan & Co. The principal and interest of these bonds are to be forever exempt from any Cuban taxes now existing or which may hereafter exist.

Agreement with the United States.—By an act of the United States Congress dated March 2, 1901, certain provisions were formulated which have been incorporated by amendment in the Cuban Constitution and have also been embodied in a treaty dated May 22, 1903, between the United States and Cuba. Under these provisions, commonly referred to as the Platt amendment, the Republic of Cuba agrees not to contract any public debt the service of which, including reasonable sinking fund provision, can not be provided for by the ordinary revenues. In addition to this financial safeguard, the Republic also agrees not to enter into any foreign treaty or compact which may impair its independence, and furthermore grants to the United States the right to intervene for the purpose of preserving Cuban independence and maintaining a government adequate for the protection of life and property.

Sinking fund sufficient to retire entire issue at or before maturity.—Provision is made for a minimum sinking fund as set forth below, payable in monthly installments, to be used in purchasing bonds of this loan at the current market price not exceeding par. If unobtainable at that price, bonds are to be redeemed by semiannual drawings at par. Accrued interest on any such redemption is also payable.

First year.....	\$500,000	Sixteenth year.....	\$1,500,000
Second year.....	550,000	Seventeenth year.....	1,600,000
Third year.....	600,000	Eighteenth year.....	1,700,000
Fourth year.....	650,000	Nineteenth year.....	1,800,000
Fifth year.....	700,000	Twentieth year.....	1,900,000
Sixth year.....	750,000	Twenty-first year.....	2,000,000
Seventh year.....	800,000	Twenty-second year.....	2,200,000
Eighth year.....	850,000	Twenty-third year.....	2,400,000
Ninth year.....	900,000	Twenty-fourth year.....	2,600,000
Tenth year.....	950,000	Twenty-fifth year.....	2,800,000
Eleventh year.....	1,000,000	Twenty-sixth year.....	3,000,000
Twelfth year.....	1,100,000	Twenty-seventh year.....	3,200,000
Thirteenth year.....	1,200,000	Twenty-eighth year.....	3,400,000
Fourteenth year.....	1,300,000	Twenty-ninth year.....	3,600,000
Fifteenth year.....	1,400,000	Thirtieth year.....	3,050,000

To the foregoing minimum sinking fund payments there is to be added 10 per cent of the gross revenues of the Cuban Government in excess of \$60,000,000 in any fiscal year. The bonds are not to be callable, except under the provisions of the sinking fund, for the first 20 years, but thereafter may be called for payment, as an entirety, at par, accrued interest being also payable.

Security.—These bonds are to be the direct obligations of the Republic of Cuba, which pledges its good faith and credit for the prompt payment of principal and interest. In addition they are to be secured:

(a) By a charge on certain revenues of the republic, including the customs revenues, subject to existing charges, but prior to any future charges. The customs revenues have alone averaged \$46,292,000 annually during the last five years, the lowest receipts in any one of such five years having been over \$30,000,000 in the critical year of 1921-1922. The existing charges upon the customs prior to these bonds for the current fiscal year amount to \$3,985,750, of which amount \$2,145,000 is payable in the first instance out of other revenues, which, during the last five years, have averaged \$4,430,000 annually.

(b) By a first charge on 10 per cent of the amount by which the revenues of the Government in each fiscal year exceed \$60,000,000.

Debt, revenues, and trade.—The funded debt of Cuba on July 31, 1922, amounted to \$91,542,400, of which \$51,703,900 was external. Revenues during the 10 years ended June 30, 1922, averaged \$60,329,000 annually. The budget estimate for the current fiscal year is \$55,638,800 and estimated expenditures amount to \$54,852,102. During the first six months of the current fiscal year revenues have totaled \$29,218,000, as against expenditures for the same period estimated in the budget at \$28,253,000.

The exports during the 10 years ended December 31, 1921, have averaged \$347,852,000 annually, of which \$274,800,000, or 79 per cent, were sent to the United States. Imports during the same period averaged \$255,918,000 annually, of which \$181,655,000, or about 71 per cent, came from the United States. These figures indicate a surplus of exports over imports averaging \$91,934,000 annually.

Population and resources.—The population of Cuba is estimated at over 3,000,000. Raw sugar is the chief agricultural product of the island, and, during the seven years ended June 30, 1921, exports of sugar and its products from Cuba averaged \$366,758,000 annually. In the season just closed Cuba produced approximately 23 per cent of the estimated world production. Practically all of the old crop sugar has been sold, and the Cuban sugar industry enters the new grinding season with sugar in active demand at satisfactory prices.

The above bonds are offered for subscription (subject to receipt and acceptance by us of the bonds) at 107½ per cent and accrued interest, to yield over 5.55 per cent.

Subscriptions will be received by the undersigned beginning at 10 o'clock a. m. Monday, January 15, 1923. The right is reserved to reject any and all applications, and also, in any case, to award a smaller amount than applied for. The amount due on allotments will be payable on or about February 1, 1923, at the office of J. P. Morgan & Co., in New York funds, against delivery of trust receipts, exchangeable for definitive bonds when prepared and received.

J. P. MORGAN & Co.
 GUARANTY CO. OF NEW YORK.
 HARRIS, FORBES & Co.
 KUHN, LOEB & Co.
 J. & W. SELIGMAN & Co.
 THE NATIONAL CITY Co.
 BANKERS TRUST Co. OF NEW YORK.
 DILLON, READ & Co.

NEW YORK, January 15, 1923.

The following information has been compiled from official figures and from other sources believed to be accurate:

THE REPUBLIC OF CUBA AGREEMENT WITH THE UNITED STATES

Under the provisions of an act passed by the United States Congress on March 2, 1901, the forces of the United States Army were withdrawn from Cuba upon the adoption, as amendments to the Constitution of Cuba, of the clauses commonly referred to as the Platt amendment. These clauses are also contained in a treaty dated May 22, 1903, which was concluded between the United States and the Republic of Cuba for the purpose of safeguarding the political and economic welfare of the Cuban Republic. Under the terms of the treaty it is provided that:

"The Government of Cuba shall not assume or contract any public debt, to pay the interest upon which, and to make reasonable sinking fund provision for the ultimate discharge of which, the ordinary revenues of the island of Cuba, after defraying the current expenses of the Government, shall be inadequate."

It is also provided that:

"The Government of Cuba shall never enter into any treaty or other compact with any foreign power or powers which will impair or tend to impair the independence of Cuba."

In order to safeguard the welfare and stability of the island, the agreements incorporated into the treaty and constitution state that:

"The Government of Cuba consents that the United States may exercise the right to intervene for the preservation of Cuban independence (and) the maintenance of a government adequate for the protection of life, property, and individual liberty."

Maj. General Enoch H. Crowder has been in Cuba during the past two years as the representative of the United States Government for the purpose of assisting the Cuban Government. As a result of his report and recommendations with respect to this loan, the Government of the United States has acquiesced in its issuance.

SECURITY

These bonds are to be the direct obligations of the Republic of Cuba, which pledges its good faith and credit for the prompt payment of principal and interest. In addition they are to be secured:

(a) By a charge on certain revenues of the republic, including the customs revenues, subject to existing charges, but prior to any future charges. The customs revenues have alone averaged \$46,292,000 annually during the last five years, the lowest receipts in any one of such five years having been over \$30,000,000 in the critical year of 1921-22. The existing charges upon the customs prior to these bonds for the current fiscal year amount to \$3,985,750, of which amount \$2,145,000 is payable in the first instance out of other revenues, which, during the last five years, have averaged \$4,430,000 annually.

(b) By a first charge on 10 per cent of the amount by which the revenues of the Government in each fiscal year exceed \$60,000,000.

The total Cuban Government revenues, including the customs, have averaged \$77,426,000 annually during the last five years. The foregoing figures include the abnormally large receipts in 1920 and contrast with \$57,195,000 during the year of the economic crisis 1921-22. These figures, however, do not include any results from the sales tax authorized under the law which authorized this loan, and which is expected to add not less than \$10,000,000 to the Cuban Government revenues at the 1 per cent rate which became effective December 1, 1922. Interest charges, allowing for the refunding contemplated by this issue, including the service charges on the internal debt during the current year, and including also interest and sinking fund for the first year of this issue aggregate about \$11,850,000.

REVENUES AND TAXATION

During the 10 years ended June 30, 1922, the revenues of the Cuban treasury have averaged about \$60,330,000 annually, of which \$37,978,000, or 63 per cent, was furnished by the customs revenues. The budget for the current fiscal year ending June 30, 1923, as published last June in the Gaceta Oficial, estimated revenues at \$55,638,800, while expenditures were placed at \$54,852,102, giving an estimated surplus of \$786,698. During the first six months of the current fiscal year revenues collected have amounted to \$29,218,000, as against expenditures for the same period estimated in the budget at \$28,252,000. Customs revenues form the main source of governmental income and the greater part of the remaining income is raised by internal taxes. On December 1, 1922, the 1 per cent tax on gross sales, exchange and transfer of merchandise went into effect. This tax was authorized under the same law, dated October 9, 1922, which authorized this loan, and while not specifically pledged therefor is expected to add to the general revenues of the republic considerably more than the debt service of this loan.

PUBLIC DEBT

The funded debt of Cuba outstanding on July 31, 1922, amounted to \$91,542,400, of which \$51,703,500 was external debt. In addition, there exists a floating debt contracted during the war and during the postwar period of economic readjustment, to be dealt with by the proceeds of this loan. A commission has been appointed and is now settling claims held against the Government. The 1922-23 budget places the cost of the loan service for the funded debt at \$8,600,761 for the current fiscal year, the service of the present loan being excluded. This indicates a debt service on the funded debt, excluding the present loan, of 15.5 per cent of the total revenues as estimated in the budget for the current year. The service of both principal and interest on the external loans has been promptly met at all times. Interest on the internal loans was deferred as a result of the economic crisis in 1920-21.

POPULATION AND RESOURCES

The population of Cuba, as given by the 1919 census was 2,889,000, and at present is estimated at about 3,000,000. The entire length of the island is served by railways and direct car ferry and telephone service are maintained with the United States. The wealth of Cuba lies in her soil. Abundant and well distributed rainfall, an equable tropical climate and remarkable soil fertility have made possible a profitable agricultural economy. Raw sugar is the chief agricultural product of the island and approximately three-fourths of the cultivated area is devoted to sugar plantations. During the seven years ended June 30, 1921, the exports of sugar and its products from Cuba averaged \$366,758,000 annually.

SUGAR

Sugarcane has been produced in Cuba for centuries, but political conditions did not become favorable to expansion of the industry on a large scale until after the Spanish-American War. It is estimated that more than \$1,000,000,000 of American capital is now invested in the Cuban sugar industry and allied enterprises. In the season just closed Cuba produced 3,996,387 tons of sugar, or approximately 23 per cent of the estimated world production. This production was almost equal to the entire beet sugar crop of Europe, more than double the crop of Java, and nearly 1,500,000 tons greater than the output of British India. Due to unusual natural advantages, Cuba holds a strategic position as the world's greatest low-cost sugar producer.

Cuban sugar enjoys preferential tariff treatment in the United States market, being imported at a reduction of 20 per cent from the regular duties. The United States is dependent upon Cuba for approximately 50 per cent of its annual sugar requirements.

At the end of 1921 Cuba had a stock of approximately 1,225,000 tons of raw sugar; prices were low and the industry depressed. During 1922 the price of raw sugar advanced substantially, the carry-over was liquidated and, in addition, nearly 4,000,000 tons of the 1921-22 crop were marketed. On December 16, 1922, only 66,393 tons of raw sugar were on hand in Cuba, of which 54,773 tons were of the 1922-23 crop. The industry enters the new grinding season with sugar in active demand at satisfactory prices.

CURRENCY

Except for her subsidiary coinage Cuba uses United States currency. The Cuban nation, therefore, in the period of readjustment since the ending of the World War, has been entirely free from currency inflation.

TRADE

Cuba is one of the best customers of the United States. During the 10 years ended December 31, 1921, the average exports from this country to Cuba, excluding foreign goods reexported, amounted to \$181,655,000 per annum, while imports from Cuba during the same period averaged \$274,890,000 per annum. During the 10-year period mentioned, the total merchandise imported into Cuba averaged \$255,918,000 per annum, and exports excluding bullion, averaged \$347,852,000. This indicates an annual average foreign trade of about \$201 per capita based on an estimated population of 3,000,000, compared with a foreign trade of about \$72 per capita for the United States during the same decade. Sugar and tobacco are the chief articles exported, while foodstuffs, dry and manufactured goods made up the bulk of the imports.

New York, October 15, 1920.

DEAR SIR: We have agreed to purchase \$5,000,000 face value city of Christiania (Norway) 25-year 8 per cent sinking fund gold bonds, due October 1, 1945, as more fully described in the inclosed copy of an advance draft of prospectus.

We are not forming any general syndicate in connection with this purchase, but are offering participations to a very limited number of friends. We have reserved for you a participation of \$----- bonds at 95 per cent and accrued interest to delivery. These bonds are to be held together for sale under our management for a period of 60 days from the date hereof, unless the account

be sooner terminated by us. We are to have full control of the account, with power to sell the bonds and to repurchase and resell them. We shall make no charge for our services in managing the account, as a profit to us and to the European intermediaries is provided in the price at which the bonds are being sold to the new account; other expenses of the negotiation are to be charged to the new account. We shall be entitled to receive the same selling commissions allowed to others on sales made by us. Payment by participants will be called on five days' notice.

Kindly confirm that the above is in accordance with your understanding, and believe us.

Yours very truly,

KUHN, LOEB & Co.

KUHN, LOEB & Co.,
New York, October 15, 1920.

DEAR SIR: We have agreed to purchase \$5,000,000 face value city of Christiania (Norway) 25-year 8 per cent sinking fund gold bonds, due October 1, 1945, as more fully described in the inclosed advance copy of a prospectus.

We are offering these bonds for subscription, subject to allotment, at 99 per cent and accrued interest, payable in New York against delivery of interim receipts, deliverable if, when and as issued. Interim receipts will be exchangeable for definitive bonds as and when received by us.

The right is reserved to close the subscription at any time without notice, to reject any application, to award a smaller amount than applied for and to make allotments in our uncontrolled discretion.

We shall allow you upon all bonds allotted to you a commission of $\frac{1}{4}$ per cent, which you are at liberty to reallocate to bankers, brokers, and financial institutions. We shall allow you an additional $\frac{1}{4}$ per cent commission on all such allotments, no part of which may be reallocated to any one. This additional $\frac{1}{4}$ per cent commission will be payable about December 15, 1920, and will not be paid as to any bonds that before that date may have been repurchased by us in the market below the issue price.

Yours very truly,

CITY OF CHRISTIANIA (NORWAY) MUNICIPAL EXTERNAL LOAN OF 1920, \$5,000,000
25-YEAR 8 PER CENT SINKING-FUND GOLD BONDS

CITY OF CHRISTIANIA AND KUHN, LOEB & CO.—AGREEMENT DATED OCTOBER 15
1920

Agreement dated the 16th day of October, 1920, between the city of Christiania (Norway), hereinafter called the city, of the first part, and Kuhn, Loeb & Co., a copartnership carrying on business in the city and State of New York in the United States of America (hereinafter called the bankers), of the second part:

Whereas the city has heretofore agreed with the bankers that it will forthwith create and issue the 25-year 8 per cent sinking-fund gold bonds of the city (constituting the municipal external loan of 1920) in the aggregate principal amount of \$5,000,000 in gold coin of the United States of America of or equal to the standard of weight and fineness existing October 1, 1920; and

Whereas the bonds and the accompanying coupons are to be substantially in the form of Schedule A hereto annexed, or otherwise as may be approved by the bankers, and are to be issued in denominations of \$1,000 and \$500 each, in such numbers of each denomination as the bankers may request; and

Whereas the bonds are to be so engraved as to satisfy the requirements of the New York Stock Exchange and in other respects conform to the requirements of said exchange for listing thereon and are to bear the engraved facsimile signatures of at least two duly authorized officers of the city and to be signed manually by Mr. Hans Fay, Norwegian Consul General in New York, or other duly authorized representative of the city and countersigned by the registrar, and the coupons are to bear the engraved facsimile signature of at least one duly authorized officer of the city; and

Whereas the city has sold to the bankers, and the bankers have purchased and paid for, at a price mutually agreed upon, the entire \$5,000,000 principal amount of said bonds and the city has deposited with Norake Creditbank in the city of

Christiania for account of the bankers its general scrip for said bonds, a copy of which is hereto annexed and marked Schedule B;

Now, therefore, this agreement witnesseth that in consideration of the premises and of the mutual agreements hereinafter set forth the parties have agreed as follows:

I. The city, during the life of the loan, will at all times, at its sole expense, maintain in the city of New York in the United States of America, a fiscal agency and also a registry of the loan.

The city appoints the bankers to be the fiscal agents of the loan during the life of the loan, and the bankers accept said appointment. The city appoints United States Mortgage & Trust Co. to be the registrar of the loan.

The fiscal agents or the registrar may at any time resign upon 60 days' notice to the city given in the manner provided in Article XI hereof for notices from the bankers to the city.

II. The city will pay to the fiscal agents at their office in the city of New York at least three days before the 1st days of April and October, in each year the amount required to meet the interest maturing on the next following interest date on all bonds outstanding and not called in accordance with their terms for prior redemption by the sinking fund hereinafter provided for, but including interest on all bonds called for redemption on such interest date.

III. The city will pay to the fiscal agents at their office in the city of New York, at least three days prior to the 1st days of January, April, July, and October of each year, commencing January 1, 1921, the amount required to meet the sinking fund installment payable under the terms of the bonds on or before such next following 1st day of January, April, July, or October, as the case may be.

Prior to August 1, 1925, the fiscal agents shall apply the sinking fund to the purchase of bonds if obtainable at not more than 110 per cent of their principal amount and accrued interest, all at such times and in such manner, whether at public or private sale or otherwise, as the fiscal agents may in their discretion determine, but the city may at all times instruct the sinking fund managers to proceed with the purchases promptly. Brokerages paid to effect such purchases, whether to the bankers or others, shall constitute a part of the purchase price to the sinking fund.

Any balance remaining in the sinking fund unapplied on August 1, 1925, together with the October 1, 1925, sinking fund installment, shall be applied to the redemption of bonds by lot on October 1, 1925, at 110 per cent of their principal amount.

Commencing April 1, 1926, and semiannually thereafter on the 1st days of April and October of each year, the sinking fund shall be applied to the redemption of bonds by lot, at 110 per cent of their principal amount to and including October 1, 1930, and thereafter at 107½ per cent of their principal amount.

The city will pay to the fiscal agents in addition to the fixed sinking fund installments above specified, and there shall not be charged against the sinking fund, the amounts of accrued interest paid upon purchases through the sinking fund and the interest becoming due on the redemption date upon all bonds redeemed through the sinking fund.

The drawings for redemption may be made in any manner deemed in their discretion by the fiscal agents to be fair, and shall be held at the office of the fiscal agents in the city of New York by or under the supervision of the fiscal agents, and, if the city shall so request and shall seasonably designate a representative, of a representative of the city. Such drawings shall be made, in the case of the October 1, 1925, redemption, not later than September 1, 1925, and thereafter, not later than 30 days before each semiannual interest date; and shall be of an amount of bonds which the sinking fund as it will be upon the next interest date (including the installment payable on or before said date) shall be sufficient to redeem at the then redemption price.

Notice of each such redemption, specifying the numbers of the bonds to be redeemed, shall be published by the fiscal agents on behalf of the city twice a week for at least three weeks preceding the redemption date, in two newspapers in the city of New York, and the fiscal agents shall on behalf of the city apply the sinking fund to the payment of such bonds at the redemption price aforesaid on the redemption date on presentation and surrender of such bonds, together with all unmatured coupons thereto appertaining, to the fiscal agents at their office in the city of New York.

No expenses in connection with the redemption of bonds shall be charged against the sinking fund, but such expenses will be borne by the city.

IV. If the city shall elect to redeem all of the bonds at the time outstanding, as a whole, as provided in the bonds, it will notify the fiscal agents of such election not less than seven months prior to the date to be fixed for such redemption, and will pay to the fiscal agents at their office in the city of New York, at least three days prior to the redemption date, if such redemption date is on or before October 1, 1930, 110 per cent of the principal amount of the bonds and accrued interest, or if such redemption date is after October 1, 1930, 107½ per cent of their principal amount and accrued interest; and the fiscal agents shall on behalf of the city cause notice of such election of the city to redeem the bonds to be given by publication in two newspapers in the city of New York at least six months prior to the date fixed for redemption and also at least twice a week for at least three weeks preceding the redemption date. Notice having been so given, the fiscal agents shall on behalf of the city apply the amounts so paid to them to the payment of the bonds at the redemption price specified therein on the redemption date on presentation and surrender thereof, together with all coupons maturing on and after the redemption date, to the fiscal agents at their office in the city of New York.

V. In case of any redemption, whether under Article III or Article IV hereof, all bonds redeemed, with appurtenant coupons maturing after the redemption date, shall be canceled by the fiscal agents and the registrar as soon as practicable after redemption, and they shall jointly issue a certificate of such cancellation in duplicate and transmit one counterpart of such certificate through the mails to the city. All coupons paid shall as soon as practicable thereafter be canceled by the fiscal agents, who shall send a certificate of such cancellation to the city. From time to time the fiscal agents shall forward to the city, at its expense and risk, the bonds and coupons so canceled.

VI. The city irrevocably authorizes and directs the fiscal agents to pay out of the moneys paid to them as hereinbefore provided the interest upon the bonds and the redemption price of bonds called for redemption to the bearers of the coupons and of such bonds upon presentation and surrender thereof, and without further formality except as the fiscal agents may be advised to be necessary to comply with some law in the United States of America.

VII. In case any of the bonds shall at any time become mutilated or destroyed, a new bond of like amount, tenor, and date, bearing the same serial number, shall be issued by the city, and the registrar shall authenticate the same for delivery in exchange for, and upon cancellation of, the bond so mutilated and its coupons, or in lieu of the bond so destroyed and its coupons, but in the case of destroyed bonds only upon receipt by the city and the registrar of evidence satisfactory to each of them that such bonds were destroyed and upon receipt also of indemnity satisfactory to each of them in their discretion. The registrar shall incur no liability for such action.

VIII. The city will pay to the fiscal agents from time to time, upon demand, all expenses incident to the service of the loan, including such compensation to the fiscal agents and to the registrar as has been or may be agreed upon.

IX. The bankers shall not be required to segregate any money deposited with them as fiscal agents, as hereinbefore provided, and will allow and pay to the city interest on daily balances to the credit of the city at such rate or rates as has been or may be agreed upon.

Neither the fiscal agents in the service of the loan nor the registrar shall be liable otherwise than for good faith and exercise of reasonable care. They and each of them shall be protected in any action which any of them may take in acting on any bond or coupon or any notice or request believed by them to be genuine, as well as in or in respect of any action taken or suffered in good faith under the advice of counsel.

X. The city will, at the request of the bankers, make or cause to be made, application for the listing of the bonds on the New York Stock Exchange, or the bankers may themselves make such application. The city will furnish to the bankers all documents deemed by the bankers to be advantageous for the making of such application and will take and undertake all such action as may be requisite in accordance with the requirements of said exchange in order to secure such listing. The cost and expenses of such application, whether made by or on behalf of the city or by the bankers, shall be borne by the city.

The city authorizes the bankers forthwith to cause to be prepared without delay at the expense of the city definitive engraved bonds for execution by or on behalf of the city, and will cause said bonds to be so executed and delivered to the bankers in the city of New York, free of expense, immediately when prepared.

XI. Whenever under this agreement any notice, request or instruction or order for the payment of money or delivery of securities may be required to be given by one of the parties to the other, it shall be deemed sufficient (except as otherwise expressly provided in this agreement) if given in writing in English as follows:

(a) If from the bankers to the city, over the signature of the bankers, delivered to the then Norwegian Consul General in New York or his successor as representative of the city in the city of New York, or by cable addressed to the mayor of the city, provided that, on the day the cable is signed or on the following day, a copy thereof is delivered at the office of the consul General of Norway in the city of New York;

(b) If from the city to the bankers, then by delivery at the office of the bankers in New York City; (1) over the signature of the then Norwegian Consul General in New York or his successor as representative of the city in the city of New York, or (2) by cable addressed to the bankers at their office in the city of New York by any duly authorized official of the city and confirmed, in writing; to the bankers by the then consul general of Norway in the city of New York.

XII. The city will pay all stamp and other duties, if any, to which under the laws of Norway or of the United States of America this agreement or the bonds or said general scrip may be subject.

XIII. References in this agreement to the bankers shall be deemed to include any successor firm, however, constituted continuing the business of Kuhn, Loeb & Co.

In witness whereof, the city of Christiania has caused this agreement to be signed on its behalf and under its official seal by Jacob Hoeo, first borgermester of said city, thereunto duly authorized, and the bankers have signed this agreement all as of the day and year first above written.

CITY OF CHRISTIANIA,

By

JAKOB HØE, *First Borgermester.*

HAAVARD MARTINSEN,

President of City Council.

KUHN, LOEB & CO.

SCHEDULE A

§

No.

CITY OF CHRISTIANIA (NORWAY) MUNICIPAL EXTERNAL LOAN OF 1920 TWENTY-FIVE YEAR 8 PER CENT SINKING FUND GOLD BONDS

The city of Christiania, for value received, promises to pay to the bearer hereof on October 1, 1945, or the earlier redemption hereof, the principal amount of dollars and, if such redemption be on or before October 1, 1930, a premium of 10 per cent of such principal amount, or if this bond shall not have been called for redemption on or before October 1, 1930, a premium of 7½ per cent of such principal amount, and to pay interest on such principal amount from October 1, 1920, until such principal amount and premium shall have been paid, at the rate of 8 per cent per annum, semiannually, on the 1st day of April and the 1st day of October in each year, but in case of principal and premium only upon presentation and surrender of this bond, and in case of interest only upon presentation and surrender of the coupons hereto annexed as they severally mature. Such principal, premium, and interest will be paid at the office of Messrs. Kuhn, Loeb & Co., fiscal agents of the loan, in the city and State of New York in the United States of America, in gold coin of the United States of America of or equal to the standard of weight and fineness existing October 1, 1920, without deduction for any tax or taxes now or at any time hereafter imposed by the Kingdom of Norway or by any province, county, municipality or other taxing authority thereof or therein.

This bond is one of an issue of 25-year, 8 per cent sinking fund gold bonds of the city of Christiania known as the municipal external loan of 1920 of the city of Christiania, and limited to the principal amount of \$5,000,000.

The city of Christiania will pay to the fiscal agents, at their office in the city of New York, as a sinking fund, in equal quarterly installments on or before the 1st days of January, April, July, and October of each year, commencing January 1, 1921, to and including October 1, 1930, the sum of \$220,000 per annum, and commencing January 1, 1931, to and including October 1, 1945, the sum of \$215,000

per annum, all in United States gold coin of the standard aforesaid. Prior to August 1, 1925, the sinking fund shall be applied by the fiscal agents to the purchase of bonds if obtainable at not more than 110 per cent of their principal amount and accrued interest, all at such times and in such manner, whether at public or private sale or otherwise, as the fiscal agents may in their discretion determine except that the city may at all times instruct the fiscal agents to proceed purchases promptly; any balance remaining in the sinking fund unapplied on August 1, 1925, together with the October 1, 1925, sinking fund installment, shall be applied to the redemption of bonds by lot on October 1, 1925, at 110 per cent of their principal amount; and commencing April 1, 1926, and semiannually thereafter on the 1st days of April and October of each year, the sinking fund shall be applied to the redemption of bonds by lot, at 110 per cent of their principal amount to and including October 1, 1930, and thereafter at 107½ per cent of their principal amount. The coupons maturing on any redemption date shall be payable as therein specified; and the city will pay to the fiscal agents in addition to the fixed sinking fund installments above specified, and there shall not be charged against the sinking fund, the amounts of accrued interest paid upon purchases through the sinking fund and the interest becoming due on the redemption date upon all bonds redeemed through the sinking fund. The drawings for redemption may be made in any manner deemed in their discretion by the fiscal agents to be fair, and will be made, in the case of the October 1, 1925, redemption, not later than September 1, 1925, and thereafter, not later than 30 days before each semiannual interest date, and will be of an amount of bonds which the sinking fund as it will be upon the next interest date (including the installment payable on or before said date), shall be sufficient to redeem at the then redemption price. Notice of each such redemption, specifying the numbers of the bonds to be redeemed, shall be published twice a week for at least three weeks preceding the redemption date, in two newspapers in the city of New York, and such bonds, at the redemption price aforesaid, shall, on the redemption date specified in such notice, become due and payable at the office of fiscal agents in the city of New York, and on presentation and surrender at said office on or after said date of said bonds, together with all unmatured coupons thereto appertaining, said redemption price will be paid by the city. Notice having been so given such bonds shall cease to bear interest from such redemption date unless the city shall fail to make payment of the redemption price on the date so fixed for redemption. No expenses in connection with the redemption of bonds shall be charged against the sinking fund, but such expenses will be borne by the city.

The city may at its option, redeem all of the bonds at the time outstanding, as a whole, on any interest date on or after October 1, 1925, to and including October 1, 1930, upon payment at the office of the fiscal agents in the city of New York of 110 per cent of their principal amount and accrued interest, and thereafter upon payment at said office of 107½ per cent of their principal amount and accrued interest, provided prior notice of such election of the city to redeem the bonds shall be given by publication in two newspapers in the city of New York at least 6 months prior to the date fixed for redemption and also twice a week for at least three weeks preceding the redemption date. Notice having been so given, the bonds, at the redemption price aforesaid, shall, on the date so fixed for redemption, become due and payable at said office, and on presentation and surrender at said office of said bonds, together with all coupons maturing on and after the redemption date, said redemption price will be paid by the city; and from and after the date so fixed the bonds shall cease to bear interest, unless the city shall make default in the payment of the redemption price.

This bond shall pass by delivery merely.

This bond shall not become valid or obligatory for any purpose until it shall have been authenticated by the certificate of the registrar of the loan hereon indorsed.

In witness whereof, the city of Christiania has caused this bond to be executed in its name, bearing the facsimile signatures of Mr. Jakob Høe, Første Borgermester of the city, and of Mr. A. Jervell, chief fiscal officer of the city, and manually signed by the duly authorized agent of the city, and to be authenticated by the registrar of the loan, and coupons for said interest with the facsimile signature of Mr. A. Jervell, chief fiscal officer of the city, to be attached hereto and delivered at said city of New York, in the United States of America, as of October 1, 1920.

By THE CITY OF CHRISTIANIA,

FORM OF INTEREST COUPON

(From which shall be omitted in the case of coupons maturing on and prior to April 1, 1925, the words "unless said bond shall have been called for previous redemption.")

On the first day of _____, 19____, the city of Christiania promises to pay to bearer at the office in New York City, United States of America, of Kuhn, Loeb & Co. fiscal agents, _____ dollars in gold coin of the United States of America, without deduction for any tax or taxes now or at any time hereafter imposed by the Kingdom of Norway or by any province, county, municipality or other taxing authority therein, being six months' interest then due on the city of Christiania municipal external loan of 1920, 25-year 8 per cent sinking-fund gold bond No. _____, unless said bond shall have been called for previous redemption.

THE CITY OF CHRISTIANIA,
By _____

FORM OF REGISTRAR'S CERTIFICATE

This bond is one of the bonds of the loan within referred to.

UNITED STATES MORTGAGE & TRUST Co.,
Registrar of the Loan,

By _____

SCHEDULE B

GENERAL SCRIP FOR \$5,000,000—CITY OF CHRISTIANIA (NORWAY)—25-YEAR
8 PER CENT SINKING-FUND GOLD BONDS TO MATURE OCTOBER 1, 1945

The municipality of the city of Christiania undertakes to deliver to Messrs. Kuhn, Loeb & Co., New York, against surrender of this general scrip \$5,000,000 city of Christiania (Norway) 25-year, 8 per cent sinking-fund gold bonds to mature October 1, 1945. The coupon bonds will be to bearer in denominations of \$1,000 and \$500 each and will be furnished with 50 half-yearly coupons payable April and October 1, the first coupon on the bonds being due April 1, 1921. Coupons and due bonds to be payable in New York City in United States gold coin of or equal to the present standard of weight and fineness at the office of Kuhn, Loeb & Co. without deduction for any Norway Government or other Norwegian taxes, present or future. Messrs. Kuhn, Loeb & Co., New York City, are empowered to issue at Christiania City's expense interim receipts against this general interim bond which has been deposited for their account in Christiania with Den Norske Creditbank pending the receipt of actual bonds which are to be delivered in New York City free of expenses and engraved to satisfy listing conditions of the New York Stock Exchange. All other conditions for the bonds as per prospectus.

Christiania, October 14, 1920.

DR. HAAVARD MARTHINSEN, ORDFOERER.

List of partners of Kuhn, Loeb & Co.: Felix M. Warburg, Otto H. Kahn, Estate of Mortimer L. Schiff, Jerome J. Hanauer, George W. Bovenizer, Lewis L. Strauss, Sir William Wiseman, John M. Schiff, Gilbert W. Kahn, Frederick M. Warburg.

DECEMBER 28, 1931.

Record of foreign dollar bonds in default

	Coupon dates	Paying agent (New York)	Date of default	Remarks	Amount outstanding
BOLIVIA					
Republic of Bolivia, 6's, 1917-1940.....	A. and O., 1.....	Chase National Bank.....	Apr. 1, 1931	Interest and sinking fund not paid.....	\$1,431,000
Republic of Bolivia, 8's, 1922-1947.....	M. and N., 1.....	do.....	May 1, 1931	55 per cent of coupons paid; sinking fund not paid.....	23,267,500
Republic of Bolivia, 7's, 1927-1958.....	J. and J., 1.....	Dillon, Read & Co.....	Jan. 1, 1931	Interest and sinking fund not paid.....	13,590,500
Republic of Bolivia, 7's, 1928-1960.....	M. and S., 1.....	do.....	Mar. 1, 1931	do.....	22,815,000
BRAZIL					
Federal Government:					
United States of Brazil, 8's, 1921-1941.....	J. and D., 1.....	Dillon, Read & Co.....	Dec. 1, 1931	The Brazilian Government announced Oct. 18, 1931, that interest on these bonds would be paid in scrip for a period of 3 years.	31,352,500
United States of Brazil, 7's, 1922-1952.....	do.....	do.....	do.....	do.....	17,503,000
United States of Brazil, 6½'s, 1926-1957.....	A. and O., 1.....	do.....	do.....	do.....	56,168,000
United States of Brazil, 6½'s, 1927-1957.....	A. and O., 15.....	do.....	do.....	do.....	39,709,000
State governments:					
State of Ceara, 8's, 1922-1947.....	J. and D., 1.....	First National Bank of New York and Interstate Trust Co. of New Orleans.....	June 1, 1931	Interest and sinking fund not paid; bondholders' protective committee formed under auspices of Interstate Trust Co.	1,950,000
State of Maranhao, 7's, 1928-1958.....	M. and N., 1.....	Bankers Trust Co.....	Nov. 1, 1931	Interest paid Nov. 1, but sinking fund not paid; no further remittances being made.	1,682,000
State of Minas Geraes, 6½'s, 1928-1958.....	M and S., 1.....	National City Bank.....	Sept. 1, 1931	Interest and sinking fund paid Sept. 1, out of reserve fund; no further remittances being made.	8,132,000
State of Minas Geraes, 6½'s, series A, 1920-1959.....	do.....	do.....	do.....	do.....	7,812,000
State of Parana, 7's, 1929-1958.....	M and S., 15.....	Chase National Bank.....	Sept. 15, 1931	Reserve fund used to pay interest; sinking fund not paid; no further remittances being made.	4,642,000
State of Pernambuco, 7's, 1927-1947.....	M and S., 1.....	White, Weld & Co.....	Sept. 1, 1931	Interest and sinking fund not paid.....	5,233,000
State of Rio de Janeiro, 6½'s, 1929-1959.....	J. and J., 1.....	E. H. Rollins & Sons, and Bank of America.....	do.....	Funds to pay Jan. 1, 1932, interest and sinking fund on hand.	5,961,000
State of Rio Grande do Sul, 8's, 1921-1946.....	A. and O., 1.....	Leo, Higginson & Co. and Ladenburg, Thalmann & Co.....	do.....	Oct. 1, 1931, interest and sinking fund paid; no further remittances being made.	5,900,500
State of Rio Grande do Sul, 7's, 1926-1966.....	M. and N., 1.....	do.....	Nov. 1, 1931	Sinking fund paid Nov. 1 but interest defaulted.....	9,713,500
State of Rio Grande do Sul, 6's, 1928-1968.....	J. and D., 1.....	White, Weld & Co.....	Dec. 1, 1931	Interest and sinking fund not paid.....	23,000,000
State of Santa Catherina, 8's, 1922-1947.....	F. and A., 1.....	Halsey, Stuart & Co.....	1925, 1928, 1930	Funding arrangement made in 1925, default on this agreement in May, 1928; new arrangement for lower schedule of payments; no payments made since February, 1930.	4,704,800
State of Sao Paulo, 8's, 1921-1936.....	J. and J., 1.....	Spoeyer & Co.....	Jan. 1, 1932	Interest paid but partial default on sinking fund.....	4,950,000
State of Sao Paulo, 8's, 1925-1950.....	do.....	do.....	do.....	Interest paid partly from reserve fund; partial default on sinking fund.	14,719,000

State of Sao Paulo, 7's, 1926-1956.....	M. and S., 1.....	do.....		\$200,000; reserve fund on hand to meet Mar. 1, 1932, coupon.	6,914,000
State of Sao Paulo, 6's, 1928-1968.....	J. and J., 1.....	do.....	July 1, 1931	Reserve fund used for July 1, 1931, payments; payments due Jan. 1, 1932, will not be made.	14,698,000
State of Sao Paulo, 7's, 1930-1940.....	A. and O.....	do.....		No default expected.	31,459,000
Municipal governments:					
City of Porto Alegre, 8's, 1921-1961.....	J. and D., 1.....	Ladenburg, Thalmann & Co. and Lee, Higginson & Co.	Dec. 1, 1931	Coupon not paid.....	3,320,000
City of Porto Alegre, 7 1/2's, 1926-1966.....	J. and J., 1.....	do.....		Jan. 1 coupon not expected to be paid.....	3,890,000
City of Porto Alegre, 7's, 1928-1968.....	F. and A., 1.....	do.....		Feb. 1 coupon not expected to be paid.....	2,211,000
City of Rio de Janeiro, 8's, 1921-1948.....	A. and O., 1.....	Dillon, Reed & Co.....		Apr. 1, coupon not expected to be paid.....	8,055,000
City of Rio de Janeiro, 6 1/2's, 1928-1959.....	F. and A., 1.....	White, Weld & Co.....	Aug. 1, 1931	Coupon not paid.....	29,492,000
City of Rio de Janeiro, 6's, 1928-1933.....	A. and O., 1.....	do.....	Oct. 1, 1931	do.....	1,770,000
Rio Grande do Sul consolidated municipal loan, 7's, 1927-1967.....	J. and D., 1.....	Chase National Bank.....	Dec. 1, 1931	do.....	3,912,500
City of Sao Paulo, 6's, 1919-1943.....	M. and N., 1.....	do.....		May 1, coupon not expected to be paid.....	5,635,000
City of Sao Paulo, 8's, 1922-1952.....	do.....	Bank of America.....	Nov. 1, 1931	Coupon not paid.....	3,157,000
City of Sao Paulo, 6 1/2's, 1927-1957.....	M. and N., 15.....	First National Corporation of Boston.	Nov. 15, 1931	do.....	5,602,000
CHILE					
National government:					
Republic of Chile, 6's, 1926-1960.....	A. and O., 1.....	Hallgarten-Kissel, Kinnicutt, National City Bank.....	Oct. 1, 1931	Coupon not paid.....	40,116,000
Republic of Chile, 6's, 1928-Jan. 1, 1961.....	J. and J., 1.....	do.....		Jan. 1 coupon will not be paid.....	44,162,000
Republic of Chile, 6's, 1927-Feb. 1, 1961.....	F. and A., 1.....	Hallgarten-Kissel, Kinnicutt, National City Bank.....	Aug. 1, 1931	Coupon not paid.....	23,935,000
Republic of Chile, 6's, 1928-Sept. 1, 1961.....	M. and S., 1.....	do.....	Sept. 1, 1931	do.....	16,577,000
Republic of Chile, 6's, 1929-1962.....	do.....	do.....	do.....	do.....	9,790,000
Republic of Chile, 6's, 1930-1963.....	M. and N., 1.....	do.....	Nov. 1, 1931	do.....	24,746,000
Republic of Chile, 7's, 1922-1942.....	do.....	do.....	do.....	do.....	15,091,000
Municipal governments:					
City of Santiago, 7's, 1928-1949.....	J. and J., 2.....	Hallgarten-Kissel, Kinnicutt.....		Jan. 2 coupon will not be paid.....	3,600,000
City of Santiago, 7's, 1930-1961.....	M. and N., 1.....	do.....	Nov. 1, 1931	Coupon not paid.....	2,175,000
Chilean consolidated municipal loan, series A, 7's, 1929-1960.....	M. and S., 1.....	Grace National, Brown Bros., E. H. Rollins.....	Sept. 1, 1931	Interest and sinking fund payments on Sept. 1, 1931, made from reserve fund.	14,684,000
Mortgage bank:					
Mortgage Bank of Chile, 6 1/2's, 1925-1957.....	J. 30 and J. 31.....	Kuhn, Loeb & Co. and Guaranty Trust Co.	July 31, 1931	Service completely suspended; interest being deposited in Chile in pesos.	18,882,000
Mortgage Bank of Chile, 6 1/2's, 1926-1961.....	J. 30 and D. 31.....	do.....	Dec. 31, 1931	do.....	18,897,500
Mortgage Bank of Chile, 6's, 1926-1931.....	do.....	do.....	do.....	do.....	10,000,000
Mortgage Bank of Chile, 6's, 1928-1961.....	A. 30 and O. 31.....	do.....	Oct. 31, 1931	do.....	10,469,000
Mortgage Bank of Chile, 6's, 1929-1962.....	M. and N., 1.....	do.....	Nov. 1, 1931	do.....	19,000,000
COLOMBIA					
City of Medellin, 7's, 1926-1951.....	J. and D., 1.....	Hallgarten & Co.....	Dec. 1, 1931	Coupon not paid; it is understood that funds have been deposited in Colombia.	2,703,000
City of Medellin, 6 1/2's, 1928-1954.....	do.....	Hallgarten-Kissel, Kinnicutt.....	do.....	do.....	8,527,000

SALE OF FOREIGN BONDS OR SECURITIES

Record of foreign dollar bonds in default—Continued

	Coupon dates	Paying agent (New York)	Date of default	Remarks	Amount outstanding
PERU					
National government: Republic of Peru, 7's, 1927-1950 (tobacco loan).	M. and S., 1.....	J. & W. Seligman & Co.....	Sept. 1, 1931	Complete default on interest and sinking fund.....	\$14,357,500
Republic of Peru, national loan, first series, 6's, 1927-1960.	J. and D., 1.....	do.....	June 1, 1931	do.....	48,383,000
Republic of Peru, national loan, second series, 6's, 1928-1961.	A. and O., 1.....	J. & W. Seligman and National City Bank.	Apr. 1, 1931	do.....	24,469,500
Provincial governments: Province of Callao, 7½'s, 1927-1944.	J. and J., 1.....	J. & W. Seligman & Co.....	Jan. 1, 1931	Interest and sinking fund payments due Jan. 1 and July 1, 1931, were met partly from the reserve fund; no further remittances.	1,189,000
Municipal governments: City of Lima, 6½'s, 1929-1938.	M. and S., 1.....	E. H. Rollins & Sons.....	Sept. 1, 1931	Interest and sinking fund payments due Sept. 1, 1931, were met partly from reserve fund.	2,887,000
URUGUAY					
City of Montevideo, 7's, 1922-1952.....	J. and D., 1.....	Dillon, Read & Co.....	Dec. 1, 1931	Interest not paid.....	5,684,000

1 Guaranteed by the National Government of Peru.

MEMORANDUM FROM KUHN, LOEB & CO., REGARDING FOREIGN FINANCING

Our primary consideration in any foreign loan, as it would be in any domestic loan, is to endeavor to appraise from the facts obtainable the intrinsic merit of the bonds to be issued and consequently estimate the assurance of their principal and interest and sinking fund, if any, being punctually paid when due.

- A. In the case of a governmental issue this would involve a careful analysis of,
1. Purpose of the loan.
 2. Its past debt record and its credit standing as indicated by the market price of its outstanding securities and the level at which its currency is quoted in the American and other world markets.
 3. Its record of income and expenditures for a period of from 5 to 10 years preceding the time at which the loan is being considered, and its budget for the succeeding year or two years.
 4. Its import and export statistics for the past 5 or 10 years and an analysis of its "invisible" trade, if any.
 5. Its national debt both on a total and a per capita basis.
 6. Its national wealth.
 7. Its fiscal position as to its holdings of gold or the gold holdings of its central bank in relation to its outstanding currency.
 8. Analysis of whether or not the Government has given special security for previous loans or whether it has merely issued its loans on the so-called "negative pledge" basis. In the former case we form independent judgment whether the situation of the Government requires insistence upon special security. By "negative pledge" is meant that while no specific lien or security is given for a loan, the borrower pledges that if, while any of the bonds of the loan in question are outstanding, the borrower should create or issue or guarantee any indebtedness or obligations secured by specific lien or security, the bonds of the loan in question will be secured equally and ratably with such other indebtedness or obligations or such guarantee.
 9. Its political stability.
 10. Value of its actual or potential trade with the United States.
 11. Whether a sinking fund should be required; and if so, whether the sinking fund should be of such size as to retire the entire loan or only a part of the loan by maturity.

In some countries the government owns and operates the railroads, telegraph systems, tobacco monopolies, salt monopolies, etc., and in such cases we would analyze the income therefrom and the asset value of these holdings.

B. In the case of a State, city, or other political subdivision of a foreign country we would consider:

1. Purpose of the loan.
2. Its past debt record and its credit standing as indicated by the market price of its outstanding securities.
3. Its record of income and expenditures for a period of from five to ten years preceding the time at which the loan is being considered and its budget for the succeeding year or two years.
4. Its debt both on a total and a per capita basis.
5. The value of the property owned by the borrower, together with an analysis of how much of this property is revenue producing.
6. Analysis of whether or not the borrower has given security for previous loans or whether it has merely issued its loans on the so-called negative pledge basis. In the former case, we form independent judgment whether the situation of the borrower requires insistence upon special security.
7. Whether a sinking fund should be required; and if so, whether the sinking fund should be of such size as to retire the entire loan or only a part of the loan by maturity.

In a general way, all of the matters analyzed in considering a governmental loan would be considered in relation to the country in which the borrower is located so as to ascertain whether, if the borrower itself is intrinsically sound, it would be in a position to obtain the foreign exchange necessary with which to meet the dollar obligation incurred.

- C. In the case of a foreign corporation we would consider—
1. Purpose of the loan.
 2. Its past debt record and its credit standing as indicated by the market price of its outstanding securities.
 3. Its profit and loss account and balance sheet for a period of from 5 to 10 years preceding the time at which the loan is being considered.

4. The nature of its business and general condition of the industry in which it is engaged.

5. A general appraisal of its management both as to ability and standing.

6. Analysis of the type of loan which would best suit its purposes and yet be salable and, whether or not specific security for the loan should be required or whether it need merely be issued on the so-called negative pledge basis. In the former case, we form independent judgment whether the situation of the borrower requires insistence upon special security.

7. Appraisal of the market equity of the securities junior to the loan to be issued.

8. Whether a sinking fund should be required, and if so, whether the sinking fund should be of such size as to retire the entire loan or only a part of the loan by maturity.

9. Whether, in our judgment, an independent audit of the company's accounts should be made by accounts other than the company's own accountants and whether, in our judgment, the nature of the company's business makes it advisable to have an independent engineering or other expert survey of its situation.

The reference made in subheading B to the general analysis of the country in which the borrower is located would, to some similar extent, likewise apply to the case of a corporate borrower.

DECEMBER 28, 1931.

175,000 AMERICAN SHARES FOR COMMON STOCK NORTH GERMAN LLOYD (NORD-DEUTSCHER LLOYD), BREMEN

American shares will be issued by Guaranty Trust Co. of New York as depositary under a deposit agreement dated November 15, 1928, each such American share representing 200 reichsmarks (Rm. 200) par value of the common stock of the North German Lloyd (Norddeutscher Lloyd), Bremen, deposited thereunder.

The company has agreed, among other things, that dividends after deduction of German income tax (Kapitalertragsteuer) now amounting to 10 per cent, will be remitted by the company to the depositary at the cable rate for dollars current in Berlin on the day of payment of the dividend; such dividends or any other distributions due to the shareholders will, after deduction of the depositary's fees and expenses as set forth in the deposit agreement, be paid to the registered holders of American shares by check in dollars.

The deposit agreement will provide that after July 1, 1929, or prior thereto with the consent of Kuhn, Loeb & Co. and Lee, Higginson & Co., as depositors, any owner of common stock may deposit it at the agency of the depositary in Bremen and receive therefor from the depositary in New York an equivalent amount of American shares, and vice versa, the holder of American shares may deposit them with the depositary in New York and receive from the agency of the depositary in Bremen in exchange therefor the amount of common stock represented by the American shares so deposited with the depositary in New York, under the terms of and upon payment of the charges set forth in the aforementioned deposit agreement.

For further information regarding the company and this issue of stock, reference is made to the accompanying letter from Geheimrat Carl Joachim Stimming, general director of the company, and to the deposit agreement under which the American shares are to be issued, copies of which may be obtained from either of the undersigned.

The undersigned will receive subscriptions for the above shares, subject to allotment, at \$69 per share.

These American shares are entitled to all dividends hereafter declared, including the dividends for the full year 1928.

The undersigned reserve the right to close the subscription at any time without notice, to reject any application, to allot a smaller amount than applied for and to make allotments in their uncontrolled discretion.

The above shares are offered if, when, and as issued and received by the undersigned and subject to the completion of the transaction as planned and to the approval of counsel.

In the first instance temporary certificates or interim receipts of the depositary exchangeable for definitive American shares, when prepared, will be delivered against payment in New York funds.

Application will be made to list these American shares on the New York Stock Exchange.

KUHN, LOEB & Co.
LEE, HIGGINSON & Co.

NEW YORK, November 16, 1928.

NORDDEUTSCHER LLOYD (BREMEN),
November 15, 1928.

MESSRS. KUHN, LOEB & Co. and LEE, HIGGINSON & Co.,
New York, N. Y.

DEAR SIR: Referring to the reichsmarks 35,000,000 par value of common stock of the North German Lloyd (Norddeutscher Lloyd), Bremen, which you have agreed to purchase and in respect to which 175,000 American shares each representing Reichsmarks 200 par value of stock are to be issued we beg to state the following for your information:

Business and properties: The North German Lloyd, incorporated in 1857, operates through its own vessels and those of subsidiary companies 31 different passenger and freight lines serving more than 200 ports in all parts of the world. As of November 1, 1928, the aggregate tonnage of the 132 ocean-going vessels of the company and its wholly owned subsidiaries was over 694,000 gross registered tons, including such well-known ships as the *Columbus*, *Berlin*, *Dresden*, *München*, and *Stuttgart*. These five ships, in addition to 18 other smaller vessels, constitute the company's present passenger and freight service between New York, Boston, other United States and Canadian ports, and Bremen, Germany, and the English, Irish, and French ports which the company serves. The company's tonnage devoted to the North Atlantic passenger service will be practically doubled in the spring of 1929 by the entry into this service of two of the newest and fastest liners in the world, the quadruple screw, turbine driven, oil burners, the *Bremen* and the *Europa*, each of about 46,000 gross registered tonnage. These two de luxe vessels will embody the most modern developments in maritime engineering. Having been designed for a service speed of over 26 knots, which is superior to that of any other liner plying the North Atlantic, they will comfortably make the run between New York and Cherbourg or Southampton in five days, and Bremen, the home port of the company, in six days.

Besides the North Atlantic service, including Canada, there are the important services to the east and west coasts of North, Central, and South America and to Australia, China, and Japan and other ports of the Far East. The company participates in the African service through its wholly owned subsidiary, the Hamburg-Bremer-Afrika Linie A. G., besides owning substantial stock interests in the Deutsche Ost-Afrika Linie A. G. and the Woermann Linie A. G. Through its own steamers and those of wholly owned operating companies, other than those mentioned above, the company also maintains services between Germany and English, Baltic, Mediterranean, and Black Sea ports. In addition, the company owns approximately 57,000 gross registered tons of smaller ships which ply within German territorial waters. All in all, the company controls 466 vessels of a total of about 916,000 gross registered tons; this includes 8 ships now under construction, including the *Bremen* and the *Europa*, of a total of 134,000 gross registered tons.

The entire fleet is modern, over 80 per cent in value of the ships having been built within the last eight years. The net contract price of the *Bremen* and the *Europa* at the date they were contracted for in 1926 amounted to about Rm. 82,000,000 (\$19,523,000), which was much lower than present prevailing construction costs, and to this must be added very considerable outlays for interior decoration, furnishing, etc., which are, of course, not included in the contract price. The other additions to the fleet since 1920 alone represent an expenditure of gold marks 210,488,000 (\$50,116,000).

The company also owns or has substantial interests in a number of other important shipping and allied enterprises including valuable warehouses and office buildings and long-term leases on piers and dry docks in Bremen and other ports, all carried in the balance sheet much below their actual value.

Purpose: Provision having already been made for the cost of construction of the *Bremen* and the *Europa*, none of the proceeds of the sale of these shares will be required for this purpose. The proceeds will be used to reimburse the company's treasury for expenditures heretofore made for other construction, for further additions to the company's fleet, including six first-class, modern cargo liners, two of which are of about 8,000 gross registered tons each and the remaining four of about 6,500 gross registered tons each, for the payment of the purchase price of substantial interests in other shipping companies recently acquired, and for other corporate purposes.

Capital: Upon issuance of the present Rm. 35,000,000 par value of common stock and Rm. 1,093,800 par value of preferred stock which the company will presently issue and sell, the company will have outstanding Rm. 5,000,000 6 per cent cumulative preferred stock (all of which is fully paid except Rm. 1,093,800.

which will be only 25 per cent paid in) and Rm. 160,000,000 fully paid common stock. For 1927 dividends were paid at the rate of 6 per cent per annum on its fully paid preferred stock and 8 per cent on the common stock, as compared with 6 per cent on both classes of stock for 1926. It is the company's intention to pay 6 per cent on the fully paid preferred stock and 8 per cent on the common stock for the year 1928, as the estimate of the year's results, although reflecting earnings below those of 1927 as hereafter explained, should permit the continuation of dividends at these rates. Dividends on the company's stock for any year are paid, at the latest, in June of the following year upon final audit of its accounts and the shares which you have purchased will be entitled to the full dividend for the year 1928, which, if at the contemplated rate of 8 per cent, will be equal to about \$3.42 net per American share after deducting the German income tax of 10 per cent to which the dividends are at present subject. The price range of the common stock thus far this year has been between a high of 166 per cent and a low of 143 per cent, equal to \$79.04 and \$68.09 per American share; they were to-day quoted at 148 per cent, equal to \$70.47 per American share. The company's common stock is listed on the Berlin, Bremen, Frankfurt, Hamburg, and Leipzig exchanges.

Earnings: For the year ended December 31, 1927, the net earnings of the company, after payment of or provision for all charges, as certified by its auditors Fides Treuhand Aktiengesellschaft, Bremen, amounted to Rm. 26,701,691 (\$6,357,500), out of which Rm. 13,681,954 (\$3,257,600) were set aside for at least 5 per cent depreciation of the original cost of the vessels and Rm. 1,985,837 (\$472,800) for depreciation on buildings, shops, furniture and fixtures, leaving a balance of Rm. 11,033,900 (\$2,627,100) available for dividends. After payment of 6 per cent on its fully paid preferred stock such balance was equivalent to about 8.71 per cent on the company's Rm. 125,000,000 par value of common stock outstanding as of December 31, 1927.

Incident to the building and handling of its previously mentioned two new liners which are not yet in service and from which, of course, no revenues have yet been received, the company has been meeting, out of its current earnings, heavy charges such as for advertising, increase of personnel, enlargement, and expansion of its service bureaus in New York, Paris, and other cities, and the increase of its dock facilities. As a partial result thereof, despite its gross revenues for the six months ending June 30, 1928, having been Rm. 106,730,000 (\$25,411,000) as compared with Rm. 96,005,000 (\$22,858,000) for the same period of 1927, its net income for that period declined slightly from Rm. 14,743,000 (\$3,510,000) for the first half of 1927 to Rm. 13,995,000 (\$3,332,000) for this period of 1928. That the company's income is growing steadily due to its increasing tonnage is attested by the fact that its gross income in 1925 was \$29,300,000, in 1926 was over \$33,000,000, in 1927 was approximately \$45,400,000, and for the first nine months of 1928 was approximately \$40,000,000. We most conservatively estimate that the entry of the Bremen and the Europa into active service in the spring of 1929 will increase our gross income by approximately Rm. 40,000,000 (\$9,523,000) or about 20 per cent, and, inasmuch as our own experience as well as that of other companies has shown the increasing profitability of de luxe liners of this type, the company's net income should be proportionately increased.

Of special interest to American investors will be the fact that of the company's gross revenues for 1926 approximately \$10,000,000 were received in United States currency and more than £4,000,000 (\$19,466,000) in sterling, while for 1927 approximately \$12,500,000 and £5,000,000 (\$24,333,000) were received, thus automatically providing ample foreign balances for the company's foreign commitments. Thus, for the year 1926 almost 90 per cent of the company's revenues were received in these two foreign currencies alone and for 1927 over 80 per cent.

Balance Sheet: The provisional balance sheet of the company as of June 30, 1928, as certified by the Fides Treuhand Aktiengesellschaft, is as follows:

ASSETS

Preferred stock liability (75 per cent unpaid on \$372,143)	\$279, 107
Ocean-going fleet	40, 298, 039
Payments on account of ships under construction	15, 026, 596
Coastwise and river steamers, lighters, etc.	632, 916
Lands, buildings (including leases of piers and drydocks), shops, furniture and fixtures	1, 768, 638
Cash on hand and bank balances	11, 727, 630

Shares and interests in other companies.....	\$4, 946, 331
Ship stores at Bremen and Bremerhaven.....	1, 421, 192
Accounts receivable and suspense items.....	10, 857, 257
Total.....	86, 957, 706

LIABILITIES

Capital stock:	
Common.....	29, 761, 904
Preferred.....	930, 048
	30, 691, 952
Dollar bonds.....	20, 000, 000
Legal reserve.....	4, 047, 619
Reserve for renewals.....	1, 785, 714
Insurance reserve.....	2, 380, 952
Revalorized bonds.....	476, 962
Long term credits.....	4, 522, 522
Sundry creditors.....	9, 884, 577
Suspense account (passage money in advance, pending voyages and reserves for taxes).....	9, 844, 376
Profit and loss surplus.....	3, 323, 032
Total.....	86, 957, 706

This balance sheet does not include the company's \$8,557,738 principal amount of debentures issued on the basis of present assessments as its obligation under the Dawes plan on which the maximum annual charge for interest and sinking fund is \$613,464.28 and on which the payment for the year ending September 1, 1928, was \$185,325; nor does this balance sheet include the results of the present financing or full consideration of the two new liners, the *Bremen* and the *Europa*, whose value has not been added to the book value of the fleet, but instead a part of their cost is merely included in the item, "payment on account of ships under construction." On behalf of the State of Bremen in conjunction with other Bremen firms and industrial organizations there has recently been organized in Bremen the Bremen Hansa Bank A. G. The company has jointly with them guaranteed certain of the bank's obligations which in turn are specifically secured by mortgages on land and properties situated in the State of Bremen. The company's maximum liability in this connection is approximately \$2,920,000 and this is not included in the balance sheet as it was undertaken subsequent to the date thereof.

The company has not included in its assets in the above balance sheet any sums recoverable from the United States Government and the Alien Property Custodian of the United States in respect of its tonnage, piers, and other property seized by them. The company is engaged in recovering this property through two channels: First, it has a claim against the Alien Property Custodian for approximately \$2,800,000 of which, under the United States settlement of war claims act of 1928, 80 per cent is recoverable immediately upon due proof of claim being established with the custodian and payment of the balance remains deferred. The company's claim has been established before and audited by the custodian and payment of the approximately \$2,250,000 to which it is now therefore entitled awaits only the completion of certain minor, necessary formalities. Second, the company has its major claim against the United States Government for 29 seized ships aggregating 235,900 tons, constituting approximately one-third of all the German tonnage seized by the United States and including the two fast express, passenger liners, the *Kronprinzessin Cecilie* (now the *Mount Vernon*) and the *Kaiser Wilhelm II* (now the *Agamemnon*), and nine other large passenger liners, including the *George Washington* and the *Grosser Kurfurst* (now the *Los Angeles*), which claim awaits adjudication by the arbiter appointed by the President of the United States under the settlement of war claims act of 1928 which provides for "fair compensation to be paid by the United States" for such seized property. While, of course, it is impossible to forecast the time or amount of this settlement, it will, when ultimately made, be of vital importance to the company in further restoring it to the relative position it enjoyed before the war and toward which it has been advancing so steadily and surely since 1921.

General: The American shares which you are offering will be issued under a deposit agreement in the usual form acceptable to you as depositors with the

Guaranty Trust Co. of New York as depositary and the Darmstädter und Nationalbank K. a. A. as the agent of the depositary in Bremen. Each American share is to represent Rm. 200 par value of the company's full paid and non-assessable common stock and it and the dividends thereon are, in the hands of foreign holders, subject to no German tax except the already referred to German income tax (Kapitalertragsteuer) which now amounts to 10 per cent. The company will, among other things, agree that it will pay to the American depositary in New York in dollars the dividends payable on the stock deposited against the American shares at the cable rate for dollars in Berlin current on the day of payment of any such dividends.

The deposit agreement will provide that after July 1, 1929, or prior thereto with the consent of yourselves, any owner of common stock may deposit it at the agency of the depositary in Bremen and receive therefor an equivalent amount of American shares from the depositary in New York and vice versa, the holder of American shares may deposit them with the depositary in New York and receive from the agency of the depositary in Bremen in exchange therefor the amount of German shares represented by the American shares so deposited with the depositary in New York, under the terms of and upon payment of the charges set forth in the aforementioned deposit agreement.

The company's by-laws provide that the holders of the preferred stock have 2 votes for each Rm. 5 par value of such stock and that the holders of common stock have 1 vote for each Rm. 20 par value of such stock. Holders of American shares may exercise the voting rights appurtenant to the common stock represented thereby, but failing in their exercise of this voting privilege it may be exercised by a voting committee appointed by the company or exercised by yourselves as depositors, all as set forth in the deposit agreement.

Existing German laws and the company's statutes provide that no increase in the capital stock of the company can be made except if authorized by the affirmative vote of three-quarters in interest of the shareholders present or represented at a meeting of shareholders called for such purpose and that any waiver by the shareholders of their right of subscription to such additional stock must be included by similar vote in the action taken at such meeting.

Application will be made in due course to list the American shares on the New York Stock Exchange.

All conversions in this letter from German into United States currency have been made at the rate of 4.20 reichsmarks to the dollar.

Yours very truly,

NORDEUTSCHER LLOYD (BREMEN),
(NORTH GERMAN LLOYD)
By CARL JOACHIM STIMMING,
General Director.

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