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HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

SIXTY-THIRD CONGRESS

SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA

PART 8

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COMMITTEE ON FOREIGN RELATIONS.

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

TUESDAY, JUNE 30, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 11 o'clock a. m., pursuant to adjournment.

Present: Senators Stone (chairman), Shively, Hitchcock, O'Gorman, Williams, Swanson, Pomerene, Smith of Arizona, Saulsbury, Smith of Michigan, and Root; also Hon. William Jennings Bryan, Secretary of State; Mr. Hugo Kohlmann, and Mr. Cox.

The CHAIRMAN. The committee will come to order. I will ask you gentlemen who are going to testify to withdraw.

Mr. BROWN. If there is no objection, I would like to have Mr. Kohlmann remain, as he is familiar with some of my exhibits, and Mr. Cox, who has had charge of the detail of the transactions.

The CHAIRMAN. Mr. Kohlmann and Mr. Cox may remain.

TESTIMONY OF MR. JAMES BROWN, OF BROWN BROS. & CO., NEW YORK CITY.

(James Brown, having been first duly sworn, testified as follows:)

The CHAIRMAN. You can proceed, Mr. Brown. Please state your name, residence, and occupation.

Mr. BROWN. James Brown, 789 Park Avenue, New York City; business, banker.

The CHAIRMAN. You have been connected, or your company has been connected, with Nicaraguan financial affairs for some time. Will you please state to the committee when you first became connected with this business, and give us as concise and clear a statement of your connection with it as you can?

Mr. BROWN. I think I might say this to the committee, first, that Mr. Mallet-Prevost yesterday—I saw him last night—gave a very concise and accurate account of our connection with this business so that it would really be a duplication for me to go into it in detail, in the way he did yesterday. So that if there are any figures, etc., that the committee would like to have before it, I would be very glad to give them.

As far as our connection with the matter is concerned, it was first called to our attention through a piece of business we were doing in the fall of 1910. We were at that time approached by an Englishman by the name of Segar, who wished to amalgamate, or wished to dispose of some stock in the Emery Co., which was a hardwood company operating in Boston, and which had properties in Nica-

ragua. We took up negotiations for the sale of that property, but were not successful. Later on we brought in I. K. Williams & Co., of New York, who are also hardwood people, and they agreed to buy the stock from Mr. Segar, but insisted upon—

Senator SMITH of Michigan. What are Segar's initials?

Mr. BROWN. Samuel Segar, of London. They insisted, however, that certain dead assets of the company should be taken out of the assets before they actually took over the stock, and there were three pieces—the so-called Nicaragua claim, of which the Emery Co. owned two-thirds; some real estate at Chelsea, near Boston, and some dock property at Chelsea, near Boston. So Brown Bros. & Co. formed a small syndicate in which they had two-thirds interest and took over the Nicaragua claim and these pieces of real estate. The syndicate paid \$392,000 for these three pieces of property, and that was for the purpose of putting through the sale of the Emery Co. to the Williams Co. on behalf of Mr. Segar, who thereupon retired from the company.

It was in that way that our attention was first called to Nicaragua, and we made, naturally, some study of the Nicaraguan situation so as to ascertain whether this protocol—this Emery claim, which was a protocol between the United States and Nicaragua—was of any value, and whether we could afford to take it over.

Senator HITCHCOCK. You did actually take it over?

Mr. BROWN. Yes; the syndicate took it over.

Senator HITCHCOCK. Do you care to state what price was paid for the Emery claim?

Mr. BROWN. There was no separation between the two. The Emery claim, a two-thirds interest, was \$433,000; the real estate in Chelsea and in the dock property was valued by experts at \$161,000, with a mortgage of \$74,000 against it. The syndicate paid off the mortgage, which increased their investment of \$392,000 correspondingly to \$466,000, and eventually they sold for \$120,000 the dock property, but still have the real estate and the Nicaragua claim.

Senator SMITH of Michigan. What is the real estate worth?

Mr. BROWN. \$11,000 left—about \$11,000.

Senator HITCHCOCK (acting chairman). Proceed with your statement, Mr. Brown.

Mr. BROWN. I thought that was an answer to the question really as to how we became interested in the Nicaraguan situation, and that was the way in which we did.

Then to continue: At the time Mr. Mallet-Prevost, our counsel, was here in Washington investigating the Emery claim, his attention was called to the fact that Nicaragua desired some money. I was abroad at that time, so I was not conversant with the original negotiations. My firm cabled to me in London and asked me if I was willing to consider the purchase of bonds, and I told him I could not speak from a distance very well, but I would be interested if the business could be delayed until I returned.

Senator HITCHCOCK. Suppose we take up at this time this Ethelburga Syndicate matter, and try to get a full description of that in one place, disassociated from anything else. Will you do that?

Mr. BROWN. Yes, Senator. The Ethelburga Syndicate was formed long before we had anything to do with Nicaragua, and the 1909 bonds were issued and purchased by the syndicate before we had any-

thing to do with Nicaragua, and skipping over all the preliminaries in the original negotiations for the \$15,000,000 of bonds, in 1910, we undertook in those contracts to negotiate with the Ethelburga Syndicate and see if we could not improve the condition of Nicaragua by reducing the interest and by recovering certain moneys that we understood were held in London by the Ethelburga Syndicate unjustly. We did a very large amount of work on that and finally succeeded in recovering some £379,000 in cash and reducing the interest from 6 to 5 per cent per annum, which had 37 years to run at that time. That made an annual saving of some £12,500 a year to the Republic. We also secured an option that ran for two years, from October, 1912, to call these bonds at 93, at two years more, as I recall it—94, and a certain other period up to 95. So that if the comprehensive financing of Nicaragua could be accomplished within those periods of time it would have amounted to a 7 or 6 or 5 per cent additional saving for the Republic on the face amount of £1,250,000 bonds. These savings really, figured in dollars, amounted to a large sum of money, and the cash itself, which was immediate, and the annual saving of 1 per cent would come to something like \$3,750,000.

Senator HITCHCOCK. I want to ask a question there to clear up some doubts that I have. If this treaty should go through and the \$3,000,000 should be paid to Nicaragua and should be applied to the reduction of the indebtedness of Nicaragua—which is something like \$13,000,000, as we understand it—Nicaragua would be put in a better financial condition and the Ethelburga Syndicate would have a considerable advance in the value of the bonds which it now holds. Is that correct?

Mr. BROWN. The Ethelburga Syndicate may own bonds, but, of course, of that I know nothing. Presumably, Senator, they have not the bonds they bought long ago. They bought those bonds in 1909 of 1910, and undertook to take £750,000 of them at 75 cents on the dollar. They formed a syndicate in London and marketed the bonds as best they could. I doubt very much whether they made any profit on that because the quotations for the bonds do not show that they were able to sell them very freely.

Senator HITCHCOCK. What was that quotation?

Mr. BROWN. I doubt very much whether the Ethelburga Syndicate owned any bonds to speak of at the time we undertook negotiations with them. I think the bonds were in the hands of innocent third parties, and that is very largely borne out by the fact that when the committee of foreign bondholders made a settlement with Nicaragua the deposits came in in small amounts all over the continent—France, Belgium, Holland, and England.

Senator HITCHCOCK. Let me put it in another way. If this treaty fails, Nicaragua would be practically involved in bankruptcy, would it not?

Mr. BROWN. That I could not affirm. If I may, I will answer it in another way. These 1909 bonds—we call them Ethelburga bonds; that is the short phrase for them—are secured by a first lien on the customs. The customs are ample; the collections are more than ample to take care of some \$360,000, which is required for interest and sinking fund on those bonds—

Senator HITCHCOCK. For what number of years is that necessary?

Mr. BROWN. Thirty-seven years, as I recall it. So that with that debt of one million and a quarter sterling, there should be no reason why there should be any default.

Senator HITCHCOCK. What proportion of the customs is absorbed in that way?

Mr. BROWN. In round figures, the total customs collections for 1913 were \$1,750,000 gold. The interest charge and sinking fund absorbs \$360,000, as near as I can recall it, or very close to that figure.

Senator HITCHCOCK. That would be over one-third.

Mr. BROWN. No.

Senator HITCHCOCK. Oh, the customs are \$1,750,000. I want to see if it will not be possible, on condition of the United States taking this step, to make some adjustment of that indebtedness which is now, as I have supposed, rather insecure.

Mr. BROWN. No; I think the security for the English loan is ample; it is well secured. The other debts of Nicaragua, which we only know of in a most general way, the internal debt, is not secured and I have no doubt, but it is merely a matter of opinion, that if the \$3,000,000 that is to be paid to Nicaragua under this treaty were treated as the nucleus of a fund to settle the whole of the interior debt, or the obligation of Nicaragua so that Nicaragua could pay a certain percentage in cash and a certain percentage in bonds, secured after the 1909 bonds on the customs, that they would have all the rest of their revenues free, i. e., the income from 49 per cent of the stock of the railroad, the internal revenues, and all the local taxation free for their own expenses. But, as I say, that is a mere matter of opinion because we have never been able to get any official figures as to the actual internal debt of Nicaragua.

Senator HITCHCOCK. The financial representatives of Nicaragua?

Senator SMITH of Michigan. Do you mean internal or external?

Mr. BROWN. Internal. The external debt is clear.

Senator SMITH of Michigan. You have the exact figures as to the external debt?

Mr. BROWN. Yes, Senator; the external debt is entirely clear.

Senator HITCHCOCK. The best figures that the representative of Nicaragua here could make were about as follows: That the total income would be \$3,800,000; that \$3,200,000 was required for governmental purposes, and that would leave \$600,000 a year to be used in the payment of interest on the indebtedness; \$600,000 a year will not pay the interest on the indebtedness that would then exist.

Mr. BROWN. Well, I know nothing personally about the total indebtedness of Nicaragua.

Senator HITCHCOCK. If that is the present condition, I think the payment of this \$3,000,000 is essential. The threat is openly made that they will stop payment and deal with the present bondholders.

Mr. BROWN. I think you are quite right in that. The payment of \$3,000,000 under this treaty to Nicaragua is really a very essential factor in their present condition. Their financial condition is bad. Their commercial condition is bad and the credit of their merchants abroad has been curtailed by two or three years of unrest—one revolution in the meantime; so that their ability to pay local taxes and the ability of the Government to raise revenue thereon has been curtailed. If this money is paid to them and properly distributed, it

will revive their finances and business will start up again and their revenues would naturally rebound.

Senator SMITH of Michigan. Is this large debt that now burdens the Republic of Nicaragua the cause of its present condition?

Mr. BROWN. Well, I can not answer you directly, but I should say, as far as our knowledge is concerned, Nicaraguan has received in a general way 75 per cent—75 cents on the dollar—in other words, sold its foreign bonds at a discount of 25 per cent. It was due to our efforts that Nicaragua received the money.

Senator SMITH of Michigan. Now, let us get right down to that a little closer. You now refer to the avails of the Ethelburga bonds?

Mr. BROWN. Yes, Senator.

Senator SMITH of Michigan. Are you prepared to say that the Nicaragua treasury got 75 per cent of the face value of those bonds?

Mr. BROWN. No; I can not say that, because I can not affirm that. I was not a member of that syndicate, but the record showed that was the price.

Senator SMITH of Michigan. What records show that?

Mr. BROWN. Of Nicaragua.

Senator SMITH of Michigan. What records; the official records of the minister of finance?

Mr. BROWN. That is what I understand.

Senator SMITH of Michigan. Have you seen them?

Mr. BROWN. No, Senator.

Senator SMITH of Michigan. Have you seen any records there to warrant this statement on your part?

Mr. BROWN. I have only had the report of Messrs. Conant and Harrison, who went down to Nicaragua, and who reported to us in a general way on the financial condition of Nicaragua and among other things, on the sale of these bonds.

Senator SMITH of Michigan. Mr. Conant said the other day that he did not know about the avails of the Ethelburga bonds going into the treasury, did he not? Mr. Wands did not go into it.

Mr. BROWN. I can not affirm it, as I said, that those moneys went in there at all.

Senator SMITH of Michigan. Then I wish you would not try to do it, because, being under oath, we want the facts. We do not want any guesswork about it.

The CHAIRMAN. I will state to Senator Root, who asked if Mr. Caudra's testimony had been printed, that it is possible that the report was made to Brown Bros. The statement which is here conveys the information upon which you predicate that inquiry—that report.

Senator SMITH of Michigan. Well, of course Mr. Brown will state what he knows.

Senator Root. That is quite a different thing from the question that has been put to him. He has been asked to make a statement.

Senator SMITH of Michigan. I have in my hand a report of the article by Mr. Conant.

Senator WILLIAMS. The report of whom?

Senator SMITH of Michigan. The article of Mr. Conant in the North American Review, which was copied into the record, and if that discloses any intimate knowledge as to where this money of the Ethelburga bonds went I am unable to find it. If there is anything

else in Mr. Conant's testimony which shows it I do not recall it. But for yourself, you do not know.

Mr. BROWN. I do not know, Senator.

Senator O'GORMAN. May I ask a question here, Senator Smith, if it will not interrupt you?

Senator SMITH of Michigan. Certainly.

Senator O'GORMAN. Have you any knowledge as to the person who received the proceeds of the 75 per cent of these bonds?

Mr. BROWN. None at all.

Senator O'GORMAN. Where was the transaction closed?

Mr. BROWN. I can not tell you; I do not know. That was before we had any connection with Nicaragua.

The CHAIRMAN. You may proceed, Senator Smith.

Senator SMITH of Michigan. Mr. Mallet-Prevost yesterday stated that you had made a temporary advance or loan to Nicaragua on or about October 30, 1912. Are you familiar with that loan?

Mr. BROWN. I do not recall anything on that particular date.

Senator SMITH of Michigan. I will refresh your recollection. It was for \$500,000. Did you make any such temporary loan as that?

Mr. BROWN. On March 26, 1912, we made what we call the supplemental loan agreement, in which the \$500,000 was included.

Senator SMITH of Michigan. When was the \$500,000 loan?

Mr. BROWN. The actual date on which it was paid over?

Senator SMITH of Michigan. Yes.

Mr. BROWN. I can not answer that without looking up the records.

Senator SMITH of Michigan. Do you recall the transaction?

Mr. BROWN. Very well; yes, sir.

Senator SMITH of Michigan. Who handled that transaction?

Mr. BROWN. They handled it in New York.

Senator SMITH of Michigan. Did you handle it?

Mr. BROWN. Personally?

Senator SMITH of Michigan. Yes.

Mr. BROWN. No, sir; it was handled from my office.

Senator SMITH of Michigan. But you are perfectly familiar with it. I want to address this inquiry to you. The temporary or advanced loan to Nicaragua—which money the Nicaraguan Government needed badly at the time to liquidate some of the pressing debts of the Mena revolution, which had been suppressed with the aid of our Marines and bluejackets—was made at the personal request of the President of Nicaragua, was it not?

Mr. BROWN. That is my recollection.

Senator SMITH of Michigan. You received from the Nicaraguan Government for that \$500,000 advanced in that loan national pesos at the rate of 14 to 1, or 7,000,000 pesos, did you not?

Mr. BROWN. I do not recall having received any pesos. There were pesos put up as collateral for that loan.

Senator SMITH of Michigan. Were you not paid—was not that loan returned to you at a ratio of 14 to 1?

Mr. BROWN. My recollection is that the loan was returned to us out of certain moneys, or partly returned to us from certain money that came from the settlement of the Ethelburga Syndicate.

Senator SMITH of Michigan. Well, do you recall whether or not you took the national pesos in return for that loan at the ratio of 14 to 1, or 7,000,000 pesos?

Mr. BROWN. No, sir; I do not.

Senator SMITH of Michigan. The fixed rate of exchange into which these national pesos were to be converted into the new currency of gold on January 1, 1913, was $12\frac{1}{2}$ to 1, was it not?

Mr. BROWN. January 1, 1913?

Senator SMITH of Michigan. Yes.

Mr. BROWN. My recollection is that the currency rate went into effect before that. I have a minute on that—on or about that time.

Senator SMITH of Michigan. What I am asking you is about the published decree of the President concerning this temporary loan, and I would like to have you—

Mr. BROWN. It speaks for itself.

Senator SMITH of Michigan. I would like to have you answer it as fully as you can.

Mr. BROWN. I can not speak for the decree. I can not carry that in my memory.

Senator SMITH of Michigan. No; I do not suppose you have ever seen the decree. Twelve and a half to one was the ratio established between the Nicaraguan Government and yourselves, was it not?

Mr. BROWN. By the monetary commission—recommended by the monetary commission and established in contracts, and by legislative action down there.

Senator SMITH of Michigan. Now, then, if you were repaid this \$500,000, which you loaned temporarily and received therefor pesos at the ratio of 14 to 1, you would have made a clean profit of 750,000 pesos in Nicaraguan money in about 60 days.

Mr. BROWN. Senator, your question is unfair, if you will excuse me. You are saying "if."

Senator SMITH of Michigan. Let me finish. I hope to prove what I am asking by other witnesses than yourself, but I ask you because I want it on the record.

Mr. BROWN. You are putting a hypothetical question, Senator.

Senator SMITH of Michigan. Well, the difference between $12\frac{1}{2}$ to 1 and 14 to 1 on the loan that I have just described, if repaid in 60 days, would show a large profit, would it not?

Mr. BROWN. Do you mean repaid at the lower rate?

Senator SMITH of Michigan. Yes.

Mr. BROWN. If such transaction were put through, it would certainly show a profit.

Senator O'GORMAN. What would be the profit, according to your calculation?

Senator SMITH of Michigan. It would be \$60,000 in gold.

Mr. BROWN. Let me see. I will figure that. How many million pesos?

Senator SMITH of Michigan. Seven million.

Mr. BROWN. It appears to be about \$8,400, gold.

Senator SMITH of Michigan. Suppose that this were the rate exacted on the basis of the loan for 60 days, that would amount to 72 per cent, would it not?

Mr. BROWN. I have not figured it, sir.

Senator SMITH of Michigan. Well, I am going to try to establish that that was the loan, and that it was for 60 days, and it was for the amount I have specified, and the rate of interest would be 72 per cent.

Mr. BROWN. My recollection is, if I may say, that this was a gold loan, repayable in gold.

Senator SMITH of Michigan. Having an understanding with that Government that their moneys were to be converted under your new system of finance to practically a gold standard, it would matter little whether it was paid in your money or theirs, because they had banks that could readily convert it.

Mr. BROWN. That would not be true, Senator, if at the time the loan was made—and I am replying merely to a hypothetical question—the rate of exchange happened to be 14, because the Government would at once draw that money out at the rate of 14.

Senator SMITH of Michigan. But would the banker draw it?

Mr. BROWN. He would be obliged to transfer the money to the country. If the Government chose to draw a loan that was made to it, he would have to meet the drafts.

Senator SMITH of Michigan. Only such drafts as were made against the current funds of the Republic. You held all the funds of the Republic for customs?

Mr. BROWN. You are speaking about this loan?

Senator SMITH of Michigan. Yes; but I am speaking about the exchange. You held all the funds of the Republic.

Mr. BROWN. No; Senator.

Senator SMITH of Michigan. What national funds did you hold?

Mr. BROWN. The customs were administered by a collector general of customs appointed by the Republic, nominated by the bankers.

Senator SMITH of Michigan. Nominated by yourselves?

Mr. BROWN. Yes; but he was not under our control. He was obeying the laws of the Republic.

Senator SMITH of Michigan. Exactly; but under that agreement the funds were to come to you.

Mr. BROWN. I beg your pardon. The funds were to come to us under certain conditions, but none of those funds ever came to us except in so far as the Republic has agreed.

Senator SMITH of Michigan. But if the Republic has agreed—

Mr. BROWN. The Republic at the present moment is not transmitting any of this fund to us.

Senator SMITH of Michigan. I am not talking about the present moment, but I am referring to—

Mr. BROWN. At that time, under the contract, the customs were to be remitted in payment of the treasury bills.

Senator SMITH of Michigan. Which were to be remitted to whom?

Mr. BROWN. To Brown Bros. & Co. in payment of their debt.

Senator SMITH of Michigan. That is what I am trying to get at. So you really controlled their revenues at that time?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. How much did you allow the Republic for expenses when you controlled the revenues?

Mr. BROWN. I do not understand your question.

Senator SMITH of Michigan. I mean national expenses—salaries of the President and the assemblymen?

Mr. BROWN. We did not make any allowance at all. They had other revenues which they could deal with.

Senator SMITH of Michigan. What other revenues?

Mr. BROWN. Internal revenues.

Senator SMITH of Michigan. The national Government did not get the internal revenues.

Mr. BROWN. I do not know who did then.

Senator SMITH of Michigan. The cities received the internal revenues, did they not?

Mr. BROWN. I think not, Senator.

Senator SHIVELY. You intend to show that fact, do you not?

Senator SMITH of Michigan. I have the revenues as described in this circular, which I read yesterday as a basis of my remarks.

Senator HITCHCOCK. According to the statement of the financial secretary, he represented that the revenues were part of the national income.

Senator SMITH of Michigan. How?

Senator HITCHCOCK. And always has been, according to his statement.

Senator SMITH of Michigan. No; I think that is an error. But any way, what did you allow, if anything, for the payment of salaries of officials down there? Had you any schedule furnished you?

Mr. BROWN. None at all; we were not running the finances of the Republic. We made them a loan, and from time to time they needed more money, and we advanced further sums to them under the greatest stress.

Senator SMITH of Michigan. Was there not a time when the members of the legislature protested to you that they were unable to obtain their pay?

Mr. BROWN. Many times.

Senator SMITH of Michigan. What was your reply?

Mr. BROWN. That we had no further moneys and did not feel that we could advance any further moneys; that we had gone as far as we could.

Senator SMITH of Michigan. If they had money down there that was subject to legislative action, why should they protest to you?

Mr. BROWN. Because, I regret to say, they did not keep their finances in a condition where their revenues were equal to their outgo.

Senator SMITH of Michigan. Why should the members of the legislature turn to Brown Bros., of New York, for their pay?

Mr. BROWN. I am not speaking of the legislators particularly. I do not recall any legislators.

Senator SMITH of Michigan. I said assembly in my question; I said members of the assembly.

Mr. BROWN. Then I withdraw my answer. I do not recall any members of the assembly, or the assembly as a body, ever coming to Brown Bros. & Co. and asking for their salaries.

Senator SMITH of Michigan. What officials did come to you for salaries?

Mr. BROWN. I do not recall that anyone in particular came to us asking for any salary. The demand, as a rule, or request, as a rule, came from the minister of finance, or from the President himself.

Senator O'GORMAN. For what—for a further loan?

Mr. BROWN. An additional loan; yes, sir.

Senator SMITH of Michigan. Was the purpose set forth?

Mr. BROWN. For the general purpose of the Government. To pay salaries; sometimes to enable them to pay—in one instance, I remem-

ber, to pay for their tobacco, so that they could increase their revenues through the tobacco monopoly.

Senator SMITH of Michigan. Who selects the employees for the railroad in Nicaragua?

Mr. BROWN. At the present time?

Senator SMITH of Michigan. Yes; who did last year; who has under Diaz's administration?

Mr. BROWN. Brown Bros. & Co.

Senator SMITH of Michigan. You named them all?

Mr. BROWN. We selected the manager and left the local management entirely to him.

Senator SMITH of Michigan. Who selects the manager and employees of the Bank of Nicaragua?

Mr. BROWN. The officers and the board of directors of the bank.

Senator SMITH of Michigan. Who are they?

Mr. BROWN. I am president of the bank and act with the board of directors.

Senator SMITH of Michigan. So you are consulted about that?

Mr. BROWN. Naturally.

Senator SMITH of Michigan. Who selects the officials who collect the customs throughout the Republic?

Mr. BROWN. The collector general of customs.

Senator SMITH of Michigan. At whose instance?

Mr. BROWN. He never consults us about that except so far as the immediate subordinate is concerned—the deputy collector.

Senator SMITH of Michigan. And you are asked about that?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. Of all the employees in the public service in Nicaragua, including the banks, the railroads, and the customs, can you give us the total number of men so employed?

Mr. BROWN. In the first place, I think the bank should be excluded from being called a public service. It is owned 51 per cent by the bankers in New York and 49 per cent by the Republic. Therefore, the Government does not pay the salaries of the bank in any other way except that it owns part of the bank. That is also true of the railroad. As to the customs, Col. Ham originally selected his subordinates and we investigated their characters. When I speak of subordinates, Mr. Wilson was one of them. He is still in charge as deputy down there. We looked into his character and got his record so as to see that the matter was being turned over to a man of integrity and who knew about the collection of customs. Beyond that we had nothing to do with the appointment of any subordinates below them.

Senator SMITH of Michigan. Does that official appoint his own subordinates?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. So you appoint the man who selects his subordinates and leave it all to him?

Mr. BROWN. Except that he was acting under the Nicaraguan law and he had to have the approval of the local government in every appointment he made.

Senator SMITH of Michigan. Exactly. As to Col. Ham, who selected him?

Mr. BROWN. We selected Col. Ham. He was suggested, as I remember, by the State Department.

Senator SMITH of Michigan. What do you pay him for his services?

Mr. BROWN. I believe it is \$10,000.

Senator SMITH of Michigan. Gold?

Mr. BROWN. Gold.

Senator SMITH of Michigan. What would be the entire salary expenses of Americans now employed in the customs, the railroads, and the banks of Nicaragua annually?

Mr. BROWN. I can only give you that in a general way because in many cases I do not know whether they are Americans or not. Almost all of the employees of the customhouses are natives, below the men that I have mentioned. Col. Ham gets \$10,000, as I recall it; Mr. Wilson gets \$4,000 as deputy collector, and there is, I think, one accountant or auditor who gets \$3,000. That is as far as the customs are concerned.

Senator SMITH of Michigan. Is there no collector at Bluefields?

Mr. BROWN. I could not answer that question at all.

Senator SMITH of Michigan. They have various collectors, and there must be added their salaries.

Mr. BROWN. But you must understand that Col. Ham does not report to us. In his report just submitted to the State Department, as per contract, he puts all these things in the report, but he does not report to Brown Bros. & Co. or to the bankers in any way.

Senator SMITH of Michigan. So you have no knowledge of the total expense of the administration, the customs, or the salaries of American officials?

Mr. BROWN. Only in so far as I see it in his report, and I believe it is about 5 per cent.

Senator O'GORMAN. Five per cent of what?

Senator ROOT. Five per cent of the collections?

Mr. BROWN. Five per cent of the collections; yes, sir; including all expenses.

Senator SMITH of Michigan. What would it aggregate?

Mr. BROWN. On a million and a half it would be \$75,000.

Senator SMITH of Michigan. That is, customs?

Mr. BROWN. But that, you understand, is being paid very largely to natives also.

Senator SMITH of Michigan. As to what natives are employed there that is another question, but if they are employed they are employed merely because their superior wants them.

Senator SHIVELY. Is that 5 per cent of the revenue or 5 per cent of the pay roll?

Mr. BROWN. Five per cent of the revenue receipts.

Senator SMITH of Michigan. What are the expenses of operation of the railroad?

Mr. BROWN. The expenses of operation of the railroad are \$10,000, paid to Mr. O'Connor, who is general manager, and below him I believe there is one accountant. Mr. Cox may be able to say as to that.

Mr. Cox. Somewhere between \$2,000 and \$2,500.

Mr. BROWN. Not more than \$2,500, and, as far as I know, the rest of the people down there are Nicaraguans, and the expense of running the railroad is the usual expense of wages for enginemen and trainmen, etc.

Senator SMITH of Michigan. Is it a profitable railroad?

Mr. BROWN. The railroad, when we took it over, was making practically nothing. It was a ramshackle, broken-down affair, trains taking many hours to get from one point to another and never knowing exactly whether they were going to get there or not. When it was turned over to us as security for our loan we naturally tried to improve the security and it began to make money, and when it made money the money was put back into the property to improve the engines and roadbeds.

Senator SMITH of Michigan. You used whatever profits were made in the betterment and improvement? Did you use the profit to renew the steel?

Mr. BROWN. I do not recall that any rails were actually bought, but if we needed them they certainly were purchased.

Senator SMITH of Michigan. What is the weight of the steel; do you remember?

Mr. BROWN. It is very light. I could not tell you exactly.

Senator SMITH of Michigan. Was it 60 pounds when you bought it?

Mr. BROWN. My recollection is that it was somewhere near 25 or 30.

Senator SMITH of Michigan. And you have never changed it?

Mr. BROWN. I would not say that. I do not know the details of it at all.

Senator SMITH of Michigan. And you can not tell us what expenditure you made for steel?

Mr. BROWN. No, sir.

Senator SMITH of Michigan. How about ties?

Mr. BROWN. As to the ties, undoubtedly a great many of them were renewed. The total I can not tell you.

Senator SMITH of Michigan. But the profits which have accrued to the company—which I understand is an American company organized under the laws of Maine?

Mr. BROWN. I think it is organized under the laws of Maine.

Senator SMITH of Michigan. The profits which have accrued to the company from your management of the property have been put back into the property?

Mr. BROWN. Practically all. Nicaragua was paid a dividend of 1 per cent.

Senator SMITH of Michigan. When?

Mr. BROWN. At one time.

Senator SMITH of Michigan. How long ago?

Mr. BROWN. July, 1913, I should say. That is as I recall it, when she was anxious for some money.

Senator SMITH of Michigan. When she was paid a dividend did you also pay the American stockholders a dividend?

Mr. BROWN. There were no American stockholders at that time. Nicaragua owned the whole of the railroad.

Senator SMITH of Michigan. Where was the stock?

Mr. BROWN. Deposited as collateral.

Senator SMITH of Michigan. With whom?

Mr. BROWN. In New York.

Senator SMITH of Michigan. With your firm?

Mr. BROWN. Yes, sir; with my firm.

Senator SMITH of Michigan. When was the railroad company organized under the laws of Maine?

Mr. BROWN. That was at the time we took it over as collateral—June, 1912.

Senator SMITH of Michigan. Then, as a matter of fact, it was an American company with a capitalization of \$3,300,000, a capital stock of about 33,000 shares?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. And you say that at the time you paid this dividend you paid a dividend on 33,000 shares of that stock?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. One per cent?

Mr. BROWN. One per cent.

Senator SMITH of Michigan. And that money went to the Nicaraguan Government?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. And the date of this dividend was 1913?

Mr. BROWN. July, 1913.

Senator SMITH of Michigan. When did you acquire sixteen thousand and odd shares of stock of that company?

Mr. BROWN. Under a contract of October 8, 1913, in which we exercised our option to buy 51 per cent.

Senator SMITH of Michigan. When was the dividend paid?

Mr. BROWN. July, 1913.

Senator SMITH of Michigan. And that was paid, was it, before you realized on your option?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. You had, however, an absolute contract to sell at that time, did you not?

Mr. BROWN. To sell or to buy?

Senator SMITH of Michigan. Fifty-one per cent; you to buy and they to sell.

Mr. BROWN. We had an actual contract from them to sell, but we had an option to buy and we exercised that option—

Senator SMITH of Michigan. It was a jug-handled affair. You could take it if you wanted to, but if you did not you need not.

Mr. BROWN. We were very loath indeed to take it at that time.

Senator SMITH of Michigan. Yes; I understand so. Mr. Douglas said, I think, the other day that the railroad was earning 12 or—what did he say—14 per cent?

Senator SHIVELY. I do not recall that.

Senator SMITH of Michigan. Do you recall, Senator Hitchcock?

Senator SHIVELY. He made a statement as his impression of what it was earning.

Senator SMITH of Michigan. What is it earning, if you were to appropriate its full earning power to dividends?

Mr. BROWN. It is earning about at the rate of \$23,000 to \$24,000 a month on the average. There are many months when it runs less and months when it runs more than that, according to the local conditions and trade, revolutions, etc.

Senator SMITH of Michigan. It is earning about 14 or 15 per cent.

Mr. BROWN. It is earning between \$250,000—at the rate of \$250,000 to \$270,000 a year, which, on the capitalization would be considerably less than that.

Senator SMITH of Michigan. Yes; on the capitalization. On the price you paid for it, however, it would be quite large.

Mr. BROWN. Our share of that would, of course, be only 51 per cent.

Senator SMITH of Michigan. What would it be on that \$2,000,000 which you have invested and loaned on it?

Mr. BROWN. Our share of it would be half the amount of about \$250,000.

Senator SMITH of Michigan. What percentage would that be?

Mr. BROWN. About 12½ per cent, the local money rates running from 18 to 24 per cent.

Senator HITCHCOCK. What does that allow for maintenance?

Mr. BROWN. That would not allow anything except for ordinary maintenance and no improvements at all—taking, as Senator Smith asked me—the earnings that could be applied to dividends if they were not improving the property at all.

Senator HITCHCOCK. That is, just keeping it level, not improving it at all.

Mr. BROWN. Yes, sir.

Senator O'GORMAN. Did I understand you to say that the normal interest rates are 18 to 20 per cent?

Mr. BROWN. Yes, sir; the usual interest rate runs almost entirely at 1 per cent a month, 12 per cent a year, and in any unusual transactions or any loans, 1½ per cent is not at all unusual—1½ per cent a month, or 18 per cent per annum.

Senator SMITH of Michigan. Mr. Brown, do you think it would be extravagant to say that the American pay roll, which must have ultimately been paid through your bank to the employees in Nicaragua, would exceed \$150,000 a year?

Mr. BROWN. If you include all employees in the corporations in which we have an interest—

Senator SMITH of Michigan. And in which the Republic has an interest.

Mr. BROWN. And in which the Republic has an interest, it might well be that.

Senator SMITH of Michigan. Would it not go to \$200,000 a year?

Mr. BROWN. I really have not figured it because I have always taken the corporations separately, naturally.

Senator SMITH of Michigan. You have no data which will guide the committee as to that?

Mr. BROWN. Yes; I can give you a list of the salaries that we know about here, but whether they are local people or whether they are Americans I can not say.

Senator SMITH of Michigan. I speak particularly of American employees.

Mr. Cox. We have the bank employees.

Senator SMITH of Michigan. The reason I regard that as important is because whatever the burden it is now borne jointly by the Republic and yourselves.

Mr. BROWN. In those two corporations; yes, sir.

Senator SMITH of Michigan. So that the Republic is affected by it?

Mr. BROWN. Yes, sir; to a little less extent than we are.

Senator SMITH of Michigan. I wish you would put that in the record at this point. I am going to ask to have it put into the record. We have quite a little data on it, but I thought you could give us accurate detailed figures.

Mr. BROWN. This is only a record of the employees of the bank and their salaries. As to the railroad, I have not any data with regard to that, the employees, etc.

(The paper referred to is as follows:)

Employees and salaries, National Bank of Nicaragua.

Managua :

| | |
|--|------------|
| J. A. Whitaker, manager, and expenses..... | \$2,500.00 |
| R. G. Castel, assistant manager..... | 4,000.00 |
| H. Osorio, accountant..... | 2,400.00 |
| H. Osorio, secretary of local board..... | 300.00 |
| A. L. Escoffery, assistant accountant..... | 1,800.00 |
| M. Browne-Webber, stenographer..... | 1,440.00 |
| F. Anzostegui, bookkeeper..... | 1,200.00 |
| F. Vega, paying teller..... | 900.00 |
| A. Bengoechea, receiving teller..... | 600.00 |
| Wm. Celestin, janitor..... | 360.00 |
| J. M. Falla, file clerk..... | 300.00 |
| M. Irias Puizi, guard..... | 261.60 |
| A. Vega, office boy..... | 180.00 |
| M. K. Gantz, inspector, and expenses..... | 2,400.00 |
| Dr. Zapeda, attorney..... | 1,200.00 |
| | <hr/> |
| | 19,841.60 |
| | <hr/> |

Granada :

| | |
|---------------------------------|----------|
| C. H. Bush, submanager..... | 4,000.00 |
| C. Estrada, teller..... | 960.00 |
| J. S. Carneiro, bookkeeper..... | 960.00 |
| G. Lacayo, jr., clerk..... | 384.00 |
| P. Villegas..... | 288.00 |
| J. Calderon..... | 192.00 |
| | <hr/> |
| | 6,784.00 |
| | <hr/> |

Leon :

| | |
|-------------------------------------|----------|
| F. Wittram, submanager..... | 4,200.00 |
| M. Sainz, accountant..... | 2,400.00 |
| R. Bastenaire, cashier..... | 900.00 |
| G. Teller, messenger and clerk..... | 300.00 |
| C. Ruiz, porter..... | 204.00 |
| R. Espacio, watchman..... | 180.00 |
| | <hr/> |
| | 8,184.00 |
| | <hr/> |

Bluefields :

| | |
|--|----------|
| August Luthy, submanager..... | 2,400.00 |
| August Luthy, cashier..... | 1,800.00 |
| W. Loewenthal, accountant..... | 1,500.00 |
| W. Loewenthal, secretary of local board..... | 240.00 |
| W. Loewenthal, bookkeeper..... | 1,200.00 |
| W. Loewenthal, messenger..... | 480.00 |
| | <hr/> |
| | 7,620.00 |
| | <hr/> |

New York :

| | |
|----------------------|----------|
| W. M. Carlebach..... | 650.00 |
| Miss Bean..... | 1,300.00 |
| Edgar Marshall..... | 312.00 |
| | <hr/> |
| | 2,262.00 |

The CHAIRMAN. Can you state in the aggregate what the salaries are in America?

Mr. BROWN. It is stated right at the foot of that second page.

Senator SMITH of Michigan. You say you were drawn into the Nicaraguan affairs through a piece of business that you were doing with Mr. Samuel Segar, of London?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. Affecting the so-called Emery claim.

Mr. BROWN. No; the piece of business we were interested in was the sale of some stock of his, a controlling interest in the stock of the Emery Co. which he wanted to sell or dispose of.

Senator SMITH of Michigan. Was that a speculation on your part?

Mr. BROWN. No; it was no speculation. It was a commercial business. The Emery Co. was a hardwood company, doing business in Boston—

Senator SMITH of Michigan. A corporation?

Mr. BROWN. A corporation.

Senator SMITH of Michigan. And you were selling the stock of the corporation?

Mr. BROWN. He came to us to negotiate a sale of that stock.

Senator SMITH of Michigan. And that is the way you were drawn into the Nicaraguan affairs?

Mr. BROWN. That is the way our attention was first called to it.

Senator SMITH of Michigan. Until you finally became a considerable holder of the Emery claims, so-called?

Mr. BROWN. A part of the Emery claim; yes, sir.

Senator SMITH of Michigan. Who is Samuel Segar?

Mr. BROWN. He is an Englishman. He has been a customer in the timber business in which we are interested, through the Emery Co., and other companies here in the mahogany business, and we have done a commercial-credit business with him and invested his money in securities for several years. Several different times he was a customer of ours.

Senator SMITH of Michigan. Both in London and here?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. What are your London connections?

Mr. BROWN. Brown, Shipley & Co.

Senator SMITH of Michigan. That is a banking house?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. Doing a general banking business?

Mr. BROWN. The usual merchants business in London. We are not bankers in London. We are merchants, but we do a banking business.

Senator SMITH of Michigan. What we regard as brokers here?

Mr. BROWN. No; bankers.

Senator SMITH of Michigan. You do not receive deposits, do you?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. For people generally?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. Is it supervised under the laws of England?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. As we supervise our banks here?

Mr. BROWN. No; we are not inspected in that way. We are organized under the general business law of England.

Senator SMITH of Michigan. What I mean is to distinguish between a bank doing a general banking business and one buying and selling securities, etc.

Mr. BROWN. We are not a stock-exchange house, if that is what you mean.

Senator SMITH of Michigan. Are you here?

Mr. BROWN. Here we are members of the stock exchange, but do very little of the stock-exchange business.

Senator SMITH of Michigan. Who looks after your London business?

Mr. BROWN. My partners over there—five of them—Sir Alexander Hargrave Brown, Bart., Lawrence E. Chalmers, Edward Clifton Brown, Montague C. Norman, and James Leigh Wood.

Senator SMITH of Michigan. And who looks after the business here?

Mr. BROWN. Here we have three offices. We have six partners in New York and two in Philadelphia and one in Boston.

Senator SMITH of Michigan. Who are the partners?

Mr. BROWN. I will give you the New York partners first: Mr. Charles D. Dickey, Mr. Eugene Delano, Mr. Waldron P. Brown, Mr. T. M. Brown, Mr. Moreau Delano, and myself. In Philadelphia, Mr. George H. Frazier, Mr. James Crosby Brown. In Boston, Mr. Louis Curtis.

Senator SMITH of Michigan. I would like to ask whether in making the temporary loan to Nicaragua such advances really came from funds that you had already, in part or in whole, in your possession, from customs connections or otherwise, belonging to Nicaragua?

Mr. BROWN. No, sir.

Senator SMITH of Michigan. You differentiate between the moneys that came to you under your contract from Nicaragua?

Mr. BROWN. Entirely.

Senator SMITH of Michigan. And the moneys that you loaned to Nicaragua?

Mr. BROWN. Entirely; they were absolutely distinct.

Senator SMITH of Michigan. But at the same moment both those funds might have been to the credit of your house, though in a different form.

Mr. BROWN. You will have to specify a time, so I may answer that question, because when we made the treasury bills agreement they owed us a million and a half dollars on those bills, and at no time did we have Nicaraguan funds, except in so far as they were remitted to pay the bills off. As these bills were paid off we had no further funds of theirs.

Senator SMITH of Michigan. You seem, under your agreement, to carry a fund.

Mr. BROWN. Yes, sir; a special fund. At the present moment I think there is something like \$12,000 in exchange, expense fund, which we hold under the contract, on which we allow them interest, and there is about \$28,000 in the Ethelburga settlement fund which is held now for the purpose of retiring bonds which have not been presented; that is, bonds on the older loans that have been exchanged.

Senator SMITH of Michigan. Then, what other funds do you hold in your possession? I do not now mean the funds held in the United States Mortgage & Trust Co. under your agreement.

Mr. BROWN. There is no mortgage and trust company fund now at all.

Senator SMITH of Michigan. There was \$600,000 or thereabouts to secure—

Mr. BROWN. That fund is held now jointly by Brown Bros. & Co. and Seligman, and my recollection is about \$450,000 is divided between the two of us.

Senator SMITH of Michigan. Where is that carried?

Mr. BROWN. In our own institution.

Senator SMITH of Michigan. Does it belong to you or Nicaragua?

Mr. BROWN. It is one of our deposit accounts.

Senator SMITH of Michigan. It belongs to Nicaragua?

Mr. BROWN. It belongs to Nicaragua; that is, the exchange fund. In that sense of the word—it is a part of the issue department of the bank.

Senator SMITH of Michigan. How much of Nicaragua's fund, all told, do Brown Bros. and Seligman now hold in their possession?

Mr. BROWN. \$12,000 in the exchange fund, and \$28,000 under the Ethelburga contract.

Senator SMITH of Michigan. And the sum you have just mentioned?

Mr. BROWN. That is not Nicaragua's fund in that sense of the word.

Senator SMITH of Michigan. It is held for Nicaraguan purposes.

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. It is an accumulation out of the Nicaraguan resources?

Mr. BROWN. Yes, sir; that is true, but we might also include deposits in the national bank had with us.

Senator SMITH of Michigan. The National Bank of Nicaragua?

Mr. BROWN. Yes, sir.

Senator SMITH of Michigan. That is your own institution?

Mr. BROWN. No; that is one—

Senator SMITH of Michigan. Yours and others?

Mr. BROWN. It is partly owned also by the Government.

Senator HITCHCOCK. It is money in the trust fund not subject to the order of Nicaragua, but the redemption of Nicaraguan obligations?

Mr. BROWN. Entirely; not any more obligations than the currency itself.

Senator HITCHCOCK. The currency—that is an obligation.

Senator ROOT. Do you pay interest on that?

Mr. BROWN. Yes, sir; at the regular rate that the trust companies allow on trust funds.

Senator SMITH of Michigan. Do you know that concern of bondholders [handing witness a paper]?

Mr. BROWN. No; I do not, but that would be nothing unusual. I am not very conversant with Chicago people.

Senator SMITH of Michigan. But your house is probably familiar with them?

Mr. BROWN. They may be; yes, sir.

Senator SMITH of Michigan. But you do not know whether you are dealing with them or not?

Mr. BROWN. No, sir.

Senator SMITH of Michigan. I want to call your attention to the fact that this is a bond circular advertising a sale of \$200,000 of bonds of the Republic of Nicaragua, 6 per cent gold, dated June 15, 1904, maturing June 15, 1914, and every five years thereafter, to and including 1929; that it contains an official statement; it is under date of March, 1909, and includes a financial statement of the Republic, the external or foreign debt, a statement of receipts and expenditures, and on the second page it gives a basis for the sale of the bonds which they are now offering, and with which I suppose you are familiar—you are familiar with that issue?

Mr. BROWN. I know of the bonds.

Senator SMITH of Michigan. Is it an Ethelburga bond?

Mr. BROWN. No, sir.

Senator SMITH of Michigan. What would you call that bond [indicating]?

Mr. BROWN. That is evidently the issue of 1904, I think commonly called the Wineberger bond.

Senator SMITH of Michigan. That is the Wineberger bond [indicating]?

Mr. BROWN. That is the common name of it.

Senator SMITH of Michigan. It is in default, is it not?

Mr. BROWN. Not that I am aware of.

Senator SMITH of Michigan. I do not mean that it is permanently in default.

Mr. BROWN. The Ethelburga Syndicate provided in its issue of bonds for taking up all these bonds. That bond, if it is a valid bond, has probably not been presented.

Senator SMITH of Michigan. Under this circular of Cutter, Waller & May, of March, 1909, they say, "The monetary unit of Nicaragua is the dollar—or peso—and is based upon silver, the average value of the peso in United States gold being about 40 cents." This is a financial statement, as I told you a few moments ago. The Government of Nicaragua at that time owned 171 miles of railroad, and the total receipts for the year ending December 31, 1906, were \$42,137,978.25.

Mr. BROWN. Dollars?

Senator SMITH of Michigan. Dollars. That is what it says. Would you call that dollars [indicating] or pesos? Just look at those figures.

Mr. Cox. They use the same symbol.

Mr. BROWN. I think it is intended to be pesos. It does say dollars.

Senator SMITH of Michigan. As it says "dollars," perhaps it means Nicaraguan dollars; that is a fair inference.

Mr. BROWN. I hardly think so. The figure is too high.

Senator SMITH of Michigan. The total expenditure for the year ending December 31, 1906, was \$9,797,544.36; the total receipts over expenditures in 1906, \$32,340,433.89. If that was the condition of that Republic's finances on December 31, 1906, they were in a very fair condition, were they not?

Mr. BROWN. Certainly.

Senator SHIVELY. Is that an official document or a circular letter sent out?

Senator SMITH of Michigan. Perhaps we ought to print this document.

Senator HITCHCOCK. Senator, it is so obviously wrong that I do not think we should put it in the record.

Senator SMITH of Michigan. It is the basis for the sale of these very bonds that are now being redeemed.

Senator HITCHCOCK. It is only as a basis of marketing. But it is a preposterous and false statement. They could not have had a profit of \$30,000,000 a year. It is absolutely impossible.

Senator SMITH of Michigan. Included in the figures of receipts is receipts from revenue of from \$12,065,115.28. That would not be extravagant. That is about the figure, is it not?

Mr. BROWN. I really do not know.

Senator SMITH of Michigan. That is not far from the present figure.

Mr. BROWN. \$12,000,000? Oh, no. They have very much less than that, as far as I understand it.

Secretary BRYAN. It is evidently pesos.

Senator SMITH of Michigan. Perhaps. I wish it had said so.

Senator HITCHCOCK. It is not pesos, because they make an enormous profit; and right afterwards they say that the Government is sinking in debt. So it is preposterous.

Mr. Cox. The symbol for pesos and dollars is the same.

Senator HITCHCOCK. Do you know that that is a responsible house, Senator Smith?

Senator SMITH of Michigan. I only know that a very responsible man sends it to me, and has written to the Secretary of State and called his attention to the bond, and I have the reply of the Secretary of State here.

Senator SHIVELY. Was it on the strength of that that he made the investment?

Senator SMITH of Michigan. It was.

Senator ROOT. What is the date of that—1909 or 1905?

Senator SMITH of Michigan. This is 1909. He also says here:

We also have a letter from Hon. Elihu Root, Secretary of State, advising that it has been the policy of the United States Government for some years past to have its vessels in Central American waters from time to time, thus showing conclusively that the rights of American citizens will be fully protected and respected in these as well as other Pan American countries.

If this is inaccurate, it is the basis for the credit which some of the bonds have had in the country. The firm is a very reputable firm. Now I am not going to pursue the inquiry. I want to be correct about it. I want just what is said to be correct. The payment of the internal debt is given here:

Total internal debt December 31, 1905, \$14,547,635.75; total internal debt December 31, 1906, \$13,674,650.62; decrease in internal debt of 1906 of \$872,985.13.

The internal debt has been gradually accumulated from several sources.

Quoting from the report of the Bureau of American Republics:

The internal debt of the country is in the nature of a second mortgage, and it means that if anything is left over after paying up the annual quota of foreign

debt and after deducting the expenses necessary for running the Government it will be devoted to the settlement of the internal debt.

Senator POMERENE. May I ask you what you mean by "internal debt"?

Senator SMITH of Michigan. The debt of the various Provinces—subdivisions.

Senator POMERENE. The municipal debt?

Senator SMITH of Michigan. I should judge, the municipal debt.

Senator WILLIAMS. It means debt to domestic creditors of Nicaragua.

Senator ROOT. In the ordinary meaning, the debts to their own people.

Mr. COX. The Provinces have no debts.

Senator SMITH of Michigan. They have no debts in the interior.

The CHAIRMAN. No provincial debts, he says. The debts were due from the Government at large—the Central Government.

Senator SMITH of Michigan (reading):

The total per capita debt of Nicaragua in comparison with quite a number of Central and South America countries (some of which have not advanced so rapidly and have not the natural resources as well as the means to provide for their indebtedness) is smaller and the country is in a much stronger financial condition.

These bonds offered herein were issued by the Republic of Nicaragua principally to provide funds to extend the Government railroad lines to the Atlantic coast, in accordance with the constitution of the Republic, and under specific authority granted by the National Legislative Assembly in April, 1904, approving the contract made by the minister of finance with the parties purchasing the bonds from the Republic. Under this contract, the Mercantile Trust Co., of Boston, Mass., is made the trustee for the holders of the bonds and their certificate appears on each bond.

Now, you are familiar with that issue of bonds?

Mr. BROWN. I only know of it by name, and, in fact, we have had considerable correspondence with the Republic with regard to the payment of the principal and interest on those bonds as they fell due.

Senator SMITH of Michigan. They are valid bonds, then?

Mr. BROWN. I could not answer for that, except that the Republic recognizes them as a valid bond.

Senator SMITH of Michigan. And you have recognized them as valid?

Mr. BROWN. In that way.

Senator SMITH of Michigan. I thought Mr. Mallet-Prevost said yesterday that they could be redeemed at your banks upon presentation?

Mr. BROWN. I do not know whether that is a good bond or not, because I am not technically able to say.

Senator SMITH of Michigan. You do not mean to cast any discredit on the issue?

Mr. BROWN. Not at all; under instructions and decree from the Republic, which I believe is on the way now, and when received we would be glad to convert these bonds or pay them at maturity.

Senator SMITH of Michigan. That is, this bond?

Mr. BROWN. That issue of bonds; yes, sir.

Senator SMITH of Michigan. I notice this paper further states:

As security for the payment of the bonds at maturity, the Government, in addition to pledging its faith and credit, specifically contracts and agrees to set aside 25 per cent of the gross receipts of the customs of the Atlantic coast

(99 per cent of the trade is on the Atlantic coast side) from the taxes upon the imports and exports for the term of 25 years.

Senator SMITH of Michigan. Are you familiar with that provision of the contract?

Mr. BROWN. No. We had no occasion to look into the contracts with other bondholders.

Senator SMITH of Michigan. You had no occasion to look to see whether they had previously pledged their revenues?

Mr. BROWN. Yes; in one sense of the word, because in the Ethelburga syndicate bonds provision was made for all the outstanding foreign debt.

Senator SMITH of Michigan. Then you must have looked into it to find out what it was?

Mr. BROWN. We looked into the facts to find out, and the Ethelburga syndicate took care of all that, and their bonds provided for that. We looked into it to that extent, but we did not go back to see whether their bonds were valid. That was not necessary.

Senator SMITH of Michigan. We passed that. I was asking you whether you were familiar with the agreement with those bondholders that 25 per cent of the gross customs receipts would be received to retire these bonds?

Mr. BROWN. No; I am not familiar with that, but I am familiar with the fact that the Ethelburga bonds were reserved to take up these bonds.

Senator SMITH of Michigan. Does it surprise you to know that these customs receipts were thus pledged?

Mr. BROWN. No; it does not surprise me, because the Republic often made pledges which it did not really carry out in the end.

Senator SMITH of Michigan. In the Ethelburga agreement the customs were also pledged, were they not?

Mr. BROWN. Yes.

Senator SMITH of Michigan. And then they were afterwards pledged to you?

Mr. BROWN. No; a second lien only was given to us.

Senator SMITH of Michigan. Subject to all the previous indebtedness?

Mr. BROWN. All the Ethelburga lien—all the English bonds.

Senator SMITH of Michigan. This issue I am calling your attention to, including this one of ours?

Mr. BROWN. Yes.

Senator SMITH of Michigan. Then your security in the first instance, so far as the customs were concerned, was taken subject to the customs pledged to secure the Ethelburga bonds—

Mr. BROWN. Which in turn—

Senator SMITH of Michigan. Wait one moment until I finish the question. And these bonds—what are they?

Mr. BROWN. The Wineberger bonds.

Senator SMITH of Michigan. The Wineberger bonds, with which you must have been familiar.

Mr. BROWN. As far as our security is concerned, it was subsequent to the Ethelburga bonds, the bonds of 1909. The Ethelburga bonds provided for the previous issue of bonds, so that our lien followed the Ethelburga lien directly.

Senator SMITH of Michigan. That is, provided for this issue?

Mr. BROWN. That is, the Ethelburga bonds provided for this issue of 1904 bonds. We followed the Ethelburga bonds.

Senator SMITH of Michigan. Then, in order for your security to be stable, it was necessary for you to in some manner understand, if not to control, the previous liens on the customs?

Mr. BROWN. Not to control them; to set them aside; to see that the Government took care of these obligations.

Senator SMITH of Michigan. I think Mr. Mallet-Prevost said, although I am not quite sure about it—his testimony is not here—that he regarded the Ethelburga bonds as without validity.

Senator WILLIAMS. No; he said those issued under the supplementary agreement were without validity, but on the original agreement—

Senator HITCHCOCK. No; he did not say that. What he said was this—

Senator ROOT. He said the supplementary agreement was invalid.

Senator WILLIAMS. The supplementary agreement, the validity of which he denied, but not the original agreement.

Senator HITCHCOCK. I think he said the bonds were perfectly valid—the issuance of them was perfectly valid—and was ratified by their Congress down there; that the first contract was a good contract, and that the supplementary contract, which was made favorable to the Ethelburga Syndicate, was not a valid contract, and it was that contract which they proposed to break in the courts.

Senator ROOT. It was under that contract that this money was held up in London.

Senator HITCHCOCK. Yes.

Senator ROOT. And it was the holding up under the supplementary contract that they proposed to attack, as I understand.

Senator WILLIAMS. And the fact that the supplementary contract was invalid was held as a club to make them reduce the interest, after having first tried to get them to reduce the interest.

Senator SMITH of Michigan. As a matter of fact, we get back to where we were a moment ago. You were subject to the previous assignment of the customs and other revenues, and to that extent at least you were interested in the Ethelburga bonds?

Mr. BROWN. Surely.

Senator SMITH of Michigan. Did you at any time undertake to buy any of those bonds from anyone?

Mr. BROWN. No, sir; we never purchased a bond. We never owned a bond.

Senator SMITH of Michigan. Did anyone ever undertake to buy them for you?

Mr. BROWN. No, sir; indirectly or directly: in no way. Not any of our houses had anything to do with that. We purposely instructed them not to, because we wished to have no interest in them.

Senator SMITH of Michigan. How about your selling them?

Mr. BROWN. As to selling them, I am sure they did the same thing. In fact, I am sure they did.

Senator SMITH of Michigan. It was stated yesterday that Mr. Otto Fuerth had been president of the Ethelburga Co. and made his headquarters with Speyer & Co. Do you know whether they bought any of these bonds?

Mr. BROWN. They will have to speak for themselves. I doubt it very much.

Senator SMITH of Michigan. You do not know?

Mr. BROWN. No; I do not know, Senator.

Senator SMITH of Michigan. When you made your first loans to Nicaragua, you made them subject to these previous agreements, not changing or altering—

Mr. BROWN. Subject to the Ethelburga bonds, if you will put it that way, Senator.

Senator SMITH of Michigan. Not changing or altering that contract in any way? Do we understand one another?

Mr. BROWN. Mr. Cox was thinking that you had in mind the change of interest, but you have not come to that.

Senator SMITH of Michigan. No. I have not got that in my mind. I just wanted to see what was ahead of you, and then from some statements that we have we will know what followed.

Mr. BROWN. May I make this statement, Senator, and keep it off the record, if you like?

Senator SMITH of Michigan. I would rather have it put on the record.

Mr. BROWN. The simple way to look at it is that the Ethelburga bonds were the 1909 bonds, and the total issue was £1,250,000. When we made our first loan that was the total amount of lien ahead of us.

Senator HITCHCOCK. That absorbed all the previous bonds to date?

Mr. BROWN. That provided for all the previous foreign debts.

Senator WILLIAMS. It was sort of a refunding scheme?

Mr. BROWN. Yes; it was a refunding of the foreign debt at that time.

Senator SMITH of Michigan. I notice in a letter signed by Brown Bros. and Seligman, under date of June 3, 1914, that the market for the 1909 bonds was 77 flat at that time.

Mr. BROWN. What was the date of that?

Senator SMITH of Michigan. June 3, 1914.

Mr. BROWN. That was after the conversion.

Senator SMITH of Michigan. How was that?

Mr. BROWN. That was after the reduction of interest.

Senator SMITH of Michigan. This bond [indicating] was worth how much on that date?

Mr. BROWN. I really do not know what that bond is worth.

Senator WILLIAMS. Is that bond stamped?

Senator SMITH of Michigan. Yes; that is a valid bond.

Senator WILLIAMS. What I mean is, that when these bonds were brought in these bondholders agreed to the subsequent agreement and the reduction of interest. For the balance they had to have a stamp put on them, and after that stamp was put upon them they could not get except the 5 per cent. That was the testimony we had the other day.

Mr. KOHLMANN. That [indicating] is not a bond of that issue.

Senator SMITH of Michigan. That is not that issue.

Mr. KOHLMANN. This is the issue of 1904.

Senator WILLIAMS. Then that marking of those bonds and stamping them applied only to the 1909 bonds, and not to the 1904 bonds?

Mr. KOHLMANN. Exactly.

Senator WILLIAMS. I wanted to get that clear in my mind.

Senator SMITH of Michigan. Brown Bros. say in this letter, explaining the manner of exchanging 1909 bonds for 1904 bonds of the Republic of Nicaragua:

We now take pleasure in offering to exchange each of your \$1,000 1904 bonds with all coupons from and including that of June 15, 1912, for £1.120 1909 bonds, with the July 1, 1913, and January, 1914, coupons. The market for 1909 bonds is 77 flat. We offer you 79 flat for the converted 1909 bonds. This offer is good for acceptance by return mail.

Why were you enabled to make that offer?

Mr. BROWN. In the first place, there were a certain number of the 1909 bonds reserved under the contract to take care of these 1904 bonds. Those bonds are held by us in trust subject to presentation or conversion of the 1904 bonds.

Senator SMITH of Michigan. In trust for whom?

Mr. BROWN. For the Republic.

Senator SMITH of Michigan. That is, those are the Ethelburga bonds?

Mr. BROWN. The Ethelburga bonds, which are issued, part of them, for conversion purposes and refunding purposes. I should say a part of them were sold for cash. Those that were for sale for refunding purposes were put aside and held until the presentation of the 1904 bonds. Therefore, in our conversion of the Ethelburga loan, these bonds came in to us as trustees, waiting for the 1904 bonds to appear. These are some of them.

Senator SMITH of Michigan. Do you hold any of these Ethelburga bonds in trust for anyone besides the Republic?

Mr. BROWN. No.

Senator SMITH of Michigan. Have you ever held any of them in trust for anyone, either in London or here?

Mr. BROWN. No.

Senator SMITH of Michigan. I do not know that I got an answer as to what fixed that flat rate of 77.

Mr. BROWN. The London market.

Senator SMITH of Michigan. Was there an active London market?

Mr. BROWN. No; that is not an active market, but they are quoted regularly all the time, and they are listed on the stock exchange.

Senator SMITH of Michigan. Are they quoted through your influence?

Mr. BROWN. Quoted through the influence of the foreign bondholders and listed by the exchange there when they were first brought out in London in 1910 or 1911.

Senator SMITH of Michigan. I should like very much if you could tell us just the function of the committee of foreign bondholders, whether they have any interest in any of these securities themselves.

Mr. BROWN. I can only tell you this, Senator: The committee of foreign bondholders is a body that was organized a great many years ago in London to take care of the large number of smaller individuals who found themselves in England with bonds that had defaulted or had been repudiated by various States or Republics or monarchies,

and so on, and they became after a while quite a powerful organization. They had quite a large syndicate behind them, and in many cases they did buy up these defaulted obligations, and the syndicate indirectly, not the bondholders—the committee itself—but the syndicate made large sums of money. Whether the committee of foreign bondholders held any of these bonds when this conversion was made I do not know. I have no cause to know. It is their regular business. It is almost like—in fact, it is a company there in London which takes care of defaulted securities.

Senator WILLIAMS. They take care of English investors in foreign bonds?

Mr. BROWN. In foreign bonds—Argentine bonds—

Senator WILLIAMS. Advising them and warning them and ministering for them?

Mr. BROWN. Yes.

Senator SMITH of Michigan. Why was this bond to which I have called your attention permitted to go to default?

Mr. BROWN. The interest on that, you mean?

Senator SMITH of Michigan. Yes, sir.

Mr. BROWN. We have been trying for, I think, at least a year, if not a year and a half, to get a decree from the Republic which is necessary in order that we might be able to appropriate the interest from the 1909 bonds, which would in turn be payable out for the interest on the 1904 bonds, and the decree is only just now on its way from Nicaragua. We have correspondence which would show that we tried over and over again to get the Executive to issue the proper decree, and he has not done so, notwithstanding that it was very bad for the credit of Nicaragua that an underlying bond would not pay its interest. We were anxious that it should do so.

Senator SMITH of Michigan. The bondholders began to make trouble about it?

Mr. BROWN. They wrote to us, but we could not do anything than to hurry it up with Nicaragua, which we did.

Senator SMITH of Michigan. I have a letter addressed to Mr. W. R. Burt, from the State Department, under date of April 15, 1914. It reads:

Mr. W. R. BURT,

Second National Bank Building, Saginaw, Mich.

SIR: The department acknowledges the receipt of your letter of March 25, 1914, in which you state that in 1904 the Government of Nicaragua put out an issue of about \$1,000,000 of bonds, that 25 per cent of the customs revenue are pledged for the payment of interest on these bonds, that the interest has not been paid since June 15, 1912, and that certain of the bonds which you hold become due in June, 1914. You inquire as to whether this department has knowledge of any arrangement having been made for the taking care of this debt. In reply you are informed that as the State Department had no information in regard to this matter, Gen. Chamorro, the Nicaraguan minister in Washington, was requested to inform the department of what he knew in the premises. Gen. Chamorro took the matter up with Messrs. Brown Bros. & Co., and J. & W. Seligman & Co., New York bankers, interested in the finances of Nicaragua, and a copy of their reply to the Nicaraguan minister, dated April 3, 1914, under the heading "1904 New Orleans bonds," is inclosed herewith for your information.

I am, sir, your obedient servant.

For the Secretary of State:

ROBERT LANSING, *Counselor.*

This is the reply :

Brown Bros. & Co., 59 Wall Street, New York City.

Republic of Nicaragua Loan.

NEW YORK, April 3, 1914.

J. & W. Seligman & Co.,
1 William Street, New York City.

HON. EMILLANO CHAMORRO,
Minister of Nicaragua to the United States,
Nicaraguan Legation, Washington, D. C.

DEAR SIR:

1904 New Orleans bonds.

We beg to acknowledge receipt of your letter of the 1st instant, in which you advise that Mr. W. R. Burt, of Saginaw, Mich., has written the State Department stating that he is the holder of \$20,000 1904 bonds of Nicaragua, and that no interest has been paid on them since 1912, and that these bonds mature in June of this year.

We beg to advise that Mr. Burt wrote us a year ago, and we take pleasure in informing you that his bonds are part of a total of 47,000 bonds of the 1904 issue which should have been exchanged for the 1909 bonds. Of this amount of 47,000 bonds still outstanding, \$17,000 mature in June of this year. We have taken up with the President of Nicaragua, through our local representative, Mr. Whitaker, the question of paying the coupons, and we are awaiting the necessary authority to enable us to make the payment. This authority we hope to receive at any time, but until we receive it our counsel advises us we can make no payments.

Respectfully,

(Signed) BROWN BROTHERS & Co.

What is the natural effect upon the value of that security of the failure to pay the interest when it became due and the principal when it became due?

Mr. BROWN. It would depreciate its current market value, I would say, if there was one.

Senator SMITH of Michigan. Have you any idea that that was the purpose of the Nicaragua Government?

Mr. BROWN. No; I do not think so.

Senator SMITH of Michigan. To depreciate the value of its outstanding bonds by failure to pay?

Mr. BROWN. No; I do not think so.

Senator SMITH of Michigan. You had their funds in your hands at that time, did you not?

Mr. BROWN. We had the 1909 bonds applicable to these bonds in our hands, but we had no authority to use them.

Senator SMITH of Michigan. Do you mean that the current obligations, of which this forms a part, of that Republic could not be met under your agreement with Nicaragua?

Mr. BROWN. Not without a decree which would enable us to pay that interest, just as we state in that letter.

Senator SMITH of Michigan. Without the O. K. of that particular thing or the general decree?

Mr. BROWN. The general decree for the 1909 bonds. And there was no cash in our possession for that purpose. The 1909 bonds were in our possession for that purpose and we could present the coupons of the 1909 bonds, collect the interest on those, and then turn that interest over to the holder of the 1904 bonds.

Senator SMITH of Michigan. Have you anything to show who owned the balance of this issue of bonds, of which this is a part?

Mr. BROWN. That leaves 30,000 outstanding, does it not?

Senator SMITH of Michigan. No; I do not mean that 30,000. I mean that issue of bonds which evidently has been exchanged.

Mr. BROWN. Into 1909 bonds?

Senator SMITH of Michigan. Into the Ethelburga bonds. Have you any means of telling that?

Mr. BROWN. None whatever.

Senator SMITH of Michigan. Do you know what the amount was?

Mr. BROWN. Only from the records. It was a million dollars.

Senator SMITH of Michigan. You do not know what they were purchased at?

Mr. BROWN. No.

Senator SMITH of Michigan. You do not know what they cost?

Mr. BROWN. No.

Senator SMITH of Michigan. Were those negotiations made through your concern?

Mr. BROWN. No.

Senator SMITH of Michigan. You had nothing to do with the exchange or purchase of these earlier bonds for the Ethelburga bonds, of which we have been speaking?

Mr. BROWN. Nothing unless since we have made the conversion into Ethelburga bonds. There has been some presentment. Mr. Cox can answer that better than I. Have any of those bonds been presented for conversion into 1909 bonds?

Mr. Cox. I think since we have been in there we have only exchanged three bonds.

Senator SMITH of Michigan. The total of that issue of 1904 was \$1,000,000, was it not?

Mr. BROWN. That is the record; yes.

Senator SMITH of Michigan. Do you know whether your Boston representative had anything to do with the purchase of any of that \$1,000,000 issue?

Mr. BROWN. As far as I can tell you, Senator, we never had a dollar's interest in Nicaragua in 1904, and I doubt whether we could have told you—

Senator SMITH of Michigan. I know you had no interest there in 1904. I am talking about the interest on this issue of bonds.

Mr. BROWN. I thought you spoke of the issue of the bonds.

Senator SMITH of Michigan. No, sir; I say that the issue of 1904, \$1,000,000 of these securities, which were afterwards converted through your house into the Ethelburga bonds—

Mr. BROWN. No; they were not converted through our house, Senator.

Senator SMITH of Michigan. Go ahead.

Mr. BROWN. They were not converted through our house. Those bonds—the conversion of those bonds was arranged at the time the Ethelburga Syndicate did its business with Nicaragua. When we took over the Nicaraguan business later on, the conversion of these bonds into Ethelburga bonds had all been arranged for. We had nothing to do with that. We never owned a dollar of these bonds, or a dollar of the 1909 bonds, or any Nicaraguan bonds at all.

Senator HITCHCOCK. Let me ask there, Senator Smith, could the owner of this bond [indicating] present it at your house, and secure its redemption?

Mr. BROWN. The bond that was due?

Senator HITCHCOCK. This bond that Senator Smith has exhibited.

Mr. BROWN. There is one bond, is there not, that is due?

Mr. KOHLMANN. No; all that have been due have been paid.

Senator SMITH of Michigan. He says a portion of his bonds are due June 14, this year.

Mr. Cox. We paid \$17,000 of the amount that was falling due, and on the 15th of June we paid to Mr. Burt \$10,000 with coupons.

Senator SMITH of Michigan. About what date?

Mr. Cox. The 16th of June, I think it was. We got a cablegram from Nicaragua authorizing us to pay those bonds on the afternoon of June 15th, and I think we paid the same day or the day following.

Senator SMITH of Michigan. Was that after this investigation was ordered?

Mr. Cox. No; we never heard of any investigation then.

Mr. BROWN. That would not have made any difference.

Senator SMITH of Michigan. I have a letter from him saying that he holds these bonds; that they are in default, and I should like to harmonize that statement.

Mr. BROWN. In default of interest, I think you will find that is.

Senator SMITH of Michigan. No; principal and interest.

Mr. Cox. His son-in-law, Mr. Hay, came around, and we paid it to him.

Senator WILLIAMS. I understand that in so far as you exchanged one of these issues of bonds for the other, you were acting for the Republic?

Mr. BROWN. Yes.

Senator WILLIAMS. And that in acting for the Republic of Nicaragua you had to have its authority?

Mr. BROWN. Yes.

Senator WILLIAMS. That is the statement, is it?

Mr. BROWN. Yes.

The CHAIRMAN. Is not this plain, Senator Smith—see if I am right about it—that the issue of bonds of which you hold one here in your possession, became matured by reason of the default in the payment of interest?

Senator SMITH of Michigan. Some of them were of the five years—

Mr. Cox. This bond you have, Senator, is due in 1919.

Senator SMITH of Michigan. This is one of the longer ones, but he holds some of those that mature in the five-year period. That is what he wrote me about. But this one, I think, is also matured, because there has been a default in the payment of the interest.

Mr. BROWN. I do not know anything about the date of that, of course.

Senator SMITH of Michigan. Naturally that would mature. If the obligation is in default, it matures.

Senator ROOT. It might give an election.

Senator SMITH of Michigan. It would not operate per se.

Senator ROOT. It would not operate per se unless it is a very extraordinary agreement.

Senator SMITH of Michigan. I should think it would have an election naturally.

Senator WILLIAMS. Mr. Brown, I want to get this clear. Now, you have a certain number of the bonds of 1909 lying in your hands, left with you as trustee, for the purpose of meeting bonds of 1904, either by issuing bond for bond by conversion, or else by selling those which you have, and getting the money with which to pay the others. Is that it?

Mr. BROWN. That is entirely right.

Senator SMITH of Michigan. I notice in one of your letters to the Old Colony Trust Co., dated New York, August 6, 1912, you use this expression:

Accordingly the Ethelburga Syndicate (Ltd.) should have sufficient bonds of the 1909 loan to redeem or convert the bonds of the 1904 loan, about which you inquire. As we do not know on what terms the conversion was to be made, we would suggest that you communicate with the Ethelburga Syndicate (Ltd.), whose address is 84 Bishopsgate Street, within London, E. C.

Mr. BROWN. What is the date of that?

Senator SMITH of Michigan. To the Old Colony Trust Co., of New York, August 6, 1912.

Mr. BROWN. That was before the contract with the foreign bondholders had gone through, and we did not know, nor did we have the bonds then.

Senator SMITH of Michigan. That was after your contract with Nicaragua?

Mr. BROWN. After the original contract with Nicaragua.

Senator SMITH of Michigan. And after you had begun making your loans?

Mr. BROWN. Oh, yes; but before we had anything to do with the Ethelburga bonds.

Senator SMITH of Michigan. That is, for Nicaragua?

Mr. BROWN. Yes; for Nicaragua.

Senator SMITH of Michigan. So that you were not at that time concerned in the exchange of the 1904 for the 1909 bonds?

Mr. BROWN. No; we could not affect that.

Senator SMITH of Michigan. That was still in the hands of the Ethelburga Syndicate?

Mr. BROWN. Quite right.

Senator SMITH of Michigan. And not in the hands of this association of foreign bondholders?

Mr. BROWN. Yes.

Senator SMITH of Michigan. I have forgotten what you said about the Ethelburga bonds on the market.

Mr. BROWN. It is a quotation in the open market, the market quotation. It is a bid of the outside broker against the other outside broker, just as it would appear in the New York Stock Exchange.

Senator SMITH of Michigan. Allow me to quote further from this letter to the Old Colony Trust Co. It reads:

It will interest you to know, however, that an agreement was entered into on May 25, 1912, between the Republic of Nicaragua and the Corporation of Foreign Bondholders, of London, which has not yet been declared operative, but which there is reason to believe will be carried out. Should the agreement become operative, the 1909 bondholders will be paid in cash the overdue sinking fund and interest and, in consideration of certain options to be given to the Republic, are accorded an undisputed first lien on the entire customs revenues of the Republic, to be administered, while any of these bonds remain unpaid, by a collector general of customs approved by the Secretary of State of the United States and appointed by the Republic.

You were then contemplating the retirement of these bonds with cash?

Mr. BROWN. The 1909 bonds?

Senator SMITH of Michigan. Yes.

Mr. BROWN. Only the coupons. That was the contract of May 25 with the committee of foreign bondholders which specified that those coupons and the sinking fund should be paid in cash.

Senator SMITH of Michigan. It says: "Should the agreement become operative, the 1909 bondholders will be paid in cash."

Senator ROOT. That is only part of the sentence.

Senator SMITH of Michigan (continuing). "The overdue sinking fund and interest and, in consideration of certain options to be given to the Republic, are accorded an undisputed first lien on the entire customs revenues of the Republic." I suppose for what has been paid.

Senator ROOT. That means will be paid in cash the overdue sinking fund and interest.

Mr. KOHLMANN. Yes.

Mr. BROWN. That is all.

Senator SMITH of Michigan. The plan for conversion was not changed between 1912 and 1914?

Mr. BROWN. No.

Senator SMITH of Michigan. It was not changed between 1912 and 1914?

Mr. BROWN. That contract is at your disposal, if you would like to see it.

Senator SMITH of Michigan. I should like to see it. I wish we might have it on the record.

(A copy of this contract appears in the testimony given by Mr. Mallet-Prevost.)

Senator WILLIAMS. That contract entered into between the foreign bondholders and the Republic of Nicaragua was in regard to these Ethelburga bonds. It is referred to in there, that it subsequently became operative.

Mr. BROWN. Yes.

Senator WILLIAMS. When did it become operative?

Mr. BROWN. In October of that same year; a few months after that.

Senator SMITH of Michigan. October, 1912?

Mr. BROWN. I think that was one of Mr. Mallet-Prevost's exhibits, the contract with the committee of foreign bondholders.

Senator SMITH of Michigan. Is that the one which goes into the record?

Mr. BROWN. Yes.

Senator SMITH of Michigan. Mr. Mallet-Prevost said yesterday, in answer to my question, that your firm had had some dickering with the United Fruit Co. or Mr. Keith with reference to a sale of your 51 per cent of the stock of the Nicaraguan Railroad.

Mr. BROWN. When the Government began to press us down there to take this option we knew very little about the railroad, and so we inquired of Mr. Miner C. Keith, who knew something about railroads in Central America, and later on we discussed the general situation down there, and he intimated that at some time very likely the

Guatemala Central or the International Railway of Central America might take that railroad over, but he never made us an actual bid. We only talked figures——

Senator SMITH of Michigan. What were the figures talked?

Mr. BROWN.—The figures talked, not payable in cash, about \$1,600,000 for the 51 per cent interest, but they were never real figures, because there never was a real bid.

Senator SMITH of Michigan. Mr. Mallet-Prevost said yesterday that there was no arrangement pending now——

Mr. BROWN. None at all.

Senator SMITH of Michigan. No proposition pending now, but that of course this is not the most appropriate time to make a deal of that kind, as the country is in rather a chaotic condition and its future a little uncertain, so that this would not be a good time to enter into such an arrangement if you wanted to enter into a good deal, would it?

Mr. BROWN. No; but we would be very glad to have some one come along and take all of this difficulty off of our hands.

Senator SMITH of Michigan. I have no doubt of that at all, Mr. Brown. I have no doubt that is true.

Mr. BROWN. From the point of view of being an exceedingly disagreeable thing for my old firm to be drawn into the public prints when we have been in business for 100 years here and never have had any of our transactions questioned. There is nothing in these transactions that deserves this.

Senator SMITH of Michigan. Of course, the American public prints are not the only ones, however, that dealt with your relations with Nicaragua?

Mr. BROWN. It is not the press I am objecting to. It is the criticism that we object to.

Senator SMITH of Michigan. That is, the general criticism?

Mr. BROWN. No; the specific criticism.

Senator SMITH of Michigan. The specific criticism in Nicaragua or here, or both?

Mr. BROWN. Here.

Senator SMITH of Michigan. You do not object to the specific criticism in Nicaragua?

Mr. BROWN. I do not know of any that has any truth or weight in it.

Senator SMITH of Michigan. Did you at any time ask any Secretary of State to protect your properties in Nicaragua?

Mr. BROWN. Not that I am aware of.

Senator SMITH of Michigan. You did ask that they be protected down there?

Mr. BROWN. I do not think we have ever asked any Secretary of State. My recollection is that the only time when we would have been glad to have had protection, and might have asked for it, was when there was a revolution down there in 1912.

Senator SMITH of Michigan. The revolution against Diaz?

Mr. BROWN. Yes. The Mena revolution.

Senator SMITH of Michigan. Against Adolpho Diaz. That is after you had acquired the contract for the railroad?

Mr. BROWN. No; that is the time the railroad was held as collateral for our loan. We held an option on it, but we had not purchased it.

Senator SMITH of Michigan. It was this option that we talked about a little while ago that you could avail yourself of if you wanted to, but did not need to?

Mr. BROWN. Yes; but which nevertheless we held as collateral.

Senator SMITH of Michigan. At that time that was the first serious situation with which you were confronted in your relations to Nicaragua?

Mr. BROWN. That is a question of degree. There were many other serious situations when we thought we were not going to get any of our money back at all. But this was the first serious physical situation we were confronted with.

Senator SMITH of Michigan. What happened then?

Mr. BROWN. The Government of Nicaragua, my recollection is, asked through the American minister in Nicaragua that the American Government should aid the soldiers of Nicaragua in protecting the life and property of its citizens.

Senator SMITH of Michigan. Did you make any request of the Government of Nicaragua that your property be protected?

Mr. BROWN. No; we made a protest to the Government of Nicaragua because our property was seized.

Senator SMITH of Michigan. But you had no conference with Secretary Knox about it, or any member of your firm, or Secretary Meyer, of the Navy?

Mr. BROWN. No.

Senator SMITH of Michigan. Nor any member of your firm? And no communication with the State Department regarding it?

Mr. BROWN. No.

Senator SMITH of Michigan. You have asked the military aid or the naval aid of this Government in protecting your property in Nicaragua?

Mr. BROWN. Not at all—never.

Senator SMITH of Michigan. Neither through yourself or through any of your accredited agents?

Mr. BROWN. I can only speak for myself, and anything that I know—nobody has ever been authorized by my firm to ask any aid, military aid or naval aid.

Senator SMITH of Michigan. The reports of the officers commanding the Marine Corps and the naval officers in Nicaragua show a great degree of solicitude for the railroad properties.

Mr. BROWN. That is very natural—

Senator SMITH of Michigan. Do you know what occasioned that?

Mr. BROWN. Very likely they knew that they themselves were Americans. They knew the Americans were interested in it, and possibly for that reason, if for no other—

Senator SMITH of Michigan. It was purely voluntary on their part?

Mr. BROWN. I can not speak for people who are down there. I can only speak for the instructions they were given. They were not given any such instructions at all.

Senator SMITH of Michigan. From your house?

Mr. BROWN. No, sir.

Senator SMITH of Michigan. All we have done down there with reference to the protection of property has been voluntary, so far as you know?

Handwritten notes:
 - Absolutely false
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 1912, p

Mr. BROWN. So far as I know.

Senator SMITH of Michigan. Following up the question which I asked Mr. Mallet-Provost yesterday, the United Fruit Co. or Mr. Keith own the railroads of most of the Central American States now, with the exception of Nicaragua, do they not?

Mr. BROWN. I do not know that of my own knowledge. It is so rumored and so understood.

Senator SMITH of Michigan. Have you ever had any conference with the owners of the securities of the Mexican Central Railroad regarding the future of the Nicaraguan Railroad?

Mr. BROWN. Never.

Senator SMITH of Michigan. Or no one connected with that company?

Mr. BROWN. No.

Senator SMITH of Michigan. Have you ever had any business here with Sherburne F. Hopkins?

Mr. BROWN. Never.

Senator SMITH of Michigan. Charles A. Douglas?

Mr. BROWN. None; except as attorney for Nicaragua. He has come in contact with us since he was appointed attorney for Nicaragua. That is all.

Senator SMITH of Michigan. How recently?

Mr. BROWN. In the first place, he is a director of the bank and a director of the railroad, so that we see him at every monthly meeting when he is able to come to New York.

Senator SMITH of Michigan. How recently have you seen him?

Mr. BROWN. I think it was two months ago that we had our last meeting at which he was present. The last meeting he was not present. To-morrow is the day of the next meeting.

Senator SMITH of Michigan. He does not act as your counsel?

Mr. BROWN. No.

Senator SMITH of Michigan. Or as associate counsel?

Mr. BROWN. No.

Senator WILLIAMS. In what capacity does he appear at these directors' meetings, as a representative of Nicaragua?

Mr. BROWN. Yes; under the contract Nicaragua was entitled to three representatives.

Senator ROOT. On the board?

Mr. BROWN. On the board, out of the nine directors.

Senator SMITH of Michigan. That is, you were to have six?

Mr. BROWN. We were to have six.

Senator SMITH of Michigan. And the Government was to name one?

Mr. BROWN. The United States Government should name one.

Senator SMITH of Michigan. And Nicaragua two?

Mr. BROWN. That was for the protection of Nicaragua. Nicaragua two, yes.

Senator SMITH of Michigan. And the director nominated by the Government of the United States was to be a salaried official?

Mr. BROWN. Yes.

Senator SMITH of Michigan. Who might also act in the same capacity for the bank so far as the Government's interests were concerned?

Mr. BROWN. Half his salary was to be paid by one and half by the other.

Senator SMITH of Michigan. That is, he was permitted to act in both capacities?

Mr. BROWN. He was, strictly speaking, elected a director and examiner.

Senator SMITH of Michigan. Who is that gentleman?

Mr. BROWN. Mr. Gantz.

Senator SMITH of Michigan. Where does he live?

Mr. BROWN. He comes from Troy, Ohio, and he lives there.

Senator SMITH of Michigan. Was he nominated on your suggestion, or your firm?

Mr. BROWN. No; I never met Mr. Gantz before he appeared as a director.

Senator SMITH of Michigan. He does not live in New York or do business there?

Mr. BROWN. No.

Secretary BRYAN. I can tell you all about that if you would like to know.

Senator SMITH of Michigan. I would.

Secretary BRYAN. He was selected by the State Department.

Senator POMERENE. Morris K. Gantz?

Secretary BRYAN. Yes.

Senator SMITH of Michigan. Under your administration?

Secretary BRYAN. Yes. When this new arrangement was made whereby they took the 51 per cent of the railroad and of the bank, in discussing the matter with Nicaragua, and with the representatives of the bank we suggested—or it may have been suggested by Nicaragua; at least, we approved of it—that we have one man who would be on each board that we might have information of what they were doing, in order that we might more wisely advise them in the interests of Nicaragua. Mr. Gantz was a Member of Congress when I was here 20 years ago. He is a lawyer and a man of character and standing, and was named by us and appointed by us.

Senator SMITH of Michigan. Under the agreement he does not have to present himself in Nicaragua very often?

Secretary BRYAN. No; but he has to be there.

Senator SMITH of Michigan. He does not need to go there at all? Has he yet been there?

Secretary BRYAN. Yes; he has been there.

Senator SMITH of Michigan. How often?

Secretary BRYAN. He has been there once that I know of.

Mr. BROWN. My recollection is that he was only selected very recently, and I think he went almost at once to Nicaragua and spent some time there.

Secretary BRYAN. Yes; he was there for quite a while.

Senator POMERENE. I know Mr. Gantz personally. He is a very high-class man.

Senator WILLIAMS. You regard him as an American representative?

Secretary BRYAN. Yes.

Senator WILLIAMS. Then Nicaragua has two and the bank has six? Is that right?

Mr. BROWN. Yes. Mr. Cuadra is one of the Nicaraguan nominees. Mr. Douglas is the other one.

Senator SMITH of Michigan. At the time that the arrangement was made between Nicaragua and your firm regarding the purchase of the stock of the Nicaraguan railroad—the option to buy stock—where was this stock deposited?

Mr. BROWN. At the time we exercised our option?

Senator SMITH of Michigan. Yes.

Mr. BROWN. My recollection is that it was in our office. It might have been with the United States Mortgage & Trust Co.

Senator SMITH of Michigan. It was in your office, according to Mr. Mallet-Prevost.

Mr. BROWN. Yes.

Senator SMITH of Michigan. How long had it been there?

Mr. BROWN. I presume from the time it was created as a Connecticut corporation.

Mr. KOHLMANN. A Maine corporation.

Mr. BROWN. Yes; a Maine corporation. Because it was always held as collateral from the time the corporation was organized.

Senator SMITH of Michigan. At the time that you purchased the 51 per cent of the Nicaraguan railroad, did the Congress of Nicaragua name the price?

Mr. BROWN. The price was named in the original contract.

Senator SMITH of Michigan. I believe we are to have that contract in the record.

Mr. KOHLMANN. The supplementary loan agreement fixed the price on 51 per cent at \$1,000,000.

Senator SMITH of Michigan. Do you recall that pending the making of the contract to sell you 51 per cent of this railroad stock the salaries of the assemblymen were in default, and a threat made that they would get no more money unless that sale was consummated?

Mr. BROWN. I have no knowledge of that. I do not know anything about it. Let me refresh my memory on that. Did they refuse to ratify that first contract?

Mr. KOHLMANN. There was considerable difficulty about the supplemental loan agreement, but exactly what did take place—

Senator SMITH of Michigan. That is, in the assembly?

Mr. KOHLMANN. Yes; in the assembly.

Mr. BROWN. I was thinking of the \$200,000 odd which we had advanced and which afterwards was not ratified. It was another transaction.

Senator SMITH of Michigan. How do you want the answer to stand?

Mr. BROWN. I know of no pressure at all from any quarter. It followed naturally, however, that if they would not properly secure the loan we could not advance them any further moneys.

Senator SMITH of Michigan. That is, even for salaries, or for any other purpose?

Mr. BROWN. It takes just as good dollars to pay salaries as it does to do other things.

Senator SMITH of Michigan. When the question of the emission of the additional 25,000,000 pesos from the Nicaraguan treasury first came to your notice?

Mr. BROWN. Are you speaking of going back to the beginning now?

Senator SMITH of Michigan. Not to the beginning of time, but to the beginning of the Diaz administration.

Mr. BROWN. That was when Mr. Wands came back from there and reported that there was some 16,000,000 additional issued.

Senator SMITH of Michigan. What did he say about it?

Mr. BROWN. He reported that it had been issued and was outstanding. Apparently it was legitimately outstanding. Therefore, we had to revise our calculations from 32,000,000 to 48,000,000 outstanding.

Senator SMITH of Michigan. Is that all the information you got about it, what you got from Mr. Wands?

Mr. BROWN. And Messrs. Harrison and Conant afterwards, when they went down there, verified it.

Senator SMITH of Michigan. All that you got at the time was from Mr. Wands?

Mr. BROWN. I do not recall anything else.

Senator SMITH of Michigan. Then you sent Conant and Harrison down there?

Mr. BROWN. Yes.

Senator SMITH of Michigan. And what you got from them is all you know about that situation?

Mr. BROWN. About the issue of that?

Senator SMITH of Michigan. Yes.

Mr. BROWN. Absolutely all.

Senator SMITH of Michigan. So that you are unable to say, from any knowledge of your own, whether that issue was fictitious and fraudulent or not?

Mr. BROWN. The records show that it was regularly issued.

Senator SMITH of Michigan. What records?

Mr. BROWN. The records of Nicaragua; the treasury department.

Senator SMITH of Michigan. Have you seen them?

Mr. BROWN. No; not personally. Mr. Harrison and Mr. Conant examined them.

Senator SMITH of Michigan. I did not understand Mr. Conant to state that he found them legal.

Mr. BROWN. I think you will find, Senator—

Senator SMITH of Michigan. If you want the answer to stand that way, I am perfectly willing it should.

Mr. BROWN. I will refer you to Messrs. Harrison and Conant's report, in which they report that the outstanding circulation was 48,000,000.

Senator SMITH of Michigan. But, as to the legality of that twenty-odd million of new currency, all you know about it is what you know from Conant and what you know from Mr. Wands?

Mr. BROWN. Messrs. Harrison and Conant's report, and from Mr. Wands.

Senator SMITH of Michigan. What became of that twenty-odd million of new money? Have you any knowledge?

Mr. BROWN. Not at all.

Senator SMITH of Michigan. Did you ever make any inquiry about it?

Mr. BROWN. None at all.

Senator WILLIAMS. Was it twenty-odd million or sixteen million?

Senator SMITH of Michigan. It was nearly ₡25,000,000, as I shall show.

Mr. BROWN. I do not know of any 25,000,000.

Senator WILLIAMS. My recollection is that Mr. Wands said 16,000,000.

Senator SMITH of Michigan. All you have got to do is to turn to the report of Cuadra.

Senator ROOT. The report shows 25,000,000—

Senator WILLIAMS. My recollection is that he said 16,000,000 had been issued, and 5,000,000 of it was in the treasury, ready to be issued.

Senator SMITH of Michigan. Somebody said 15,000,000, but 25,000,000 is the figure used.

Mr. BROWN. That is all I know about it.

Senator SMITH of Michigan. You made no inquiry yourself beyond that, and as to whether it is fictitious or lawful, you have no knowledge?

Mr. BROWN. Senator, personally, bankers can not go to foreign countries and make investigations. They send men of high character and ability to do so.

Senator SMITH of Michigan. But you have said all you know about it is what they said.

Mr. BROWN. Exactly.

Senator SMITH of Michigan. I ask you whether you know whether it is fictitious and fraudulent, and it seems to me you can answer that easily. If you do not know, that is all I will ask.

Mr. BROWN. I only know from their reports. Their reports speak for themselves.

Senator POMERENE. You acted on the theory that it was genuine?

Mr. BROWN. Absolutely.

Senator WILLIAMS. One question. In Conant and Harrison's report, when it came to taking care of this paper currency by a certain amount of money to act as a medium for exchange, did they include in their calculations this amount to which he is referring and make provision for a reserve to support it as well as the original twenty-odd million that had been floating before this new issue?

Mr. BROWN. The original negotiation on which we made the loan of \$1,500,000 treasury bills was on the basis of and outstanding 32,000,000 pesos. When the reports were received it was found to be 48,000,000 pesos.

Senator SMITH of Michigan. You mean by the reports, the Conant and Harrison reports?

Mr. BROWN. Yes.

Senator SMITH of Michigan. Did they provide for sufficient reserve to support the 48,000,000 in their scheme?

Mr. BROWN. It was at that time that the supplementary loans were made for the purpose of providing enough money to support the 48,000,000.

Senator SMITH of Michigan. Did they in their report contemplate that, or did they merely contemplate the 32,000,000?

Mr. BROWN. They contemplated the whole 48,000,000.

Senator SMITH of Michigan. So that in making their report to you they contemplated a reserve to support the exchange for the whole 48,000,000?

Mr. BROWN. For the whole 48,000,000.

Senator SMITH of Michigan. And that far, at any rate, they recognized it?

Mr. BROWN. Yes.

Senator ROOT. I find on page 10, of the Harrison-Conant report, that the note issues ordered by the present Government, 25,000,000, of which unissued and in hand 830,000, but the total is 48,757,000. So that would be 16,000,000 in excess of the 32,000,000 which Mr. Brown says was reported to him when he entered into the original contract?

Senator WILLIAMS. That is what I thought.

Senator ROOT. The issue was 25,000,000, but the excess over the amount that had been issued when the original contract was made was 16,000,000.

Senator SMITH of Michigan. That is, the excess over and above the amount contemplated by you when you made your first agreement was \$16,000,000?

Mr. BROWN. Yes.

Senator SMITH of Michigan. Did you regard the emission of this amount of additional currency a proper thing for the Republic to do in view of their agreement with you?

Mr. BROWN. Most unfortunate.

Senator SMITH of Michigan. That is all you are willing to say about it?

Mr. BROWN. But it was issued, as I understand it, Senator. It was issued before the agreement was actually executed with us.

Senator SMITH of Michigan. Be that as it may, it was not issued until after the Mixed Claims Commission had been organized?

Mr. BROWN. The Mixed Claims Commission I do not think had anything to do with the issuing of currency.

Senator SMITH of Michigan. I know they did not, but they had something to do with passing on claims. You say you would regard that as most unfortunate?

Mr. BROWN. I did regard it as most unfortunate.

Senator SMITH of Michigan. Unfortunate for whom?

Mr. BROWN. For the Republic.

Senator SMITH of Michigan. Would you regard it as discreditable to those who did it?

Mr. BROWN. I much prefer not to express an opinion on that.

Senator ROOT. I do not think you ought to ask that. —

Senator SMITH of Michigan. I do want to ask it.

Senator ROOT. I do not think that the witness, with the relations that his banking firm had with the Government of Nicaragua, ought to be asked to express an opinion on that question.

Senator SMITH of Michigan. All right. I should like to have my reason given. And that is that we are seeking, light as to the legality and honesty of the indebtedness of Nicaragua, with which the witness seems to be familiar. If this amount of money was unlawfully emitted from the treasury, and its issuance discreditable to the Government, then any authority, any request upon the part of that Republic to validate those acts in effect asks the Government of the United States to validate a crime, and before we do it we ought to know whether it was or was not a crime.

Senator WILLIAMS. Senator Smith, stop a minute. That may be all very true, but you are eliciting facts, and everybody can use his own adjective in connection with them. The witness said he regarded it as very unfortunate for Nicaragua. You want to make him say it was discreditable, and he does not want to say it.

Senator SMITH of Michigan. I do not want to make him say anything. He can say anything he wants.

Senator WILLIAMS. Your question was whether he would regard that as discreditable. He must answer that "yes" or "no." He says while he thinks it a very unfortunate thing, he does not want to be insulting to these people he is representing.

Senator SMITH of Michigan. He can answer it any way he pleases, Senator.

Senator WILLIAMS. You are trying to make him use a denunciatory adjective when he prefers to use one that characterizes the transaction equally well.

The CHAIRMAN. Let me ask you this question, Senator—

Senator SMITH of Michigan. Very well.

The CHAIRMAN. You elicit certain facts. Upon those facts you ask your opinion of the witness as to whether it was a discreditable thing for the Government of Nicaragua to do.

Senator SMITH of Michigan. A dishonest thing.

The CHAIRMAN. Well, dishonest. That is fully as strong as "discreditable." Is not that a conclusion, an opinion, that should be drawn from a given state of facts, and does that throw light upon the matters that you are seeking to get before the committee?

Senator SMITH of Michigan. No, Senator; I think if Mr. Brown would say that under his present relations with that administration of Nicaragua he would not feel at liberty to say that, I would not pursue it. But I wanted him to say it, and not the Senator from New York. I wanted him to stop me, but I did not want the Senator from New York to stop me.

The CHAIRMAN. I understand the Senator from New York makes the point that the question should not be asked, and it is in the nature of an objection to the question.

Senator SMITH of Michigan. Just one word further in reply to what you said, Senator. Of course, we can all see the force of any such statement if he said yes. We can all see what it would amount to. It would amount to discrediting entirely part of the fundamental debt of Nicaragua, and if that fundamental debt of Nicaragua is fraudulent, to the extent to which my question would infer, certainly our committee, the Senate, and the country, ought to know. That is my sole purpose. If the chairman of the committee thinks that we have gotten enough about that in the record I will stop.

Senator WILLIAMS. Suppose you get at that by finding out the facts. Then you can compare it with the law of Nicaragua to see whether it is unlawful or not.

Senator ROOR. I do not object to any question which tends to elicit the character of this transaction, the nature of it, or any fact relating to it; but I do not think it will help the committee at all to find out what this witness thinks about the moral quality of it. We have got to determine that ourselves, and I do not think it is fair to a witness who is called here to testify to facts to put him in a position where

he is called upon to make criticisms upon people with whom he is involved, upon the Government with which he is involved, in business relations. I think it is an unfair thing, and a useless thing. It will not help us at all.

Senator SMITH of Michigan. It would not help you, perhaps, but it will help my contention very much if Mr. Brown should say that half the volume of the currency was fraudulent.

Senator WILLIAMS. That could not help your contention. Mr. Brown's opinion that it was discreditable would not help you, but if you could elicit facts which show a discreditable transaction that would help your contention.

Senator SMITH of Michigan. But it is going to be argued, and the Senator from New York yesterday undertook to restrict me in the same manner. Now, after I have finished this inquiry, if it is to be argued by the Senator from New York that no fraud or fictitious issue of money has been made by Nicaragua, about which we could have tangible proof, what is my reply? My reply is that the Senator from New York stopped me when I was upon the point of getting that statement.

Senator WILLIAMS. Eliciting the opinions of a witness.

Senator SMITH of Michigan. When I was on the point of getting a definite statement from Mr. Brown, who was under oath.

Senator WILLIAMS. I suggest this, and I suggest it because I am very much interested in finding out the truth about this transaction. Whether this issue was fictitious, I mean by that unlawful, unauthorized by the laws of Nicaragua, or not, is a mixed question of law and fact. If you can find out when it was issued, by whom, under what authority, whether there was any act of the Nicaraguan Congress, or whether it was a decree of the President, or under what circumstances the issue took place, there is your fact, and then your law appears in the laws of Nicaragua and the constitution.

Senator SMITH of Michigan. Here is the banker and copartner of the Republic of Nicaragua.

Senator WILLIAMS. But his opinion as to the moral aspect of it—

Senator SMITH of Michigan. He is the best man that I know of in the world from whom to find out this fact.

Senator WILLIAMS. You never had a court to permit you to ask a man's opinion about anything unless he was an expert and qualified as an expert.

Senator SMITH of Michigan. When we are trying to ascertain a fact purely in the public interest, it seems to me the truth ought to be always welcome from whatever source.

Senator HITCHCOCK. I suggest this is a matter for an executive session, if it is to be discussed, and not necessarily to go into this record.

Senator SMITH of Michigan. It is very evident that I am not going to be permitted to get an answer without objection from some of my associates.

Senator HITCHCOCK. I should like to get the information, but I doubt whether this witness has any information.

Senator SMITH of Michigan. Have you any information, Mr. Brown, about it?

Mr. BROWN. No information except as I already stated in the report of Messrs. Harrison and Conant and as reported by Mr. Wands. That is the only information I have on the subject.

Senator SMITH of Michigan. Very well. If you want me to stop there I will do so.

The CHAIRMAN. I can not put any limitation on you.

Senator SMITH of Michigan. No; you have not tried, Mr. Chairman. I am not complaining.

The CHAIRMAN. I was going to submit this question to the committee if it is insisted upon.

Senator SMITH of Michigan. I shall not insist upon it. I shall content myself with his answer.

Senator HITCHCOCK. Let me ask you this question: Can you give the committee any idea where the information could be procured as to the uses that this additional currency was put to?

Mr. BROWN. No. The Government books would show the issue, but the disposition—I doubt very much whether you could find out what had been done with it.

Senator SMITH of Michigan. Mr. Brown, I hold in my hand an editorial from the American, of Bluefields, printed in that paper February 2, 1913. I should like to have you glance at it and see whether you ever had that editorial called to your attention before. Perhaps we can save time if I read it to the committee.

Mr. BROWN (after examining paper). I recall in a general way the editorial.

Senator SMITH of Michigan. I will read it. It is in the American, Bluefields, February 2, 1913; it reads:

THE CONFLICT WITH THE BANKERS.

The attitude assumed by the bankers, Brown Bros. and J. & W. Seligman & Co., has been the cause of placing the Republic in a difficult position. Yesterday when in the assembly a statement from Minister Cuadra was read, together with a copy of a communication he had forwarded to the director of the National Bank of Nicaragua, incorporated; it was then that the gravity of the situation was recognized. There is no money, and there will be none, unless the assembly approves the contract by which the bankers will become absolute owners of the National Railway, giving therefor \$1,000,000 more. This is the matter in a nutshell. What must be done?

True patriotism counsels that a convention based on such conditions must not be accepted voices the opinion of many of the deputies. Others counsel calmness and urge an analysis of the situation, while others do not hesitate in counseling ratification in order that the much needed money may be obtained.

The question that now arises is: How will this money be repaid?

The circumstances which called for the note of Mr. Cole are as follows: The Assembly complained to the minister of hacienda that the bank had not paid the deputies one cent of their salary. The minister forwarded this complaint to Mr. Cole, who answered as follows: "There is no money, nor will there be any, nor will the bankers advance another dollar unless the assembly approves this contract."

Some deputies have voiced the opinion that the bankers wish to starve them into submission, thereby forcing them to ratify this contract. "The method employed is an offense against us and in no event will we do anything not dictated by our sense of duty." Others say that Mr. Cole censures the exorbitant expenses authorized by the assembly, in pensions, in donations and other gratuities, without taking into consideration that such funds were available. There can be no reason for such protests.

By proceeding with greater discretion we would not have arrived at this very difficult situation. The fact that money can not be spent without restric-

tion should have formed a subject for consideration; the Government would have had sufficient funds with which to sustain the administration while this problem was being slowly and carefully solved. We are pleased to see that the majority of the congress agrees that this question must be carefully studied so as to come to some satisfactory conclusion to the exclusion of personal views that may be entertained by some of the members.

Now is the time for each one of them to contribute his grain of patriotism to safeguard the public weal.

You say that was called to your notice?

Mr. BROWN. Yes; we receive the Bluefields American regularly with other papers.

Senator SMITH of Michigan. Do you get the Bluefields American from time to time?

Mr. BROWN. We regularly subscribe to it.

Senator SMITH of Michigan. Do you take an interest in it yourself?

Mr. BROWN. Once in a while I look at it.

Senator SMITH of Michigan. I do not mean that you read it every day, but you are quite familiar with it?

Mr. BROWN. Yes.

Senator POMERENE. May I ask, does the paper show who the writer of that editorial is?

Senator SMITH of Michigan. Yes; it is written by the editor.

The CHAIRMAN. Who is the editor?

Senator SMITH of Michigan. I can give you the name of the publisher of the Bluefields American—Mr. Frederick F. Platts, editor and proprietor.

Mr. BROWN. I show you a letter in the Bluefields American, under date of May 27, 1914 [showing letter to witness]. Has that come to your notice?

Mr. BROWN. No; I have not seen this before, Senator Smith.

Senator SMITH of Michigan. Have you not seen the statement of President Estrada before?

Mr. BROWN. No; I have not seen that statement.

Senator SMITH of Michigan. Are you at all familiar with the subject he discusses?

Mr. BROWN. If you will excuse me, I will read it over. I have not seen it before. [After examination.] Do you wish to ask me a question about that?

Senator SMITH of Michigan. I should like to ask you whether you are familiar with the condition of affairs set forth in this statement?

Mr. BROWN. Not at all.

Senator SMITH of Michigan. You would not be able to give us any information?

Mr. BROWN. No information at all. The records of the Government would have to do that. I have no control over those.

Senator SMITH of Michigan. It speaks for itself anyway. I will not bother you with it, unless you are familiar with it.

In the course of your acquisition of the so-called Emery claim did you have any negotiations with Mrs. Douglas, of New Jersey?

Mr. BROWN. I do not recall the name at all. Did she have an interest in it?

Senator SMITH of Michigan. Yes.

Mr. BROWN. I do not recall the name at all. My attorneys may have. I did not personally.

Senator SMITH of Michigan. You did not personally negotiate the purchase?

Mr. BROWN. No.

Senator SMITH of Michigan. I refer to Mrs. Douglas, of Paterson, N. J.

What did Mr. Wands receive when he began drawing a salary from Brown Bros.?

Mr. BROWN. I would have to refer to the books to tell you that. Perhaps Mr. Cox can refresh my memory on that. I think it was a monthly allowance of \$600 or \$800.

Mr. Cox. Do you mean paid by Brown Bros.?

Senator SMITH of Michigan. Yes.

Mr. Cox. In Brown Bros. employ?

Senator SMITH of Michigan. Yes; he was employed by the Government, but paid—

Mr. Cox. \$8,000 a year and expenses.

Senator SMITH of Michigan. I asked the Secretary of State the other day for the items of expense of Mr. Wands. I suppose it is being prepared?

Secretary BRYAN. It is being prepared.

Senator WILLIAMS. I want to ask the witness a question. Was Wands paid by you as an agent of the Nicaraguan Government, or was he paid by you as your employee?

Mr. BROWN. He was paid on an actual order from the Nicaraguan Government, and the money was drawn from the receipts of customs.

Senator POMERENE. And charged against the Government, or against your account?

Mr. BROWN. Charged against the customs, which was the revenue of the Government, and merely paid through us as intermediaries.

Senator SMITH of Michigan. Much of this detail work—in fact, most of it, so far as your firm is concerned—has been done by others than yourself?

Mr. BROWN. Yes.

Senator SMITH of Michigan. Mr. Mallet-Prevost and others?

Mr. BROWN. Well, it has been really a very large volume of business, and an enormous number of papers that have passed through this two and one-half or three years now.

Senator SMITH of Michigan. Is there a large force in your office that make that part of their business?

Mr. BROWN. We have the National Bank, the Nicaraguan, and the Pacific Railroad of Nicaragua. They have a room in our building, and they have a secretary, and there is one stenographer and one young clerk there. They handle all the Nicaraguan business.

Senator SMITH of Michigan. To what account are their expenses and salaries charged?

Mr. BROWN. To the bank and the railroad.

Senator HITCHCOCK. Is that bank a profitable institution?

Mr. BROWN. No; it is not.

Senator HITCHCOCK. It pays no dividends?

Mr. BROWN. It has paid no dividends. The net earnings since it has been in business up to the present time are \$2,000.

Senator HITCHCOCK. Is any bank in Nicaragua profitable?

Mr. BROWN. Yes; there are two commercial institutions down there that are profitable, but they do a different class of business. They

make advances on coffee, and we have felt that the National Bank of Nicaragua ought not to drive the other banks out of their special business. And then also we have felt that the situation was such there that the National Bank of Nicaragua ought to be careful in its extending credit, so that it would not make large losses, and keep its resources free for Government use, if necessary.

Senator HITCHCOCK. It is a bank of issue, is it not?

Mr. BROWN. A bank of issue.

Senator HITCHCOCK. To what extent are its notes in circulation?

Mr. BROWN. The gold value of the notes at the present moment is about \$1,800,000. And it has an issue department exactly like the Bank of England, entirely distinct from the bank. And that issue department has in New York a gold reserve against which it draws in case there are any demands upon it.

Senator HITCHCOCK. To what extent is it a bank of deposit?

Mr. BROWN. As a bank of deposit it has, as I recall, at the present moment between \$300,000 and \$400,000 deposits.

Senator HITCHCOCK. That includes the national deposits?

Mr. BROWN. That includes whatever national deposits there are and the railroad deposits.

Senator HITCHCOCK. It pays out its notes in exchange for the national notes of the Nicaraguan Government?

Mr. BROWN. At $12\frac{1}{2}$ to 1.

Senator HITCHCOCK. Its notes are worth par?

Mr. BROWN. Its notes are worth par.

Senator ROOT. How far has the conversion proceeded? How far has the old currency of Nicaragua been retired?

Mr. BROWN. At the last statement I believe there was about the equivalent of \$201,000 gold out of the total of \$1,888,000 still outstanding. In other words, a very small percentage is now outstanding.

Senator ROOT. You mean of this ₡48,000,000—

Mr. BROWN. Of that ₡48,000,000.

Senator ROOT. ₡48,000,000?

Mr. BROWN. Yes.

Senator HITCHCOCK. This has been practically all retired?

Mr. BROWN. It has been practically all retired.

Senator WILLIAMS. This is the equivalent of about two hundred and some odd thousands in gold?

Mr. BROWN. Yes; that is still outstanding.

Senator WILLIAMS. That would be how many times that in pesos— $12\frac{1}{2}$ times as much?

Senator ROOT. Two and a half millions in pesos. Two and a half millions out of 48,757,000 that Harrison and Conant report—Senator Smith, I am not interfering with you?

Senator SMITH of Michigan. Not at all.

Senator ROOT. Mr. Brown, can you say whether the very large issue which has been referred to here as made pending the negotiations for the conversion of the currency and which led to the \$500,000 increase of the loan provision was included in this conversion?

Mr. BROWN. My recollection is that we learned of this extra issue of 16,000,000 after the treasury-bills agreement, which was the first loan which we made, had actually been executed. The negotiations for that loan had been going on for some time, and cables going back-

ward and forward for Nicaragua for some time, so that Nicaragua was thoroughly conversant with what was intended to be in that contract when finally executed. And, among other things, it provided for the conversion of this currency on a gold basis, but not specifying the rate at which it was to be converted. That was not started until after the experts had been down there and made a careful study of the situation.

Senator Root. My question is addressed to what has actually been done with that additional ₡16,000,000 of issue. Has that been included in the conversion that has actually taken place?

Mr. Brown. Yes, Senator.

Senator Hitchcock. Nicaragua now can issue no further paper currency?

Mr. Brown. Under the law it can not do so; and if it did, of course it would be noticed at once. Of the forty-eight-odd million there must be considerably less than 3,000,000 outstanding at the present moment.

Senator Root. ₡3,000,000?

Mr. Brown. ₡3,000,000.

Senator Hitchcock. What is the limit of the bank issue?

Mr. Brown. The bank issue is not limited, really. It can only be issued for value, of course; but to the extent that gold is deposited with it it can always issue its notes, or it can issue its notes against a proper security in the shape of commercial bills or coffee loans, or bills of exchange, and so on.

Senator Hitchcock. They can issue something like 280,000 against these outstanding pesos also?

Mr. Brown. Yes; when there is a reserve for them.

Senator Root. Have you any idea where those are, the \$2,000,000 to \$3,000,000 of outstanding old pesos?

Mr. Brown. Yes; they are used by the poorer people for exchange into small currency. There are certain people who like the small paper currency. And it is also used by the planters with their men up country, and I have not a doubt that there is considerable of that that has been lost or destroyed.

Senator Hitchcock. Has commerce improved since the new financial system has been put into effect?

Mr. Brown. No; it has not, for two reasons. In the first place, there was some restriction in the currency which always tends to curtail credit, and in the second place, almost at once after the currency law began to be put into effect they had a revolution, the Mena revolution, down there, which put a stop to all business and paralyzed financial conditions there for some time. Trade also was entirely paralyzed.

Senator Hitchcock. Would the payment of this \$3,000,000 to Nicaragua tend to expand her currency or her credit—her business?

Mr. Brown. Very much.

Senator Hitchcock. In what way? Can you explain how it would occur?

Mr. Brown. Provided, of course, that that \$3,000,000 was expended in the channels in which it would do the most good.

The Chairman. Mr. Brown, have you or the Seligmans, so far as you know, counseled the Nicaraguan Government directly or indi-

rectly in respect to the negotiations leading up to this tentative treaty?

Mr. BROWN. To this particular treaty?

The CHAIRMAN. This particular treaty.

Mr. BROWN. We have had no council with Nicaragua on the subject. In fact, Senator Stone, we have endeavored to keep out of Nicaragua politics entirely, and we have never attempted to exert any political pressure or influence at all on the Government. We have been only too well pleased when they took care of their own affairs and did not come to us to ask us for more money. When this treaty was first considered we saw a transcript of it, but we never particularly negotiated about it or endeavored to push it in any way, although we felt it would be a good thing for Nicaragua.

Secretary BRYAN. Do you mean the present treaty or the preceding one?

Mr. BROWN. The preceding one first, and now the present one. We are conversant with the general terms of it, and we think it would be a very desirable thing. We think it will lead to the peace and tranquillity of those three Republics on the Bay of Fonseca. They are very rich countries in mineral resources and natural resources, and if they only had a quiet government and financial rest they would make great progress.

The CHAIRMAN. You say you had a copy of the treaty made by Secretary Knox, or during his term as Secretary of State? I mean, before it was negotiated.

Mr. BROWN. Mr. Mallet-Prevost was asked to come down to Washington and advise, I believe, with the State Department on the subject, but I personally had nothing to do with it.

The CHAIRMAN. Are you urging its adoption?

Mr. BROWN. I think it would be an exceedingly good thing—

The CHAIRMAN. No; I am not asking your opinion as to its value. Are you engaged in any sort of endeavor to promote the convention?

Mr. BROWN. None at all, either here or in Nicaragua.

The CHAIRMAN. Does that statement hold true with reference to the negotiations now in progress between Secretary Bryan, representing this Government, and the Government of Nicaragua?

Mr. BROWN. Yes. We are not trying to influence anybody's action in any one direction or another.

Senator SMITH of Michigan. You have nothing to gain by the ratification of this treaty?

Mr. BROWN. Senator, every benefit to Nicaragua benefits us.

Senator SMITH of Michigan. So that you are really interested in it?

Mr. BROWN. Indirectly; in that the stability of the Government there and of all three of those Governments around there means safety, so far as we are concerned.

Senator SMITH of Michigan. Who was the Mr. Cole who was referred to in that editorial?

Mr. BROWN. He was the manager of the bank.

Senator SMITH of Michigan. Article 18 of the supplementary loan contract as finally decreed by President Diaz provides as follows:

Clause 18.—The bankers will be reimbursed for all expenses for lawyers, cables, and voyages, and in general for all sums spent by them in relation with

matters pertaining to the proposed agreement and with the incorporation and organization of the Railway & Steamship Co.; but they will receive no remuneration for their services, with the exception of the commission of 1 per cent mentioned above upon the drafts paid by them. Said expenses shall be reimbursed by the Republic from its general entries on the 15th day of October, 1912, at the latest, and before this date, if the bankers by the aforesaid emission of bonds or in case the shares of the Railway & Steamship Co. are sold, or if any collection in virtue of claims against the Ethelburga Syndicate be made, in any of which cases said expenses shall be paid immediately with the product of the respective sale of collection.

Can you give the committee the total of these expenses up to the present time?

Mr. BROWN. I do not think I could, offhand. I do not know whether Mr. Cox has any statement of that or not. The expenses have been charged up regularly as they were incurred.

Mr. Cox. To which do you refer?

Senator SMITH of Michigan. I refer to clause 18 of the supplementary loan contract, which provides for the expenses to which I have just referred.

Mr. BROWN. I shall be glad to send you a statement of that.

(Statement appears in testimony of Mr. Albert Strauss.)

Senator SMITH of Michigan. Let me ask you whether you know a firm by the name of Samuel M. Jarvis & Co., or did you know a firm by that name, with offices in New York?

Mr. BROWN. I do know quite a number of people by the name of Jarvis. May I ask you, Senator, what business they were in?

Senator SMITH of Michigan. They have the same situation almost in Santo Domingo that you have in Nicaragua.

Mr. BROWN. I never had any dealings with them personally.

Senator SMITH of Michigan. Did you know that they were bidders for the railroad of Nicaragua when you made your final arrangement with that Government?

Mr. BROWN. No. I may have heard the name afterwards, but I did not know it at the time.

Senator SMITH of Michigan. You did not know that Mr. Jarvis visited Washington and had a conference with the Secretary of State about it?

Mr. BROWN. No.

Senator SMITH of Michigan. You were not inspired in your offerings by any offers made by Jarvis & Co. with reference to the financing of Nicaragua?

Mr. BROWN. I did not know they were bidders at all. The only competitor that we were a little bit afraid of was Speyer & Co.

Senator SMITH of Michigan. Did they make an offer?

Mr. BROWN. Speyer & Co. were bidders, we were informed.

Senator SMITH of Michigan. And you knew of no other bidder?

Mr. BROWN. We did not even know that Speyer was a bidder until afterwards.

Senator SMITH of Michigan. How did you know it afterwards?

Mr. BROWN. Because it was reported to us.

Senator SMITH of Michigan. By whom?

Mr. BROWN. By the financial agents.

Senator SMITH of Michigan. Of the Republic?

Mr. BROWN. Yes.

Senator SMITH of Michigan. Then if Samuel M. Jarvis & Co. and Speyer & Co. were both bidding for this business—

Secretary BRYAN. Not the railroads. Jarvis & Co. had nothing to do with the railroads.

Senator SMITH of Michigan. What did they want?

Secretary BRYAN. It was about a loan and the bank, but I think they had nothing to do with the railroad.

Senator SMITH of Michigan. Does that change your recollection at all?

Mr. BROWN. Not at all. I understood that Senator Smith was asking about the original bid that we made for the 15,000,000 of bonds, which at that time was the initiation of the whole business.

Senator SMITH of Michigan. That does not harmonize with what we are trying to get at.

Secretary BRYAN. You asked him about this last loan, and I do not think he understood you.

Senator SMITH of Michigan. I want to ask you if, before the last loan, last October, you ever heard of the firm of Samuel M. Jarvis & Co. of New York?

Mr. BROWN. No.

Senator SMITH of Michigan. Then Speyer & Co.'s efforts were in the original loan of 15,000,000?

Mr. BROWN. Yes.

Senator SMITH of Michigan. That was of what date?

Mr. BROWN. The first arrangement was in June, 1911.

Senator SMITH of Michigan. And this other arrangement was what year?

Mr. BROWN. The last one, you mean?

Senator SMITH of Michigan. Yes.

Mr. BROWN. In October, 1913. I am sorry to have misled you there, Senator. I did not understand your question.

Senator SMITH of Michigan. I am not surprised. Perhaps I did not state my question clearly.

Secretary BRYAN. Before you adjourn, may I ask you a few questions?

The CHAIRMAN. Yes.

Secretary BRYAN. Does the question of the stability of the Government there affect the interest rate in making loans to the Central American countries?

Mr. BROWN. Well, Mr. Secretary, I really can hardly answer that question, except in a general way—that wherever a Government is stable interest is lower, because money is safer.

Secretary BRYAN. If you were loaning money in that country would you take that fact into consideration in fixing the rate of interest?

Mr. BROWN. Oh, certainly.

Secretary BRYAN. The second question is in regard to the contract of last October. That had no option on it?

Mr. BROWN. No option on it.

Secretary BRYAN. It had a provision for a time after default for redemption?

Mr. BROWN. Yes, sir.

Secretary BRYAN. Of six months in the case of the bank stocks, and a year in the case of the railroad stocks?

Mr. BROWN. A year or nine months. I do not recall, against the bank stock.

Mr. KOHLMANN. A year.

Secretary BRYAN. Is that customary?

Mr. BROWN. No; generally a very much shorter time will enable you to realize on your security.

Secretary BRYAN. Is that more or less favorable to the Republic than the usual terms?

Mr. BROWN. Very favorable to the Republic. It gives them a very long time in which to negotiate a resale of the collateral to satisfy our loan.

Secretary BRYAN. Why was that time given?

Mr. BROWN. The time was given very largely at the suggestion of the State Department and yourself, so as to favor Nicaragua in every way possible.

Senator POMERENE. May I ask two or three questions, if the Secretary is through. Can you give us any information as to the relative strength of the two political parties down there; the Conservative and the Liberal parties?

Mr. BROWN. No; I really can not, at all.

Senator POMERENE. Can you advise this committee whether or not this loan of Brown Bros. and Seligman & Co., or the loan known as the Ethelburga loan, form a political issue as between these two parties?

Mr. BROWN. No; I could not tell you that. I kept out of the political situation.

Senator POMERENE. I did not ask you whether you take any part, but do they form any issue as between the two parties?

Mr. BROWN. I really do not know of that. I can not speak of that from my own knowledge.

Senator POMERENE. Does the question of this treaty constitute an issue as between the two parties down there?

Mr. BROWN. I really do not know of that, but I think the fact that there is a payment to be made would tend to unify the two parties down there.

Senator POMERENE. That might depend upon the party who would get the benefit of it.

Senator SMITH of Michigan. Does anybody object to that indictment against the people of Nicaragua?

Senator POMERENE. That is not an indictment.

Senator SMITH of Michigan. No; that does not constitute an indictment.

Senator WILLIAMS. Mr. Stenographer, you did not take that down?

The STENOGRAPHER. Yes.

Senator SMITH of Michigan. The witness is under oath, and he is answering direct questions from Senator Pomerene.

Senator WILLIAMS. What Senator Pomerene said there was a pleasantry.

Senator SMITH of Michigan. I do not regard it so. Did you intend it as a pleasantry, Senator?

Senator POMERENE. It explains itself. I do not think it needs any explanation.

Senator SMITH of Michigan. I do not think so, either.

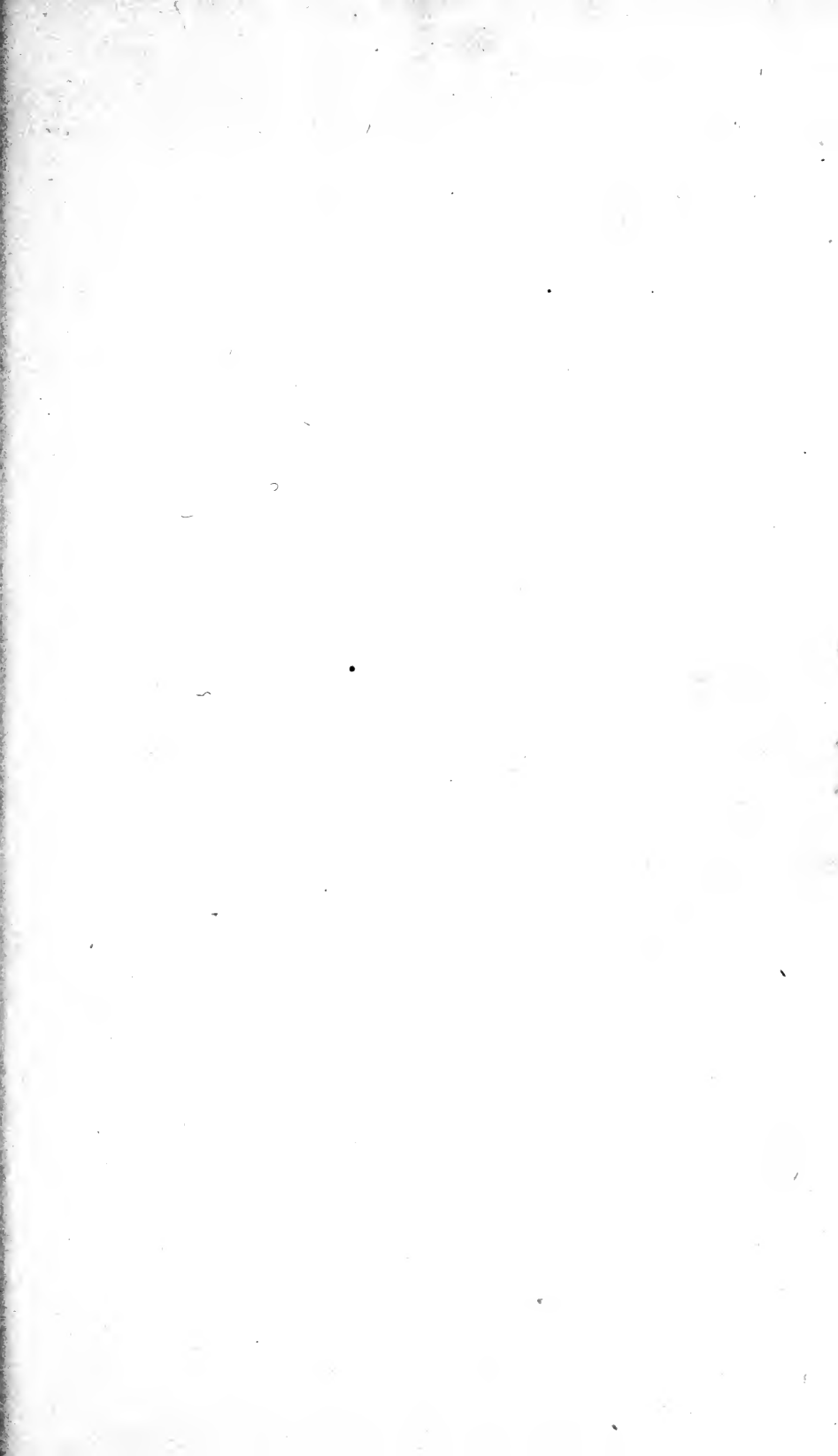
Senator POMERENE. What I was seeking to get at was whether or not the witness was able to enlighten us upon this one subject, as to whether or not this treaty, or anything which is to be done under it, constitutes a political issue as between these two parties. If the witness can give us any information on that subject I should like to have it.

Mr. BROWN. No; I can give you really no information on it.

Senator POMERENE. That is all.

The CHAIRMAN. At this point the committee will take a recess until 3 o'clock.

(Thereupon, at 2.10 p. m., the committee took a recess until 3 o'clock p. m.)



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CONFIDENTIAL

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA

PART 9

Printed for the use of the Committee on Foreign Relations



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1914

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

TUESDAY, JUNE 30, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

AFTER RECESS.

The committee reassembled at the expiration of the recess, at 3 o'clock, p. m.

Present: Senators Stone (chairman), Hitchcock, Williams, Pomerene, Smith of Michigan, and Root.

Also Mr. Kohlmann and Mr. Cox.

The CHAIRMAN. If there be no objection, I will ask the reporter to incorporate in the hearings at this point certain tables furnished in a report made by F. C. Harrison and Charles A. Conant to Brown Bros. & Co. and J. & W. Seligman & Co., referred to in Mr. Conant's statement to the committee. The tables referred to will be found on pages 7, 10, 13, and 14 of that report.

(The tables referred to are as follows:)

Issues of paper money.

[In pesos.]

| Year. | New issues. | Incinerations. | Net outstanding Dec. 31. | Average rate of exchange. |
|--------------|-------------|----------------|--------------------------|---------------------------|
| 1894-95..... | \$271,650 | \$25 | \$271,625 | ..... |
| 1895-96..... | 221,875 | ..... | 493,500 | ..... |
| 1897..... | 500,268 | ..... | 993,768 | ..... |
| 1898..... | 1,521,000 | 135,126 | 2,379,642 | ..... |
| 1899..... | 376,355 | 64,693 | 2,691,304 | ..... |
| 1900..... | 658,882 | 50,251 | 3,299,935 | ..... |
| 1901..... | 2,200,624 | 144,737 | 5,355,822 | 372 |
| 1902..... | 3,000,000 | 49,587 | 8,306,235 | 528 |
| 1903..... | ..... | 224,170 | 8,082,065 | 720 |
| 1904..... | ..... | 150,000 | 7,931,905 | 684 |
| 1905..... | ..... | 130,000 | 7,801,905 | 616 |
| 1906..... | 235,000 | 140,000 | 7,896,905 | 540 |
| 1907..... | 1,015,000 | 46,751 | 8,865,154 | 630 |
| 1908..... | 1,850,000 | 44,000 | 10,671,153 | 797 |
| 1909..... | 1,499,950 | 22,000 | 12,149,103 | 913 |
| 1910..... | 19,625,000 | 822,000 | 30,952,103 | ..... |
| 1911..... | 24,470,000 | 6,865,000 | 48,557,103 | ..... |

366 CONVENTION BETWEEN UNITED STATES AND NICARAGUA.

Summary of the circulation of national currency, Dec. 18, 1911.

| | | | |
|---|------------------|--------|------------------|
| Circulation on Dec. 31, 1909, according to the accounts of the treasurer general, and the difference between the issues and the incinerations under the government of Zelaya..... | | Pesos. | 12, 171, 103. 95 |
| Issues ordered by President Madriz: | | Pesos. | |
| In provisional notes..... | 4, 450, 000. 00 | | |
| In notes printed abroad..... | 9, 415, 000. 00 | | |
| Ordered by Dr. Madriz, but issued later..... | 5, 585, 000. 00 | | |
| Total | | | 19, 550, 000. 00 |
| Issues ordered by the present Government..... | 25, 000, 000. 00 | | |
| Unissued and in hand..... | 830, 000. 00 | | |
| | | | 24, 170, 000. 00 |
| | | | 55, 891, 103. 95 |
| Incinerations: | | | |
| During the government of Dr. Madriz..... | 433, 500. 00 | | |
| During the present Government to the close of October, 1911..... | 5, 500, 000. 00 | | |
| From Nov. 1 to date..... | 1, 650, 000. 00 | | |
| Total | | | 7, 583, 500. 00 |
| Net circulation..... | 48, 307, 603. 95 | | |
| Amount of provisional notes stolen..... | 450, 000. 00 | | |
| | | | 48, 757, 603. 95 |

Monthly rates for exchange on New York.

| Month | 1901 | 1902 | 1903 | 1904 | 1905 | 1906 | 1907 | 1908 | 1909 | 1910 |
|----------------|------|------|------|------|------|------|------|------|--------|--------|
| January..... | 295 | 395 | 730 | 710 | 640 | 600 | 510 | 710 | 850 | 960 |
| February..... | 300 | 400 | 800 | 720 | 640 | 580 | 535 | 750 | 900 | 960 |
| March..... | 305 | 410 | 720 | 730 | 646 | 565 | 540 | 770 | 960 | 1, 000 |
| April..... | 320 | 395 | 725 | 660 | 655 | 550 | 545 | 765 | 1, 060 | 1, 020 |
| May..... | 400 | 415 | 700 | 690 | 625 | 520 | 600 | 775 | 800 | 1, 075 |
| June..... | 400 | 440 | 685 | 650 | 605 | 510 | 550 | 830 | 830 | 1, 080 |
| July..... | 400 | 615 | 720 | 660 | 570 | 525 | 650 | 810 | 870 | 1, 200 |
| August..... | 405 | 610 | 720 | 720 | 574 | 540 | 700 | 790 | 900 | 1, 400 |
| September..... | 410 | 615 | 720 | 690 | 610 | 520 | 680 | 780 | 945 | 1, 300 |
| October..... | 425 | 615 | 720 | 670 | 590 | 520 | 680 | 810 | 900 | 1, 350 |
| November..... | 405 | 830 | 705 | 670 | 610 | 530 | 600 | 900 | 975 | 1, 250 |
| December..... | 400 | 595 | 700 | 645 | 628 | 520 | 700 | 875 | 975 | 1, 200 |
| Average..... | 372 | 528 | 720 | 684 | 616 | 540 | 630 | 797 | 913 | ..... |

Gold value of paper currency at end of each year.

| | Circulation (in pesos). | Rate of exchange. | Gold values (United States currency). |
|-----------|-------------------------|-------------------|---------------------------------------|
| Dec. 31— | | | |
| 1901..... | 5, 355, 822 | 400 | \$1, 338, 900 |
| 1902..... | 8, 306, 235 | 595 | 1, 396, 000 |
| 1903..... | 8, 082, 065 | 700 | 1, 154, 500 |
| 1904..... | 7, 931, 905 | 645 | 1, 229, 700 |
| 1905..... | 7, 801, 905 | 628 | 1, 242, 300 |
| 1906..... | 7, 896, 905 | 520 | 1, 518, 600 |
| 1907..... | 8, 865, 154 | 700 | 1, 266, 400 |
| 1908..... | 10, 671, 153 | 875 | 1, 219, 500 |
| 1909..... | 12, 149, 103 | 975 | 1, 256, 300 |

TESTIMONY OF ALBERT STRAUSS, BANKER, FIRM OF J. & W. SELIGMAN & CO., NEW YORK.

(Albert Strauss, having been first duly sworn, testified as follows:)

The CHAIRMAN. Give your name and business and the membership of your firm.

Mr. STRAUSS. My name is Albert Strauss; business, banker; firm of J. & W. Seligman & Co., consisting of eight partners, as follows: James Seligman, Isaac N. Seligman, Henry Seligman, Jefferson Seligman, Emil Carlebach, Frederick Strauss, William P. Philips, and Albert Strauss; No. 1 William Street, New York.

Senator SMITH of Michigan. And your London address?

Mr. STRAUSS. We have no London house. There is a firm of Seligman & Bros., but it is an independent firm. Years ago they were in one firm, but they are now independent.

Senator SMITH of Michigan. Are you connected with that firm?

Mr. STRAUSS. No, sir; not at all. They are members of the same family and 20 years ago they were one house, but I should say 15 years ago the different houses were separated. There is no connection between the two except the connection of friendship.

The CHAIRMAN. Your firm of J. & W. Seligman & Co. and the firm of Brown Bros. & Co. have in conjunction been dealing with the Republic of Nicaragua with reference to the finances of that Republic, have you not?

Mr. STRAUSS. We have.

The CHAIRMAN. Will you give to the committee a concise statement, as briefly as your can to make it intelligible, as to your connection with that business and a little history of it?

Senator SMITH of Michigan. Is this Frederick Strauss?

Mr. STRAUSS. No, sir; this is Albert Strauss.

Senator SMITH of Michigan. You are not the president of the Nicaraguan Railroad?

Mr. STRAUSS. No, sir; that is my brother and partner.

The CHAIRMAN. Let me ask you in this connection if you are the member of the firm who has had principal charge for your firm of this Nicaraguan matter?

Mr. STRAUSS. Both my brother and I have. I think I have had a little more to do with the details than he has; he has been busy with other matters.

Before beginning my statement I would like to say this, because apparently there was a misconception on that subject in the newspaper account the other day, that my firm has at no time owned or bought any Nicaraguan bonds of 1886, 1904, or 1909, or loaned any money to Nicaragua except covered by the treasury bills agreement—the first one—this so-called supplementary loan and the second treasury bills agreement.

Senator SMITH of Michigan. That is the treasury bills agreement of 1913?

Mr. STRAUSS. The treasury bills going back of 1913 and the supplementary loan of March 12, and then the original treasury bills loan of a million and a half, which was some time in 1911, I think. I want to make that disclaimer as sweeping and as broad as possible, because there has apparently been some misconception as to that.

Now, to take up the matter chronologically, I think it was in 1911 that Brown Bros. & Co. asked us whether we would care to join them in considering certain Nicaraguan business. We told them we would look into it with them, and they then told us of the situation in Nicaragua; that Nicaragua was negotiating a treaty with the United States with the intention of issuing a loan analogous to the Santo Domingo 5 per cent loan, where the customs were collected by a customs collector either nominated by or at any rate under the auspices of the United States, and where the financial results had been very satisfactory, following the appointment of a collector of that character. We took up this business with them and were brought into contact with Ernest H. Wands, who was financial advisor of Nicaragua, and who had just been down there. Mr. Wands had made a report on the revenues and expenditures of the country, its debts, resources, exports and imports, and other matters of interest, and took up the discussion of the terms of that loan with us at the time.

The CHAIRMAN. May I ask you at that point if you have in printed form, or typewritten form, a copy of that report of Mr. Wands?

Mr. Cox. There is no printed report, Senator. We may possibly have a form of the report, but no printed report. I will see if I have it in my papers here.

The CHAIRMAN. I do not think the committee has had that. It has had Conant's and Harrison's reports, but not Wands's.

Senator SMITH of Michigan. I think Mr. Wands said he did not have it; that he might have it, but he did not have a copy of it at the time.

Mr. STRAUSS. It may be it consisted simply of sheets giving exports and imports, etc.

The CHAIRMAN. You have no objection to letting us have it?

Mr. STRAUSS. Not at all.

(The report of Mr. Wands appears in the appendix.)

Mr. STRAUSS. Mr. Wands at that time told us that he was talking to other New York bankers and that he wanted to find out in the first place what New York bankers were going to make the best terms for Nicaragua. The discussion ran along, being predicated entirely upon the passage of the treaty that was then pending, and the appointment of a collector, and it called for an issue—what Wands had in mind—of \$15,000,000 of bonds, of which \$3,000,000 were to be reserved for a subsequent issue after the revenue should have grown to a certain point; \$12,000,000 of bonds were to be sold at that time and the proceeds were to be used under several heads that I do not recall now, but which is all set forth in the trust and fiscal agency agreement that was subsequently drawn up. It covered a certain amount for dealing with the English debt, the so-called Ethelburga loan, and railroad fund, I think the organization of a bank, etc. It is in that agreement.

Senator SMITH of Michigan. This treaty that you refer to was the Knox-Castrillo treaty?

Mr. STRAUSS. Yes, sir; the one that is set forth as an exhibit in some of the documents that you have.

Senator SMITH of Michigan. That is just for identification merely. I simply wanted to ask if that was the one.

Mr. STRAUSS. I think that was its title—the Knox-Castrillo treaty of June 6, 1911.

We finally made a bid in writing to Mr. Wands as financial agent, which he told us was the best bid, in his opinion, and that he was going to recommend it to Nicaragua, and that bid was embodied in a letter to Mr. Wands, and I think it had attached to it the trust and fiscal agency agreement and other documents that were necessary to make the terms of the loan sufficiently precise.

Senator WILLIAMS. When you say “we,” you mean you and Brown Bros.?

Mr. STRAUSS. Yes, sir; we have acted together throughout in this matter. Mr. Wands asked us to make a bid that would stand good up to a certain day in order that sufficient time might be allowed for the passage of the treaty. We were very reluctant to do that because while we were willing at that time to buy the bonds, had they then been ready and had the treaty been passed, we did not want to stand bound and the other side not bound, where we would take all the risks of taking the bonds and changing financial events. My recollection is, at his earnest solicitation we finally told him we would make the bid to stand good until September 1, but that was conditioned upon our being informed within a few days that subject to the passage of the treaty our bid was accepted. The purpose of that was that we did not want to make a bid where we would be bound, and it might be used by the other side simply to get some one else to improve the terms, and then if they fell down in their dealings with other parties, to accept ours. We wanted our bid accepted or rejected subject to the passage of the treaty. I think that time, September 1, was subsequently extended. In any event the treaty failed to pass, and at Mr. Wands's request, we then considered making a temporary loan to Nicaragua of \$1,500,000, so that they might go to work at once and begin to set their currency in order because that seemed to be the most critical thing for them to do. Their currency had got into very bad order. The value of their peso was continually dropping, and it was quite evident that until that was remedied it was impossible for them to do anything else because no rate of money, no rate of interest, would tempt anyone to go into the country if we were going to lose more through depreciation of principal every year than we could possibly hope to get in the way of interest. That resulted in the so-called treasury bills agreement of 1911; I think that was the date.

As the first step in the reform of the currency, Mr. Conant was approached and asked if he would go to Nicaragua and look into the situation there and report in order to be quite sure that we were going safe. The suggestion was made by some one of our partners that we had better try to get some competent Englishman to go with him, especially as the English had had experience in India and other places, and, as I remember, Sir William Barbour, I think his name is, who was the head of the India office and a recognized authority, recommended Francis C. Harrison, who came over here and went to Nicaragua with Mr. Conant. They went down there expecting, I think, to return by Christmas, and remained down there four or

five months, much to Mr. Harrison's disgust. They first found that the amount of currency outstanding had been understated. They found that the Government was running behind in its ordinary budget, and they were not ready to recommend any plan unless the amount of money that the bankers were prepared to put up was increased from a million and a half, and unless sufficient money were provided to make a balance in the budget until, I think, it was the following October—this was in the early spring, perhaps March—and as a result of that, and in order to make the thing effective at all, we agreed to advance up to \$500,000 for currency purposes if it should prove necessary. That was to be an advance made only if required, and to advance \$255,000 in monthly installments to make an approximate balance in their budget to carry them over a critical season during which Harrison and Conant thought they required some additional aid there.

Harrison and Conant made their report, of which you have a copy. It recommended the establishment of a bank; the gradual purchase of the circulating billetes or pesos, and their incineration; the gradual raising in this way of the value of the peso, and which, when they went down there had fallen to something under 5 cents, I think, or as it is sometimes quoted, 2,000 pesos per \$100.

It was something under 5 cents. Their recommendation was that through the purchase and cancellation of the billetes that rate of exchange would be gradually raised up to 12.50, equal to 8 cents, that when that point was reached it be held there through an exchange fund—a gold exchange fund—deposited in New York, and their estimate was that the money provided would be sufficient for that purpose and that the rate of exchange could be held at 8 cents.

When 8 cents had been reached the bank was to issue its bank notes for any additional currency that might be needed in exchange for drafts on New York or London or any other place, the system being one which when established should be automatic, furnishing as much currency as would be needed in the form of bank notes whenever the people down there had credit to draw against, and, on the reverse, if the currency at the slack season became redundant, the turning in of the currency was to be made good by gold drafts in New York. That was put into effect, but in the meantime Nicaragua was in constant need of money. I do not know that I have the sequence of events exactly in my mind, but ultimately I think we agreed to advance for current needs \$100,000 out of the five hundred that was to have been advanced for currency purposes. We agreed to advance that to them for their present needs.

Senator SMITH of Michigan. This was the first money?

Mr. STRAUSS. No; that was out of the second fund. The million and a half was set aside for currency purposes, and for no other purposes, and then we agreed to advance up to \$500,000 should it prove necessary for currency purposes.

Senator SMITH of Michigan. That was after you had the custom-houses?

Mr. STRAUSS. Perhaps I should have gone back a step there.

Senator SMITH of Michigan. I wish you would. I do not like to break in upon you. I do not mean it as a discourtesy at all.

Mr. STRAUSS. It is a pretty complicated matter, and my mind goes off on one part at a time.

Senator SMITH of Michigan. And you can not wonder that we feel that it is a little complicated also.

Mr. STRAUSS. I am surprised; well, I am not surprised, rather, that you find it necessary to put in a good deal of time on it.

In the meantime also, when our loan of a million and a half was made and signed up, Col. Ham, who had been in the Philippine customs service, was nominated by us and approved by the Secretary of State as collector general of customs, and he went down there. I do not know when that was; probably some time toward the end of 1911. The agreements were signed September 1.

Mr. KOHLMANN. He assumed office about the middle of December.

Mr. STRAUSS. I remember some time was lost because we interviewed a number of men.

Senator SMITH of Michigan. He preceded Conant and Harrison by several months.

Mr. STRAUSS. He preceded Conant and Harrison, I think.

Senator SMITH of Michigan. By several months?

Mr. KOHLMANN. No; they went down substantially at the same time.

Senator SMITH of Michigan. I will give you the date. I do not want any confusion about it, and I do not want to argue it.

Mr. STRAUSS. I do not want to argue it either.

Senator SMITH of Michigan. I will just set you right, if I may, without trespassing. Mr. Conant said that he left New York on the 15th of November, accompanied by Mr. Harrison; that he arrived at Managua at Christmas and remained there until March, himself; and his colleague, Mr. Harrison, remained until February, returning ahead of Mr. Conant. Now, it was before this time that the customhouses, or the customs, were lodged in your hands.

Mr. STRAUSS. If you say so, I have no doubt it is true. I have no recollection of it.

Senator SMITH of Michigan. Mr. Cox will agree with me.

Mr. KOHLMANN. My recollection is distinctly that the decree under which Ham went into office down there was issued about the middle of December, and I think he took charge on the 15th or 16th of December.

Senator SMITH of Michigan. I am well aware that the decree was at that time, but I am also aware, and I think Mr. Conant stated, that the bankers were in charge of the customs for about four months preceding the decree.

Mr. STRAUSS. It can not be so.

Senator SMITH of Michigan. Mr. Cox, what is your recollection about it?

Mr. Cox. I could not state, Senator. I was going to state that it was about simultaneously with the time Harrison and Conant went down and Col. Ham went down—just about a few weeks intervening.

Senator SMITH of Michigan. When your preliminary investigation was being made Ham was in the customhouse collecting the money.

Mr. STRAUSS. In Conant's and Harrison's time; yes, sir.

Mr. KOHLMANN. If you will pardon me, there was introduced yesterday a letter from the Secretary of State approving Mr. Ham's appointment, which was dated November 11, 1911, so of course he did not go down before that time.

Senator SMITH of Michigan. I only took what Wands said about it and what Conant said about it. But there ought not to be any question about it of a serious character.

Mr. STRAUSS. I think it ought to be very easy to establish. I want to say that Conant's and Harrison's going down there was not preliminary, as you characterize it, in the relation to our committing ourselves to make this loan. It was preliminary to the actual work of changing the currency.

Senator SMITH of Michigan. Yes; but you were at that time committed to this early loan.

Mr. STRAUSS. Oh, yes; we had signed on September 1 an agreement that bound us to make this advance, and then we proceeded as fast as we could.

Senator SMITH of Michigan. That preceded Conant's and Harrison's visit?

Mr. STRAUSS. Precisely.

Mr. KOHLMANN. That agreement was not ratified until later.

Senator SMITH of Michigan. I know it was not ratified or promulgated down there, but it was in effect.

Mr. STRAUSS. It was substantially at the same time; that is my recollection of it; and at about that time Ham took charge of the customs and proceeded to reorganize, and he has been in charge since, and the results have been very gratifying, I think, from every point of view.

Senator SMITH of Michigan. Let us clear up this misapprehension, without diverting you. What I was aiming at was to discover whether you were really controlling the customs funds of Nicaragua prior to your plan of reconverting their money under this agreement, because then I was going to ask if it was out of those moneys that you advanced certain sums to Nicaragua?

Mr. STRAUSS. Out of the customs money, you mean?

Senator SMITH of Michigan. Yes.

Mr. STRAUSS. Let me put it in this way: We agreed to lend a million and a half for currency purposes. That was repaid out of the customs. Those customs were pledged to us and were to be paid to us every month, and we did at various times release to Nicaragua money which, if we had not released it, would, under the terms of the contract, have gone to repay us.

Senator SMITH of Michigan. Exactly.

Mr. STRAUSS. That happened so often that I can not begin to remember. It seems to have happened almost every month, as my recollection goes back.

Senator HITCHCOCK. Will you explain how this million and a half was used for the purposes of making the necessary financial arrangement for the reformation of the currency?

Mr. STRAUSS. It was deposited with the United States Mortgage & Trust Co. so that it might be a transaction at arm's length, and out of our hands, and part of it was used to pay up the capital of the bank which belonged to Nicaragua.

Senator HITCHCOCK. \$250,000?

Mr. STRAUSS. No; it was \$100,000, because they did not propose at the beginning to do much business there, and it was simply to give them a substantial capital.

Senator SMITH of Michigan. The bank capital was afterwards raised to \$300,000.

Mr. STRAUSS. Then, under the Harrison and Conant plan, the bank began to buy up the billetes currency in the market, paying for it in drafts on the United States Mortgage & Trust Co., so as to reduce gradually the redundancy of the currency.

Senator HITCHCOCK. At the beginning it was paying 15 to 1.

Mr. STRAUSS. I guess it began lower than that. It must have begun at 18 to 1.

Senator HITCHCOCK. Whatever the market was.

Mr. STRAUSS. But naturally there was this very important handicap, this Harrison and Conant report recommended an ultimate rate of exchange of 12.50, and we kept that quiet as long as we could. It was commented upon in the papers; it leaked out gradually, so that after a while it became pretty hard to get much redemption at any price below 12.50.

Senator HITCHCOCK. So that gradually this money was drawn out of the United States Trust Co. and taken to Nicaragua, or wherever the currency was presented for redemption?

Mr. STRAUSS. It was not taken there, because the form of the purchase of currency taken down there was this: A man would sell his currency, and he would be glad to sell it by draft on New York. So there was no actual physical removal.

Senator HITCHCOCK. What would he do with the draft on New York?

Mr. STRAUSS. He would send that out of the country or else use it to pay debts that he had contracted outside of the country.

Senator HITCHCOCK. Then, as a matter of fact, it was used largely for the purpose of paying exterior debts?

Mr. STRAUSS. I have no information on that at all. It would be a draft drawn to the order of people that we did not know, or very probably bought by local banks who may have in turn sold exchange to their customers against it. I have no information on that subject at all.

Senator HITCHCOCK. But it has been drawn out of that fund until your fund is now reduced to less than \$300,000, or such a matter?

Mr. STRAUSS. Yes, sir; more than that, because that fund has been replenished since.

Senator HITCHCOCK. Now, the bank has meanwhile been issuing these notes until at the present time it has something like \$1,800,000 outstanding. What reserve has it for that \$1,800,000?

Mr. STRAUSS. It has the reserve up here, whatever it is. Let me say this, that while in part, and at first entirely, the existing currency of pesos came in in return for drafts on New York on the currency fund after the rate of 12.50 was established and the bank began to issue these bank notes, pesos would come in for deposit, but after the bank had begun to pay out, they paid out new bank bills. So that pesos came in in return not only for drafts on New York, but they also came in and were received from time to time in exchange for the bank's own notes.

Senator HITCHCOCK. In the current business?

Mr. STRAUSS. Yes, sir; in the current business, so that the statement as of May 31, 1914, was that there were outstanding in the new currency the equivalent in United States gold of \$1,650,000 of the new currency; that is, gold value.

Senator WILLIAMS. You mean bank notes?

Mr. STRAUSS. Yes, sir; Cordoba notes, they call them.

Mr. COX. That includes silver of the new currency?

Senator SMITH of Michigan. That is all based on the gold value.

Mr. STRAUSS. That is correct. There was also outstanding of the old currency—with the qualification which I shall make in a moment—an amount equal at 8 cents to gold value of \$318,000. The qualification is this, that that is based on an estimate of the total amount of the currency outstanding, based on the amount issued as set forth in Harrison and Conant's report, and undoubtedly much of that must have been destroyed by the ordinary wear and tear, and I do not suppose that the total amount that the books now show as outstanding will ever come in for redemption. No one can say how much has been destroyed.

Senator HITCHCOCK. Has not the effect of a financial agency been to put that little country in a sort of strait-jacket and really to cramp business?

Mr. STRAUSS. No; I think many of the people out there, without making the distinction between money and credit, are under that impression, and a banker from down there who came into the office the other day on his way to Europe was under that impression, and I think it took about an hour—and I was willing to give the time to it because I think it is a fatal mistake for them to labor under down there—and I finally put it to him: "When you have drafts on Hamburg or London or Berlin, or when any merchants down there have credits abroad, they can always get the new bank notes for it, can they not?" He said yes.

Senator HITCHCOCK. I can easily see that international transactions have been greatly facilitated because you have a par of exchange absolute; but it strikes me there has been such great contraction of their currency locally that they might very easily be embarrassed.

Mr. STRAUSS. There has been no contraction except the contraction that was necessary to raise the value from the depreciated 4 or 5 cents to 8 cents, which is still way below the original value.

Senator HITCHCOCK. In most of those other countries—those half-civilized countries—their country has been put on a basis of two for one, for instance, for the very purpose of affording greater freedom.

Mr. STRAUSS. But if we had done that, instead of having a value of 8 cents to the peso we would have a value of 50 cents.

Senator HITCHCOCK. I asked the question this morning of Mr. Brown whether the condition of business had improved following this change of the currency system and he answered in the negative; that business was bad there and trade languishes, and it occurred to me that part of the trouble is that a great mistake has been made in fitting that country to a highly civilized currency when it was not ready.

Mr. STRAUSS. I think the trouble that arose there is this: I think it is the failure of their budget to balance. The result of that is that the Government is always in debt, not only on these old war claims and things of that sort, but it is in debt on current account; the employees remain unpaid, and that makes itself felt through the

entire system there; that merchants get tired out because the Government owes them money. That, added to the fact—

Senator HITCHCOCK. I will come to that in a moment. I understand the revenues are \$3,800,000 a year gold.

Mr. STRAUSS. I do not think so. I do not carry those figures in my head, but that \$3,800,000 recalls an estimate to me, which I remember when I was—

Senator HITCHCOCK. It was made by the official representative before this committee. He placed in the record a statement showing the estimated revenues as \$3,800,000; he estimated the cost of running the Government at \$3,200,000, leaving a margin of \$600,000 gold, which he says he hopes will be sufficient to pay the interest on the bonded debt that they want to maintain. Have you a correct statement of the revenues of the country?

Mr. STRAUSS. No, sir; we have not. We have never been able to get a correct statement of all the revenues or all of the expenditures, nor anything like a correct statement of the debt. They have all been guesses. Even our own people down there when they have sent us a statement have qualified it in such way that it was of no value. They would say: "This has been furnished by the Secretary of the Treasury, but we find it does not include this or that or the other, and I am not sure whether the other estimate is right."

Senator SMITH of Michigan. That is so strange to me, that you could afford to do business in such a manner for a really nominal return, that you could do business so far away at such a disadvantage and with a situation which you can not comprehend yourself.

Mr. STRAUSS. Well, Senator, let me say in answer to that, that we started in to make a loan of a million and a half dollars, repayable in monthly installments out of the customs as they came in. The customs actually were then, I think, at the rate of perhaps a million dollars a year, and have since risen to \$1,800,000, something like that.

Senator SMITH of Michigan. But your customs had been previously pledged.

Mr. STRAUSS. Only to the extent of \$300,000.

Senator SMITH of Michigan. They had been pledged by the Ethelburga loan.

Mr. STRAUSS. What I was getting at is this, it is about \$330,000, but what I wanted to make clear was that we gradually glided into this thing.

Senator SMITH of Michigan. That is a most interesting story.

Mr. STRAUSS. Having started with that, then came constant importunity for cash to supply their needs, and we released the customs that should have gone to repayment of our loan.

Senator SMITH of Michigan. And you constantly grasp for securities for what you put in?

Mr. STRAUSS. Well, we made a loan which was to have been repaid within a year, out of the customs, and when the customs were being constantly diverted to their use we naturally wanted what we could get to secure us. We were met almost at once by Mr. Harrison and Mr. Conant with the request to commit ourselves for \$755,000 more, and we were very much dismayed. We had started in on this thing and expected to advance a million and a half, expecting that that would be sufficient to put the currency in order and that affairs down

there would mend, and that when that treaty went through there would be a bond—what I would call of the Santo Domingo character—which we could buy and make a moderate profit on it, or that the affairs of Nicaragua would by that time be so far mended that we could have considered possibly a loan on different terms and without a treaty, but things moved the other way.

Senator SMITH of Michigan. But you still continued to make those advances?

Mr. STRAUSS. We continued to make only such advances—

Senator SMITH of Michigan. You made a \$750,000 loan.

Mr. STRAUSS. That was absolutely necessary not to spoil what we had started to do, which was to help them put their currency in order.

Senator POMERENE. You do not regard this as a precedent for other borrowers?

Mr. STRAUSS. We do not; further than that, I should not advise anyone who is not prepared to have his offer accepted, to offer to take our place in this whole arrangement from the beginning. I say that without consulting my partners.

Senator SMITH of Michigan. I have no doubt they would assent to it. But having advanced this money, you still say that you felt obligated to do it in order to help these people. Was that a purely altruistic motive upon your part?

Mr. STRAUSS. That second advance?

Senator SMITH of Michigan. Yes.

Mr. STRAUSS. The second advance was this: We had started in and it became known that we had started in to help them set their currency in order, but when Harrison and Conant—men who understood their business—went down there and told us it would take \$755,000 more to do that, we were not willing to let it fall down on that. Our pride was involved in it.

Senator WILLIAMS. Besides that, the first investment would have been threatened unless you had followed this up.

Mr. STRAUSS. If we had stood still on that and said, "We will loan you a million and a half; let us have these customs just as you agreed to," I think that within 18 months or 2 years we would have been out of there.

Senator WILLIAMS. Let us see about that.

Mr. STRAUSS. I can not say that we would.

Senator WILLIAMS. There were two or three other loans ahead of yours.

Mr. STRAUSS. There was one loan ahead.

Senator WILLIAMS. I think there were several other demands—you need not call them loans. Now, unless you had put that currency in fit condition and finally succeeded in getting these pledges destroyed and printing of paper stopped, it seems to me that the customs never would have been sufficient in their gold value to meet the other things and then pay you.

Mr. STRAUSS. That might have been.

Senator WILLIAMS. Because the currency would have kept depreciating all the time.

Mr. STRAUSS. I think if it had been simply a question of securing that first loan, it would have been a good deal safer to sit still and chance it on that than to go on. But it had become known that we were undertaking to do that, and we were not willing to disregard

the recommendation of the men that we had asked to go down there, to simply lie down under it, and it had been demonstrated in the meantime that, however well these customs might look on paper, we were constantly being requested to give them up, so it is very natural that in making a further advance we wanted some further and other security.

Senator SMITH of Michigan. Had you made obligations to others, too, that you were bound to carry through?

Mr. STRAUSS. I do not know what you mean.

Senator SMITH of Michigan. Had you obligated yourself—you and Brown Bros. obligated yourselves and others in connection with that matter, or was it purely one of your concern and Brown Bros.' concern?

Mr. STRAUSS. Purely our own. There was no one else that had any part in it.

Senator SMITH of Michigan. Had you dealt in Santo Domingo bonds?

Mr. STRAUSS. No, sir; we might have bought 5 or 10 on orders from customers, but we had nothing to do with the arrangement. So far as I know, I can not recall even that, but it may be that in the ordinary course of business we may have had orders to buy them.

Senator SMITH of Michigan. Go ahead in your own way with your statement.

Mr. STRAUSS. I will have to go back a moment. I have lost my way.

I think that explains the supplementary loan—

Senator SMITH of Michigan. How was the supplementary loan secured?

Mr. STRAUSS. That was the \$755,000. That was secured by a subsequent lien on the customs. For what it was worth, the railroad was turned over to a corporation and the stock was deposited.

Senator SMITH of Michigan. With you?

Mr. STRAUSS. With us—any currency that was acquired under the terms of that—I never thought that amounted to very much, the currency, because the currency you take in you can not put it out without neutralizing its value.

Senator SMITH of Michigan. That was additional security?

Mr. STRAUSS. And the claim against the Ethelburga Syndicate.

Senator SMITH of Michigan. And then the option to buy; I suppose that was the additional security.

Mr. STRAUSS. That is not security.

Senator SMITH of Michigan. The option to buy the railroad?

Mr. STRAUSS. That is not security.

Senator SMITH of Michigan. You had an upset price on it.

Mr. STRAUSS. But it is not security in any sense—the option.

Senator SMITH of Michigan. You held the stock—33,000 shares?

Mr. STRAUSS. Yes, sir.

Senator SMITH of Michigan. And you advanced this \$750,000 on customs already assigned and the railroad.

Mr. STRAUSS. What remained of them after the pledge to us for the million and a half.

Senator SMITH of Michigan. And all of the railroad stock deposited as collateral.

Mr. STRAUSS. Yes, sir.

Senator SMITH of Michigan. And the agreement that you should be permitted to buy 51 per cent of the railroad at an upshot price, and the further agreement that you should have the first right to buy the minority holding of the railroad in addition.

Mr. STRAUSS. That is right, but my point—

Senator SMITH of Michigan. Am I right in that?

Mr. STRAUSS. Yes, sir; but my point is that the option to buy the railroad added nothing to our security. It added a possible avenue to making a profit on it, but it added nothing to the security.

Senator SMITH of Michigan. Mr. Brown said this morning that for your proportion of that railroad stock you had talked over with Mr. Keith of the United Fruit Co., its sale at an advance of practically \$600,000.

Mr. STRAUSS. Yes; but it never got beyond that at all.

Senator SMITH of Michigan. All right.

Mr. STRAUSS. That was subsequent.

Senator SMITH of Michigan. When I speak of that in connection with the additional security which the upshot price on the balance of the railroad gave you, and the option to buy, or rather, Brown Bros. to buy, and the minority holding gave you a tangible asset?

Mr. STRAUSS. It did not add to the security. We had the asset pledged. Suppose we had to sell that railroad stock on account of default on their part, that would have fetched whatever it could have fetched in the market. Now, an option on that stock added nothing to our security. It added a possible avenue for profit, but nothing to the security.

Senator SMITH of Michigan. Well, let it pass at that.

Mr. STRAUSS. As a matter of fact, my recollection is that Harrison and Conant's urgent cables for these advances suggested our taking the railroad as an additional security, and that statement of the railroad that we had then, at the time of taking an option of half of it, showed such a lamentable state of affairs that we took it rather to humor them, being our people, and having recommended it, than anything else. The statement we had showed about \$20,000 a year net earnings, I think. We said it would not do any harm to take it.

Senator SMITH of Michigan. Both yourself and Mr. Brown and Mr. Mallet-Prevost have referred to the lamentable condition of that railroad.

Mr. STRAUSS. Yes, sir.

Senator SMITH of Michigan. Now, in considering its lamentable condition, did you have the report which had been made of its operations under Mr. Jolio Weist, just preceding your arrangement? Have you ever seen the report of Mr. Jolio Weist made to the Nicaraguan Government?

Mr. STRAUSS. I remember one annual statement which showed in pesos an operating profit of something like 200,000 pesos, or perhaps 300,000 pesos, which would have amounted to \$15,000 or \$20,000.

Senator SMITH of Michigan. Mr. Weist regarded it as a valuable property.

Mr. STRAUSS. I will say that that property is more valuable than we thought it was when Harrison and Conant telegraphed to us suggesting it as security for an additional advance.

Senator SMITH of Michigan. I am very glad to have you say that, because that is our information about it.

Mr. STRAUSS. Well, if it had not been more than we thought it was we certainly should not have bought half of it at \$1,000,000, because at the time I remember we regarded this railroad as of no value at all, and we rather smiled at the idea that those men should have suggested it as additional security, but we said, "If we are going to make the loan any way, put it in."

Senator SMITH of Michigan. As it turned out it was a very good safeguard.

Mr. STRAUSS. I think it was very fortunate that we took it.

Senator WILLIAMS. I want to ask a question. Suppose you had bought it at 51 per cent without requiring that the company should be turned into a corporation and the shares of the Republic of Nicaragua put in your hands as collateral, and suppose that it had been continued to be managed in the manner in which it had been managed theretofore; suppose, except for this private management, this company's management, it had gone on in the way in which it had theretofore been managed, is it your opinion that there would or could have been any profit growing out of it?

Mr. STRAUSS. No; I think it was quite out of the question.

Senator WILLIAMS. In other words, if I understand the situation correctly—and if I do not, you can correct me—the railroad had been managed more as a political asset, giving the people free passes and free transportation and placating this man, that man, and the other, than as a financial concern?

Mr. STRAUSS. That is my understanding.

Senator WILLIAMS. That is what I understand from the testimony thus far.

Mr. STRAUSS. And in addition to that there was a great deal of favoritism in the handling of freight at terminal points, I understand. There were groups of forwarding agents. If you gave your orders to them your freight went through the customhouse and was shipped.

Senator WILLIAMS. If you were not an important fellow and did not give him some privilege he might start a revolution.

Senator SMITH of Michigan. You also took a concession from the Nicaraguan Government to build a railroad to the Atlantic coast?

Mr. STRAUSS. Yes, sir.

Senator SMITH of Michigan. And that seems to have been a part of the consideration inuring to the Republic which was afterwards cancelled by your own request in order to be relieved of some of the obligations which you had contracted?

Mr. STRAUSS. No.

Senator SMITH of Michigan. That is the way the contract reads.

Mr. STRAUSS. That East Coast Railroad is undoubtedly a thing that they wanted. I believe it is easier now, when you want to write from Bluefields to Managua, to send your letter to New Orleans than to forward it any other way. They wanted that, and they wanted any available funds when this larger loan of \$12,000,000 was discussed at the beginning, and of which nothing ever came—\$12,000,000 applied to building the road to the east coast. We have never

reached the point of having any information as to whether that was of value or not.

Senator SMITH of Michigan. But it had run through every one of the agreements of the Nicaraguan Government?

Mr. STRAUSS. Yes, sir; because they wanted the railroad.

Senator SMITH of Michigan. The Nicaraguan Government seems to have laid great stress on it in the Ethelburga agreement, and they laid great stress on it in other agreements with you, and it was one of the conditions on which they allowed you to take over a portion of this stock.

Mr. STRAUSS. Oh, no; that we should build the East Coast Railroad?

Senator SMITH of Michigan. There is an agreement here—

Mr. STRAUSS (interposing). I think you are mistaken, Senator. I know you are mistaken. I do not know what it is based upon, but there never was anything of that kind. We have done some foolish things, but nothing would have induced us to obligate ourselves to build that East Coast Railroad without examination.

Senator SMITH of Michigan. You do not ask to be relieved of that condition in any one of your contracts with the Republic.

Mr. STRAUSS. We were asked by the Republic to waive our right to build that railroad. Do you refer to this article, that reads, "Option granted to the bankers to obtain from the Republic, etc.?"

ARTICLE NINTH.

The option granted to the bankers to obtain from the Republic a concession for the construction and operation of a proposed railroad from some point on or near the Atlantic coast, to connect with the Great Lake of Nicaragua or with the lines of Ferrocarril del Pacifico de Nicaragua, is hereby canceled and terminated, and the bankers are hereby released from the obligations imposed upon them by article sixth of schedule X of the treasury bills agreement of September 1, 1911, with reference to the survey of such proposed railroad.

Senator SMITH of Michigan. I do.

Mr. STRAUSS. That obligation was to apply to certain funds of Nicaragua's money, to a survey.

Senator SMITH of Michigan. Yes. In fact, you had the right, under your agreement with them—you were obligated under your agreement—to make certain extensions of this railroad, that included, and you were finally relieved from that condition.

Mr. STRAUSS. Article 6 of schedule X referred to in that agreement is as follows:

Sixth. As soon as practicable and within ninety days after the purchase of the \$12,000,000 of bonds as hereinbefore provided, the bankers shall send to Nicaragua such engineers and experts as they may select, to make surveys for a proposed railroad from some point on or near the Atlantic coast, preferably from Rama, on the Escondido River, to connect with the Great Lake of Nicaragua or preferably with the present railroad from Corinto to Granada, and also for a railroad from some point on such line to Matagalpa with such branch or branches as the bankers may deem desirable, and to report thereon to the bankers, with such maps, surveys, estimates of cost of construction, and recommendation as the bankers may require. Said surveys shall be begun as soon as practicable after the arrival of said engineers in Nicaragua, and shall be completed as expeditiously as possible. The Republic will, as far as possible, facilitate the work of such surveys by furnishing to the bankers such reports, maps, and information as it may have or as it may be able to obtain regarding such proposed railroads, and generally regarding the character, resources, products, and needs of the regions which such proposed railroads are intended to serve.

Upon receipt by the bankers of such engineers' complete and final reports, estimates, surveys, and maps they shall themselves prepare a report thereon, with such recommendations as they may think proper regarding the route or routes to be adopted, and generally regarding the character and estimated cost of construction and equipment. Said report, accompanied by copies of the reports, estimates, surveys, and maps prepared by the engineers and experts, shall be submitted to the minister of fomento of the Republic for his approval.

After said report shall have been approved by the Republic, the bankers shall have an option of thirty days within which to elect whether or not they will organize a company, hereinafter called the "Railroad Company," for the purpose of constructing and operating said railroads. In case the bankers shall elect to organize such Railroad Company, said railroads shall be constructed under contracts to be made by the Railroad Company; such construction contracts shall be subject to the approval of the minister of finance of the Republic and of the bankers. In case the railroads shall be constructed as aforesaid, the expenses incurred by the bankers in connection with reports, surveys, and maps above mentioned shall be for account of said Railroad Company and shall be paid by it. If the bankers shall elect not to organize said Railroad Company, the Republic shall cause said expenses to be paid forthwith by the trustee, for account of the Republic, out of the railway fund provided for in said contract schedule B.

If the bankers shall elect to organize said Railroad Company, they shall cause the same to be incorporated under the laws of one of the States of the United States or of some other suitable jurisdiction to be selected by them, with such powers and in such form as the bankers may determine, inter alia the power to acquire railroad and other franchises and concessions in Nicaragua, and to construct, own, and operate railroads and other lines of communication in that country. All questions relating to the organization of said Railroad Company, including the amount and character of its capital stock and of its bonded or other indebtedness, shall be determined by the bankers. As soon as the said Railroad Company shall have been incorporated, the Republic shall grant to it a concession in the form annexed hereto marked "Schedule D."

If the Railroad Company shall be organized as aforesaid, the cost of constructing and equipping said railroad, including the cost of terminal facilities and all appurtenances, including also the cost of the reports, surveys, and maps above mentioned, and including interest during construction upon payments made for that purpose, shall be paid, one-half thereof by the Republic and the other half by the bankers. The amount thus chargeable to the Republic shall be paid for its account by the trustee out of the railway fund provided for in said contract schedule B, and in consideration thereof the Railroad Company shall issue to the Republic noncumulative six per cent preferred shares of its capital stock, being its entire issue of such stock, to an amount equal to the sums so paid by said Republic.

In consideration of the one-half to be paid by the bankers as aforesaid, and also as part consideration to them under this agreement, the Railroad Company shall issue and deliver to said bankers (a) its first-mortgage six per cent bonds to an aggregate amount which, taken at the best price offered by other bona fide bidders for the entire lot of bonds to be sold, shall equal the sums so to be paid by said bankers, and (b) shares of the common stock of said Railroad Company, full paid and nonassessable, to an amount which at par shall represent not less than the par value of the bonds so to be delivered, and which stock shall in any case be sufficient to vest in the bankers the control of the Railroad Company.

If the Railroad Company shall be organized as aforesaid, and if the Republic shall at any time desire to dispose of its present railroad from Corinto to Granada, it shall first offer the same to the Railroad Company, which shall have the right, at its option, at any time within 30 days after such offer, to purchase the same at the same price and upon the same terms and conditions as may be offered by other intending bona fide purchasers.

If the bankers shall elect not to organize the Railroad Company as aforesaid, the Republic may undertake such construction for its own account or may itself organize a railroad company for that purpose.

It was only an option.

Senator SMITH of Michigan. Why did you take that option? Was there any money in it?

Mr. STRAUSS. They wanted that railroad built out of the proceeds of their own bonds, and the only purpose, as I remember it now, of putting it into the Trust and Fiscal Agency agreement dealing with the proceeds of the twelve million, was that it should be expended in a businesslike shape and not wasted. But I can not recall why that paragraph was put in there except for the purpose of setting to rest any need of making a survey with their money when there were no funds in sight, or likely to be, for the building of the road. That is all it was. We were never under any obligation to build that railroad, although, as I said before, it is a thing that the country ought to have as soon as it can afford it.

Senator SMITH of Michigan. It is in every one of these agreements, and it has been insisted upon by the people of Nicaragua, and its construction was begun by the Ethelburga syndicate. They were given the money with which to build it. The Republic wanted it done. They built about 10 miles of it and let the crows carry it away. That is the reason why I call your attention to it, because I thought it must still be a desire on their part or a willingness to assume it on yours.

Mr. STRAUSS. Oh, no; we had never had any examination made. We knew nothing about it.

Senator SMITH of Michigan. Someone had an examination made; otherwise they would not have spent that amount of money on it.

Mr. STRAUSS. Somebody made that, but we never did.

Senator SMITH of Michigan. You are not familiar with that.

Mr. STRAUSS. It was a part of the consideration—

Senator SMITH of Michigan. That looks like one of the considerations moving to the Republic all through these agreements. I am fair in saying that, am I not?

Mr. STRAUSS. No; it was one of the considerations moving to the bankers.

Mr. KOHLMANN. There really was no consideration.

Mr. STRAUSS. I mean the option, so far as it was a consideration at all, was a consideration moving to the bankers, that if out of the money furnished out of these 12,000,000 of bonds there was sufficient money to build that railroad, then the bankers would have an option to construct it. Was that not the original purpose of that agreement? Did the treasury bills agreement provide that surveys were to be made in any event?

Mr. KOHLMANN. No; only if the large loan went through.

Mr. STRAUSS. Then the whole thing was contingent on that original loan which was to have been made under the Knox-Castrillo treaty?

Senator SMITH of Michigan. Diaz, the President, lived down on the east coast?

Mr. Cox. The east coast.

Senator SMITH of Michigan. Down on the Atlantic coast. And the Atlantic coast development is a very rich part of the development of Nicaragua, is it not?

Mr. STRAUSS. I can not answer that positively. They have some gold mines there and some plantations.

Senator SMITH of Michigan. That is where this United States and Nicaragua gold mine is located, is it?

Mr. STRAUSS. I do not know. There are some mines there.

Senator SMITH of Michigan. The Los Angeles gold district?

Mr. STRAUSS. I do not know their name. I know there are some mines there. But the point is that these two sections, the east and the west coast, are very distinct, owing to a lack of communication, and their currency systems were different, and their tariffs were different.

Senator SMITH of Michigan. What per cent of the customs of Nicaragua are collected on the Atlantic coast, 90?

Mr. STRAUSS. Oh, no. (30-35%)

Senator SMITH of Michigan. What percentage?

Mr. STRAUSS. If you have any one of those statements of Mr. Ham's it will show. Ham's printed report will show. No; the great bulk is collected on the west coast, on the Pacific side.

The CHAIRMAN. Which is the great port?

Mr. STRAUSS. Corinto is the most important port. That is on the Pacific side. It is not of itself important, but it is the port of Nicaragua, and this Pacific railroad runs from Corinto up through the important cities of Managua, etc.

The CHAIRMAN. Where do the merchants of Managua and Granada and Leon get their goods from?

Mr. STRAUSS. From the port of Corinto.

The CHAIRMAN. On the Pacific side?

Mr. STRAUSS. On the Pacific side.

The CHAIRMAN. Where do those imports come from?

Mr. STRAUSS. Col. Ham's statement will show. Here is a table, Senator Smith, which gives it by ports. Corinto is on the west side; San Juan del Sur is on the west side; San Juan del Norte is on the east coast. El Bluff is on the east coast. So you get about six or seven million pesos out of the total of the 19,000,000 that are collected on the east coast.

The CHAIRMAN. I am a little curious to know why goods imported to the United States from Europe would be landed at a Pacific port?

Mr. STRAUSS. Because the principal cities are on the Pacific side, and there is no communication between the coasts.

The CHAIRMAN. How does it get across, over the railroad?

Mr. STRAUSS. It does not get across. It just reaches these cities, Corinto, Managua, and Leon, that are on the western strip. Anything intended for the east coast is landed on the east coast at El Bluff and Bluefields.

Senator WILLIAMS. The chairman wants to know how they get there. Is it or not true that they pass by the Panama Canal and then go up the coast?

Mr. STRAUSS. Yes; they do to a certain extent. Some of it might go around the cape. The great volume of importations for Nicaragua come in on the west side and are destined for the important cities which are near the west coast. There is a range of mountains near the west coast which run down through the country, and east of that range it is grazing land, I believe, but no very important development. The large cities are on the lakes near the west coast.

Here is a statement of the importations and exportations by countries which shows that in 1911, out of the total importation of 5,700,000, 2,700,000 came from the United States; some 600,000 from Germany; 1,400,000 from England; 400,000 from France, etc., and of the exports out of a total of 6,500,000, 2,000,000 went to the

United States; 2,600,000 went to France; 1,000,000 to Germany; and 500,000 to England.

Senator SMITH of Michigan. Senator Stone's inquiry as to how they get over from Bluefields to Leon and Managua and Corinto, leads me to make this observation, and let me see if you concur in it—that the lack of railroad facilities across there has been due in large part to the fact that the so-called Atlantic coast portion of Nicaragua is not in close sympathy or concord with the balance of the Republic.

Mr. STRAUSS. You mean politically?

Senator SMITH of Michigan. Politically, and that they have at various times threatened to secede and establish a separate Republic on the Atlantic coast. Am I right?

Mr. STRAUSS. I believe that is correct, but, of course, that may work the other way too—that is, if they were closer connected—

Senator WILLIAMS. They were for a long time a separate Government.

Senator SMITH of Michigan. When Diaz came into the Presidency, coming from the Atlantic coast, his anxiety to have a railroad connection across there was a very natural one, of course, being an Atlantic coast man, and therefore, I suppose, there was some insistence, in the first instance, that that road should be built.

Mr. STRAUSS. I have always understood it was wanted; I do not know by whom, but I assume with the Panama Canal open the urgent necessary for that railroad will now vanish—at least the edge will be taken off. It would not be necessary as it is now to send the letters from Bluefields to New Orleans.

Senator SMITH of Michigan. That has been the effect already on public opinion—

Mr. STRAUSS. There is no question about the desire of the Government down there to want that at any cost.

Senator SMITH of Michigan (continuing). Whenever Atlantic Coast officials are in they want this railroad built. The other fellows are not so solicitous.

Senator WILLIAMS. The Atlantic Coast is the old Mosquito Coast Railroad?

Senator SMITH of Michigan. Yes. The lack of harmony between those two is very great, and the Platt amendment will not compose their differences.

The CHAIRMAN. Senator, you had better proceed. Mr. Strauss wishes to go to New York to-night.

Mr. STRAUSS. I am here for any length of time the committee can stand it.

Senator SMITH of Michigan. Your willingness has prompted this colloquy, I suppose.

Mr. STRAUSS. Now, as to the Ethelburga bonds. Under the old contracts that never went through under that contract. A part of the bonds were set aside to deal with Ethelburga bonds, the English debt of 1909. The contract authorizes Brown Bros. and Seligman to negotiate with those holders for some form of settlement. When the \$1,500,000 Treasury bills agreement was made, the intention of which was to anticipate this whole program by setting the currency in order, it was suggested that the settlement of the English debt might as well be anticipated by beginning negotiations and seeing what sort of settlement could be made there. That was taken up.

I presume Mr. Mallet-Prevost has been all over that ground. It was first taken up with Mr. Fuerth, who came over here representing the Ethelburga Syndicate. Let me interrupt myself to say that Mr. Mallet-Prevost has gone very fully into the legal aspects of this, and we negotiated an arrangement with Mr. Otto Fuerth whereby the par value of the bonds was reduced to 85. My recollection is that that was fixed on as substantially equivalent to the reduction rate of interest from 6 to 5. He said, "I can not put through—I do not want to put through or assist in putting through a reduction in the rate of interest. I would much rather stand scaling of the principal, which would be equivalent to the same thing." When we came to talk with Mr. Cooper later he felt the other way about it. Mr. Cooper preferred in the discussion that the principal be kept intact and reduce the rate of interest; but the terms of the agreement were the reduction of the rate of interest, the reduction of the principal to 85 per cent, the turning over of a sum of money that had been withheld and never had been accounted for in London by the Ethelburga Syndicate. Some £376,000, something of that kind. They to surrender the contract they claimed for building the East Coast Railroad and to turn over the railroad material that they had on hand, and to surrender all security that they claimed except the customs. The customs to be administered in the manner in which they were then being administered. My recollection is they claimed the right to build the East Coast road and to hold it as security. They claimed a lien on the West Coast, the existing railroad. They also had a lien on the internal revenue, tobacco, and liquor. I think Mr. Mallet-Prevost's opinion at that time was—but he has probably told you about that—that the bonds were legal, that the pledge of customs under the first contract was legal, the bond contract; that the second contract was illegal by which the railroad was to have been built, I think; that the parties negotiating the loan in London when they negotiated the first contract had exhausted their powers and were out of office.

Senator SMITH of Michigan. That is the contract under which this money was held in London?

Mr. STRAUSS. I think so.

Senator SMITH of Michigan. This three million and some dollars?

Mr. STRAUSS. £379,000. Under claim it was to be applied to the construction of the railroad.

Senator SMITH of Michigan. Three and one-half million?

Mr. STRAUSS. Yes; three hundred and seventy-nine thousand odd sterling. In one of our negotiations we rather, as I thought at the time, questioned Mr. Fuerth's right to speak for the syndicate in London. He claimed to represent them, and we insisted it should be ratified by his directors. He went back and his directors failed to ratify. I always thought if we had not insisted on a ratification of that first settlement it might have gone through. I mean if we had never raised the question of ratification. The matter was then dropped and taken up a little later with James P. Cooper, the secretary of the Corporation of Foreign Bondholders. He came over here and we had very long negotiations with him. Mr. Cooper came over here under the impression that he could have everything that he thought his bonds were entitled to, and we spent days talking it over with him, discussing it with him. We spent weeks. We finally

made a settlement, a copy of which has undoubtedly been furnished you, under which the rate of interest was reduced from 6 to 5. All security was waived except the customs to be collected in the manner they were then being collected by Col. Ham. The Nicaraguan Government reserved the right to redeem the bonds for two years at 93; for two years after that at 94; and for two years additional at 95.

Senator SMITH of Michigan. You speak of the Government. Was that the Government or the bankers representing the Government?

Mr. STRAUSS. I think it was the Government. That would be purely a matter of how the contract read, because if it was the bankers it was purely a contract for the Government. It was not contemplated that we should get them at 92 or 93 and turn them in at par. It was for the Government, or for account of the Government. The Government was to get the benefit of the lower prices of redemption. And I will repeat here that during those negotiations and at no time have we ever owned any of those 1909 bonds or the previous 1904 bonds, of which 47,000 or 50,000 were outstanding, or of the previous 1886 bonds, of which a few hundred pounds are still outstanding. We never owned any. We were particularly careful not to, and I might say that when one of our foreign houses asked us if those bonds were not an attractive purchase, we telegraphed them, "We request you not to buy them," because we did not wish to be embarrassed by having anyone connected with us deal in those bonds while we were negotiating. We were particularly careful there. We were acting for Nicaragua and had nothing to make out of it; we were simply trying to straighten out the muss, and we had no financial interests one way or the other. That settlement was carried out. Mr. Cooper undertook to get the assent of London, Belgian, and Paris holders, and he did, and at the present time, I think, there are less than £1,200 of those bonds out of a total of a million and a quarter sterling bonds not in the arrangement.

Senator SMITH of Michigan. Eleven hundred thousand pounds sterling?

Mr. STRAUSS. No; put into dollars, out of \$6,250,000, \$6,000 of bonds have not come in and been stamped. Mr. Cooper amply made good.

Senator SMITH of Michigan. You mean on these 1909 bonds?

Mr. STRAUSS. On this settlement providing for the reduced rate and reduced prices. That has practically all come in.

The CHAIRMAN. Do I understand that the outstanding recognized bonded debt of Nicaragua now is all condensed into the issues that you have just been speaking of?

Mr. STRAUSS. The foreign debt—

The CHAIRMAN. I am speaking of the foreign debt.

Mr. STRAUSS. With the exception of \$30,000 of bonds of 1904 that are not yet due, and they were never presented under the conversion plan when that was put into effect, long before our time, and £200, or \$1,000, of the loan of 1886; but, apart from those two trifling exceptions, the foreign debt is comprised in that one issue of bonds of 1909 bearing 5 per cent interest and redeemable at the different prices I have named here. Outside of the loans to us—the Treasury loan to us—

The CHAIRMAN. How much was that?

Senator ROOT. Loaned by us, you mean?

Mr. STRAUSS. I accept the correction; yes. Loaned by us instead of to us.

Senator SMITH of Michigan. I do not suppose you mean to say loaned by us to include the Senator from New York. You mean Brown Bros. and Seligman?

Mr. STRAUSS. Mr. Kohlmann reminds me that there is reserved of 1909 bonds an amount approximately sufficient to take care of these two small previous issues that have not come in.

The CHAIRMAN. Of 1904 and 1886?

Mr. STRAUSS. Of 1886 and 1904.

Senator WILLIAMS. To take care of them by conversion?

Mr. STRAUSS. Yes. On the 15th of June \$17,000 of those came due. There were \$47,000 bonds of the 1904 loan out. They mature serially every few years. Seventeen thousand of them came due on the 15th of June, and we got authority from the Government of Nicaragua to sell enough of the reserve 1909 bonds in the London market, so that those bonds when they were presented were paid.

The CHAIRMAN. That has been this month?

Mr. STRAUSS. That has been this month. Because they have a valid claim on the customs, even though it be for a trifling amount, that comes ahead of the English debt. That is right, is it not?

Mr KOHLMANN. Partially—25 per cent.

Mr. STRAUSS. At any rate it is an obligation, and it was held by the public. Mr. Cox reminds me that I failed to state that on that settlement it was a part of the duty of the Corporation of Foreign Bondholders in London to secure the release of the £379,000 that was held by the London bank. The settlement was that the two coupons on 1904 bonds which were in arrears should be paid out of those London funds, and the sinking fund, which was two installments in arrears, should likewise be paid up. In other words, out of that sum there was withheld in London an amount sufficient to meet the overdue obligations of the Government on the 1909 bonds which were cleaned up, and then the reduced rate and prices went into effect.

The CHAIRMAN. I should like to get this straight. We have all of it, but I should like to put it in this form at this point. How much money would it take to clear you with Nicaragua?

Mr. STRAUSS. You mean our firm?

The CHAIRMAN. Yes.

Mr. STRAUSS. \$1,060,000, which is due on the 1st of October next; but we would still have 51 per cent of that railroad and 51 per cent of the bank. So far as the debt is concerned \$1,060,000 would clear us, but it would still leave us in that country.

The CHAIRMAN. You have \$1,000,000 interest in the railroads?

Mr. STRAUSS. And \$153,000 in 51 per cent of the bank.

Senator POMERENE. Have you not part of the so-called Emery claims down there?

Mr. STRAUSS. No; Brown Bros. own that. That transaction antedates our connection. They have some assignment of the claim that I think Mr. James Brown probably explained, but with which I am not at all familiar. It antedates our connection.

Senator POMERENE. Your firm is Seligman?

Mr. STRAUSS. Yes. We have no interest whatever therein.

The CHAIRMAN. The indebtedness of Seligman is \$1,060,000, though?

Mr. STRAUSS. That is it.

The CHAIRMAN. That is due you?

Mr. STRAUSS. On the first of October next.

The CHAIRMAN. What is the total outstanding bonded indebtedness?

Mr. STRAUSS. The foreign debt is practically \$5,500,000. About £1,180,000.

Senator POMERENE. What is that figure?

Mr. STRAUSS. I am giving the foreign debt, the 1909 sterling bonds; they amount, after deducting the sinking fund, to about £1,180,000, which is, roughly speaking, equal to \$6,000,000. So that is the English debt of 1909—I will say \$6,000,000. The \$1,000,000 they owe us, and then there are the local debts—the mixed claims commission.

The CHAIRMAN. That is an internal debt?

Mr. STRAUSS. Yes. I do not know anything about the claims outside of that. That is all there is in the form of regular bonds of the Government obligations. That covers the Ethelburga chapter.

Senator SMITH of Michigan. If I am not interrupting you, I will proceed.

Mr. STRAUSS. No; I think you probably have got the connected account from Mr. Mallet-Prevost, and I think the best I can do is to take this and give you any light on it I can. I do not think I can add anything to Mr. Mallet-Prevost's presentation of the matter.

Senator SMITH of Michigan. You have spoken several times of the affair of 1913?

Mr. STRAUSS. Yes; that is the existing—

Senator SMITH of Michigan. The affair of 1913. See if we agree on it. The last loan was made on October 8, 1913, and was \$1,000,000, paid to the Nicaraguan Government for 51 per cent of the National Railroad, or 16,830 shares?

Mr. STRAUSS. Oh, no; the loan was par value of \$1,060,000. We paid \$1,000,000.

Senator SMITH of Michigan. I am coming to that.

Mr. STRAUSS. You went on to say something I was going to correct. You spoke of a loan made for 51 per cent of the railroad.

Senator SMITH of Michigan. I say the last loan was made first for \$1,000,000 paid to the Nicaraguan Government for 51 per cent of the National Railroad, or 16,830 shares, the total number of shares being 33,000; \$1,000,000, or, at 6 per cent, \$1,060,000. Am I correct thus far?

Mr. STRAUSS. You are correct on the \$1,060,000, but the purchase of the railroad, 51 per cent, involved an additional \$1,000,000 apart from the loan.

Senator SMITH of Michigan. I think I am coming to that. The Republic of Nicaragua treasury bills, 1913, due October 1, 1914; the amount received by Nicaragua was \$2,000,000?

Mr. STRAUSS. No, Senator; those two payments are so interwoven that the only way I can set you right I think is to make a statement in my own way, because it is impossible to correct it piecemeal. In October last, what we did was two things. We bought 51 per cent of the railroad stock and paid \$1,000,000 for it. We bought, discounted,

\$1,060,000 of treasury bills, and paid \$1,000,000 for them; that made \$2,000,000 we placed at the disposal of Nicaragua and for which we get the treasury bills, \$1,060,000, and 51 per cent of the railroad.

Senator SMITH of Michigan. That makes \$2,000,000?

Senator WILLIAMS. The railroad a purchase and the other a loan?

Mr. STRAUSS. Yes.

Senator SMITH of Michigan. That makes \$2,060,000?

Mr. STRAUSS. I beg your pardon. It makes \$2,000,000 of cash.

Senator SMITH of Michigan. And \$60,000 interest?

Senator WILLIAMS. He is talking about the thing with the interest on the debt and you are talking about the amount Nicaragua got. You gave Nicaragua \$2,000,000 in cash?

Mr. STRAUSS. That is right.

Senator WILLIAMS. But when you said here the \$1,000,000, that carried with it interest and other things?

Mr. STRAUSS. The other million, Senator, you see, is not an obligation. In other words, in speaking of the obligations of Nicaragua, it is \$1,060,000. If you are talking about cash, it is \$2,000,000.

Senator WILLIAMS. In what I am trying to explain, he is talking about one thing and—

Senator SMITH of Michigan. I am talking about the obligation of Nicaragua.

Mr. STRAUSS. That is \$1,060,000.

Senator SMITH of Michigan. And this additional \$1,000,000?

Mr. STRAUSS. No; we have got the railroad for that. They do not have to pay us for that.

Senator SMITH of Michigan. We understand each other there. Now, this money was disbursed as follows: \$728,575.26 is due to Brown Bros. and Seligman, on account of previous temporary loans?

Mr. STRAUSS. Mr. Cox will tell me whether that is right.

Mr. Cox. Just pardon me a minute, please, Senator, so that I can have this before me.

Senator SMITH of Michigan. If I am right in general terms, if you will just assent, I shall be satisfied.

Senator POMERENE. Let me suggest. I have heard only a part of this. If Mr. Strauss has a transcript of his books here showing debits and credits, why would it not be well to incorporate that?

Senator SMITH of Michigan. I have figured this out with a great deal of care, showing the specific items composing the different funds, and if they agree that is all I want the witness to say, because these are my own conclusions about what is due from Nicaragua to the bankers. Am I right generally about that?

Mr. Cox. I have forgotten what figures you said.

Senator SMITH of Michigan. \$728,575.26.

Mr. Cox. It is not quite right, to this extent, if you will allow me. The amount the Republic owed to the bank at that time, which was taken from that loan to pay the old debts, amounted to \$703,575.26. In addition to that, \$25,000 was set aside as an expense fund to cover certain expenses. I think that that accounts for your \$728,575.26.

Senator SMITH of Michigan. That accounts for it exactly. Now, then, do we understand each other that far?

Mr. STRAUSS. That is right.

Senator SMITH of Michigan. Nicaragua's share in the incorporated bank stock, 470 shares, and the capital of the stock raised from 2,000 to 3,000 shares, par value, per hundred—

Mr. STRAUSS. One thousand.

Senator SMITH of Michigan. One thousand, par value of \$100 each, \$300,000. B. B. and S. now own 1,530 shares and the Government of Nicaragua 1,470 shares of that stock, which represents an indebtedness of Nicaragua of \$47,000?

Mr. Cox. That is to say, the bankers paid to the Republic \$47,000?

Senator SMITH of Michigan. The Republic must pay to the bankers.

Mr. Cox. The bankers paid for the Republic. Out of that loan the bankers paid for the Republic.

Mr. STRAUSS. Up to that time the capital of the bank had been \$100,000; the capital was to be increased to \$300,000, the bankers to buy 51 per cent of \$300,000, or \$153,000; the bankers bought and paid for \$153,000 of new stock of the bank. That made, with the \$100,000 that was then out and which the Republic owned, a total of \$253,000; that left \$47,000 more stock to be paid up by the Government in order to give it the 49 per cent out of the \$300,000, and that \$47,000 was paid up out of the proceeds of this loan.

Senator SMITH of Michigan. Now, \$350,000 in exchange fund?

Mr. Cox. That is right.

Senator SMITH of Michigan. That is an obligation of Nicaragua?

Mr. STRAUSS. \$350,000 was paid into the exchange fund which had run very low. It was not an obligation. It was a payment of money into the fund to strengthen it.

Senator SMITH of Michigan. Do you not see what I was driving at?

Mr. KOHLMANN. The obligation was discharged as soon as created.

Mr. STRAUSS. But the Senator says it was an asset; it strengthened the exchange fund out of the loan.

Senator SMITH of Michigan. Amounts due out of salaries and other expenses of the Nicaraguan Government, amount paid by Nicaragua, \$874,424.74. I think that totals about \$2,000,000, does it not?

Mr. STRAUSS. That is within \$9,000 of the figure Mr. Cox makes it here. Of that \$93,000 was paid to the bank to cover loans and overdrafts of the Republic to the bank, and \$772,000 the bankers paid drafts drawn on them by the Republic.

Senator SMITH of Michigan. So we are not far apart there?

Mr. STRAUSS. Not far apart.

Senator SMITH of Michigan. I am very glad.

Mr. STRAUSS. You must have had a time working that out.

Senator SMITH of Michigan. This is no slight task, and if I seem occasionally to be laboring under a misapprehension, it is due to the complicated character of the account. The treasury bills of 1913, due October 1, 1914, must be in default six months before the national-bank stock held as collateral can be sold, one year before the National Railway stock, held as collateral, can be sold—am I right?

Mr. STRAUSS. Yes, sir.

Senator SMITH of Michigan. The debts of Nicaragua, as accounted for by Mr. Cuadra, the financial agent, the Ethelburga loan, £1,250,000, at 5 per cent, at \$4.85 exchange, makes \$6,062,500?

Mr. STRAUSS. He failed to deduct the amount of bonds in the sinking fund there; that amounts to perhaps \$300,000. That is a trifle in dealing with these totals.

Senator SMITH of Michigan. The monthly interest thereon at 4.85 would be \$25,000, \$260.40 gold; monthly sinking fund for redemption of said bonds at \$6,250 gold; total, \$31,510.40. Is that correct?

Mr. Cox. Approximately, Senator. The rate of exchange varies, you know, considerably.

Senator SMITH of Michigan. The redemption of the Republic of Nicaragua treasury bills of 1913, due October 1, 1914, is \$1,060,000; correspondent for orders executed for several years, \$378,000—

Mr. STRAUSS. We have no information about that at all.

Senator SMITH of Michigan. Just let me finish the question—\$378,080. You have no information about it?

Mr. STRAUSS. No; as I said before, that is one of the things we have never been able to get reliable information on. No doubt Mr. Cuadra knows.

Senator SMITH of Michigan. The Emery claim, owned by Brown Bros., \$500,000; creditors' gold cash loaned to Government in different years, \$1,645,072.

Mr. STRAUSS. Those are all outside of my knowledge.

Senator SMITH of Michigan. Just stop me if you do not understand. I want these figures on record. Other accounts, which they treat as not to be specified, \$3,478,387, or a total of \$13,061,539, as the indebtedness of Nicaragua?

Mr. STRAUSS. Will you let me say about that now that the Ethelburga 1909 bonds—

Senator SMITH of Michigan. Before you do that I want to exclude from my figures the judgments handed down and judgment to be handed down by the Mixed Claims Commission, which are not included in this sum.

Mr. STRAUSS. As to all of those items, the only ones about which I have any information is the Ethelburga loan, which is correct, except that no account is taken of the bonds heretofore retired by the sinking fund, the \$1,060,000 due to my firm and Brown, which is correct. As to the others, I have no information, except that the Government now owes the bank some amount, which I shall try to discover, with Mr. Cox's aid, and that must be included somewhere in the other totals. It is \$30,000 or \$35,000.

Senator SMITH of Michigan. This is the testimony thus far taken. This is the testimony of Mr. Cuadra:

At the beginning of the Diaz administration on May 9, 1911, there was approximately \$30,000,000 Nicaragua pesos or billetes outstanding. This issue was increased so that on October 10, 1911, the same year, there was outstanding 54,000,000, more or less in round numbers, the increase in issue, as we have seen, being unauthorized, and the list of payments to which reference has been made to you, but which appears in the record of upward of 21,000,000 of these pesos to various persons without authority of law, both questionable and fraudulent, leaves the total monetary circulation on October 10, 1911, when you came in to refinance the Republic, at \$54,000,000 in round numbers.

Am I wrong about that?

Mr. STRAUSS. My only information on that subject is what is contained in the Harrison and Conant report. The table that Senator Stone had put in before out of that report gives the issues and

redemptions year by year. As to what they were issued for, I do not know anything about it.

Senator WILLIAMS. I think it made \$48,000,000 instead of \$54,000,000?

Senator SMITH of Michigan. I think I now come to something you may be able to help us on; \$24,000,000 of this total currency is the amount paid out to various persons to be retired at $12\frac{1}{2}$ to 1 under your plan?

Mr. STRAUSS. What are you asking me?

Senator SMITH of Michigan. I am asking if that is true.

Mr. STRAUSS. I do not think that is a question which I could answer with a yes or no.

Senator WILLIAMS. You must be forgetting something there.

Senator SMITH of Michigan. No, I am not.

Senator WILLIAMS. All the people who have been before us heretofore have said that before they got down to $12\frac{1}{2}$ they had had various different phases; a part was redeemed at 16 and a part at $12\frac{1}{2}$ and a part at 14.

Senator SMITH of Michigan. I understand that.

Senator WILLIAMS. You have just asked the question whether they were redeemed at $12\frac{1}{2}$.

Senator SMITH of Michigan. Finally the decree of the Nicaraguan Government and under an agreement with the bankers this ratio was to be the basis of redemption. Now, am I right about that?

Mr. STRAUSS. I can not answer that by saying right or wrong.

Senator SMITH of Michigan. That is $12\frac{1}{2}$ to 1; everyone has so stated.

Mr. STRAUSS. 48,700,000 pesos was the total that Harrison and Conant reported as finding outstanding there when they got down there, according to their best information. Of that 44,000,000, 781,554 pesos had been retired and incinerated to May 31, 1914, at prices that varied, I think, from 1,800 at the beginning to 1,250, which was the ultimate rate of reduction, as recommended by Harrison and Conant.

Senator SMITH of Michigan. And fixed by the Government?

Mr. STRAUSS. And fixed by the Government. As to whom those payments were made or who held the currency when it was redeemed we have absolutely no knowledge. It came in a little at a time or more at a time. We were about in the same position, so far as that currency is concerned, I should say, as the United States is now on its legal-tender notes. We could not refuse the redemption of any of it any more than the United States could now, on the ground that possibly some had been issued on a contract during the Civil War, on a fraudulent contract or something of that kind. It was out; it was held by the public; it came in in the ordinary course of business and under the general scheme to retire redundant circulation. But I can not give you any details.

Senator SMITH of Michigan. So far as the Treasury notes of the Government of the United States are concerned, the ratio was par with gold.

Mr. STRAUSS. It was fixed in the case of our currency when we came to the redemption act of 18—whatever it was.

Senator SMITH of Michigan. Exactly, but $12\frac{1}{2}$ to 1 was the basis of your gold funding scheme.

Mr. STRAUSS. Twelve and one-half was the rate when Nicaragua went on what you might call a gold basis.

Senator WILLIAMS. It had to experiment with it before they could find out whether they could get to $12\frac{1}{2}$ or not?

Senator SMITH of Michigan. I know, Senator, but the moment it became known that by a Government decree the ratio was fixed at $12\frac{1}{2}$ to 1, why that settled it; nobody would be fool enough to sell it at 15 or 14 or any other sum.

Mr. STRAUSS. But prior to that time a great deal of it, however, had been reduced and incinerated at 18 and 16.

Senator SMITH of Michigan. When you say "prior to that time" much of it had been purchased for speculation at higher rates and held by those who knew of this scheme of ultimate redemption at $12\frac{1}{2}$ to 1.

Senator WILLIAMS. That might be true. That happened in the case of our Continental currency.

Senator SMITH of Michigan. Surely I am not at all mistaken in that. That is one of the very things, Mr. Strauss, that I complain of, and I do not hold you responsible for that in any way. But that is one of the things I complain of—that the speculation with this knowledge has tended to impose upon the people of Nicaragua a fictitious and false national debt.

Mr. STRAUSS. No; I think you are wrong there, Senator. It may have enabled some one who had the information to take advantage of it to his own benefit and to the detriment of some one else, but ultimately—oh, you mean in the sense they might have got in more at the lower price?

Senator SMITH of Michigan. Surely.

Mr. STRAUSS. That is quite possible. That was kept as quiet as it was possible for us to keep it.

Senator SMITH of Michigan. Exactly, but it became known.

Mr. STRAUSS. I presume it did.

Senator WILLIAMS. Like the secrets of the executive sessions of the Senate?

Senator SMITH of Michigan. More like our secrets here.

Mr. STRAUSS. Mr. Kohlmann calls my attention to a thing which did not occur to me before.

Senator SMITH of Michigan. I have had three witnesses confronting me at once, and it is hard for me to keep them straight.

Mr. STRAUSS. That is this, perhaps, I ought to make the statement that neither we nor Brown Bros. neither bought or held any of these billetes for the purpose to make a profit. It never occurred to me to make that statement.

Senator SMITH of Michigan. It evidently occurred to your associate, who seems to be a very wise man. A loan made by the New York bankers about that time, as Mr. Cuadra says, quoting him: "Very little of the proceeds of that \$2,000,000 loan went to the payment of the pressing debts of the Republic. To 'buy in,' and after this illegal issue," as he calls it, "of 24,000,000 pesos, at an exchange of twenty to one to twelve and one-half to one." It can be plainly seen, therefore, that all this money went somewhere, because these notes were ultimately accounted for in your plan.

Mr. STRAUSS. There is no question about it that it is the most costly thing any government can do, to print notes with nothing back

of them and put them out. It always seems the easiest thing to do, but it is really the most costly.

Senator SMITH of Michigan. The rate of retiring the Ethelburga bonds was finally decided to be at the rate of \$75,000 per year, was it not?

Mr. STRAUSS. You mean the sinking fund?

Senator SMITH of Michigan. Yes.

Mr. STRAUSS. The sinking fund remained as it had been, 1 per cent cumulative; that is to say, 1 per cent on the total amount of the loan, and the bonds that were acquired for the sinking fund continued to bear interest which goes into the sinking fund. That cumulative sinking fund will more than retire that whole issue of 1909 bonds by its maturity. In other words, the charge on that is now 5 per cent for interest and 1 per cent for a sinking fund, and that total of 6 per cent per annum, which is the interest under the old arrangement, is sufficient now to pay the interest and also to retire the principal before the maturity of that bond.

Senator SMITH of Michigan. Who arranged with Nicaragua that this was to be the rate of retirement of these bonds?

Mr. STRAUSS. We were empowered under the treasury-bills agreement to negotiate a settlement, and while that authority was absolute, yet we did not choose to consider ourselves the final authority on that. We made the best arrangement we could with Mr. Cooper, and we then submitted it to Nicaragua for the approval of the people down there.

Senator SMITH of Michigan. To whom did you pay the monthly interest?

Mr. STRAUSS. The monthly interest is paid to Brown, Shipley & Co., of London, and they pay the coupons in London and arrange to pay the coupons held in France and other markets.

Senator SMITH of Michigan. After your syndicate secured the Ethelburga bonds—am I using an offensive term there when I say “your syndicate”?

Mr. STRAUSS. No; not offensive, but inaccurate. Will you not finish the sentence?

Senator SMITH of Michigan. I wrote this memorandum before you had made your statement. After your syndicate secured these Ethelburga bonds, you arranged at the time of scaling the interest thereon from 6 to 5 per cent per annum interest, payable monthly, did you not?

Mr. STRAUSS. In the first place, we never secured the bonds; we never owned them. In the second place, there was no syndicate; in the third place, what Brown and Seligman did—

Senator SMITH of Michigan. So far as you know about it there may have been some syndicate outside of your concern?

Mr. STRAUSS. Neither Brown nor Seligman ever secured, bought, or had any of those bonds. We were simply acting as the agent of Nicaragua to negotiate a settlement with the holders abroad.

Senator SMITH of Michigan. Who arranged to pay the interest monthly? Was that a part of your arrangement?

Mr. STRAUSS. I do not know what you mean by arranging to pay it. If you have the answer, go ahead, and I will adopt your answer.

Mr. Cox. If you allow me, the service of the loans was being paid by one of the London bankers who had been doing business with the

Ethelburga Syndicate; then Brown Bros. and Seligman & Co., as fiscal agents of the Nicaraguan Government, made the arrangement with the foreign bondholders and the Ethelburga Syndicate, and Brown Bros. and Seligman, as fiscal agents, arranged that the service of the loan would be paid by Brown-Shipley.

Mr. STRAUSS. Was that your question, as to who paid the coupons on the loan?

Senator SMITH of Michigan. Yes.

Mr. STRAUSS. After the new arrangement, the coupons were paid by Brown, Shipley & Co., London; by Seligman, Frere & Co., in Paris, and Alsberg, Goldberg & Co., in Amsterdam, who are our correspondents, and I think those were the only places.

Senator SMITH of Michigan. Why were they not paid in Nicaragua at the Bank of Nicaragua?

Mr. STRAUSS. By their terms they were payable in London, Paris, and I think, in Amsterdam. The Amsterdam arrangement may have been simply for the convenience of the holders there.

Senator SMITH of Michigan. What was the amount of monthly interest thus remitted as interest to the Corporation of Foreign Bondholders?

Mr. STRAUSS. The interest and sinking fund, which are both remitted monthly, amount, as you figured it before, to \$31,500.

Senator WILLIAMS. That is, interest and sinking fund, both?

Mr. STRAUSS. Interest and sinking fund, remitted every month.

Senator WILLIAMS. For my information, is that sinking fund paid up to date thus far?

Mr. STRAUSS. Yes.

Senator WILLIAMS. And that is on deposit at London and Paris?

Mr. STRAUSS. It is applied from time to time to the purchase of bonds in the market at the lowest price, so Nicaragua, through its sinking fund—

Senator WILLIAMS. That has been applied then, and is being applied to the extinguishment of the debt by purchasing bonds in the open market?

Mr. STRAUSS. By purchasing bonds in the open market at the lowest possible price. They have been getting them at 77, 78, 80, or whatever the market is.

Senator WILLIAMS. And the Government of Nicaragua gets the advantage?

Mr. STRAUSS. The Government of Nicaragua gets the advantage.

Senator SMITH of Michigan. The National Bank of Nicaragua is the treasury of Nicaragua, practically, is it not?

Mr. STRAUSS. No; it is the depository for Government funds, and the Government draws checks on it, but it is not the treasury; it has no control of finances in any way.

Senator SMITH of Michigan. Nobody there has control over the finances except this bank?

Mr. STRAUSS. We have no control over the finances, Senator. We collect nothing. We act for them as the national-bank depositories do for the Treasury here. And when I say "we" I mean the National Bank.

Senator SMITH of Michigan. Is not the National Bank of Nicaragua practically the treasury of Nicaragua and the auditor of Nicaragua?

Mr. STRAUSS. No; it is the depository for funds, like the national banks are the depositories here.

Senator WILLIAMS. The Nicaraguan Government controls such money as it has there on deposit, and draws it by checks, drafts, and otherwise?

Mr. STRAUSS. Yes, sir.

The CHAIRMAN. Does your bank in Nicaragua pay any interest to the Government on deposits?

Mr. STRAUSS. Yes; I think they do.

Mr. COX. Yes; my belief is they pay on open account.

Mr. STRAUSS. I will say that at one time, at the request of the Government, they acted as agent for an issue of local bonds, secured on some of the internal revenues, and they requested the bank to administer it for the purpose, as I understood at that time, of securing efficiency—there were drawings monthly out of the receipts, and the drawings being made at the bank—

Senator SMITH of Michigan. Do Brown Bros. and Seligman control the steamers in Nicaragua and the boats on the San Juan River by lease?

Mr. STRAUSS. They belong to the railroad, of which we own 51 per cent and the Government owns 49 per cent.

Senator SMITH of Michigan. Yes; and in that way you control them?

Mr. STRAUSS. Through the railroad.

Senator SMITH of Michigan. They are not leased; they are owned?

Mr. STRAUSS. No; there is some controversy just now at Granada about the use of the wharf, but that is a side issue.

Senator SMITH of Michigan. These various contracts entered into between Brown Bros. and Seligman and the Republic of Nicaragua, all dated October 8, 1913, each show in certain sections thereof that the said contracts have been submitted to the Secretary of State for his approval. Can you state just what was the object of this?

Mr. STRAUSS. From the beginning, when we first began to talk to Mr. Wands about the \$12,000,000 bond issue, the whole thing was predicated upon an arrangement that the customs were to be collected by some one in the position now occupied by Col. Ham, similar to the Santo Domingo arrangement. We never would have begun a discussion of it if it had not been for that.

Senator SMITH of Michigan. Might it not have been done with the idea that in the absence of any convention or treaty between the United States and Nicaragua, covering these agreements, that such an indorsement or approval would increase the value of such securities? Could such approval not be considered as a form of guarantee by the United States? I say, a form?

Mr. STRAUSS. What we wanted was this: We did not want to do anything down there that the Department of State did not have knowledge of in advance. We recognized the uncertain tenure of things down there, and we did not want to be met if we ever had occasion to ask the department for protection—we did not want to be met with the response that we had made an unconscionable bar-

gain or any other kind of bargain that they did not know about. We wanted everything to be open.

Senator SMITH of Michigan. That is, you wanted absolution before you started?

Mr. STRAUSS. We wanted to make sure that what we were doing was not disapproved by the administration.

Senator SMITH of Michigan. Like the steel company's purchase of East Tennessee Coal and Iron, you wanted some official approval of your act before you engaged in it?

Mr. STRAUSS. We wanted to know that there would be no objection from the point of view of the Department of State.

Senator SMITH of Michigan. And, so far as you have it, you feel that they are in a measure responsible with you for the terms of those contracts?

Mr. STRAUSS. No; I should not say that; but I should say, so far as we communicate what we propose to do to them and they do not object, we do not expect them now to object to any steps we took then.

Senator SMITH. And you do expect them to help you in case you have any difficulty in enforcing your contracts?

Mr. STRAUSS. We expect them to do whatever they would do for any other citizen that goes into business in a community with an unstable government.

Senator SMITH of Michigan. You do expect them to help you under such conditions?

Mr. STRAUSS. It is pretty difficult to say, generally, what our expectations are.

Senator SMITH of Michigan. I have no doubt that is your purpose.

Mr. STRAUSS. The purpose, if there were a revolution down there and we owned 50 per cent of the railroad, if there was a revolution down there we would say to the State Department, "Our property in Nicaragua is threatened by revolution." We do not want them then to say, "Why, we want to look into those bargains first; we want to know whether you are making an unconscionable trade there before we protect you." We want them to know in advance, and if there is any objection to say it then, so if such a condition arose they would be informed and delays would not ensue if they were inclined to take any action, while they were investigating the status.

Senator SMITH of Michigan. It would resemble the solicitude of the British Government in similar matters?

Mr. STRAUSS. I think so. Mr. Kohlmann calls my attention to a letter here we wrote in transmitting these—

Senator POMERENE. If Mr. Strauss has a detailed statement of any debits or credits here, I think they should be introduced.

Senator SMITH of Michigan. That has been asked for, Senator.

Senator POMERENE. I think they ought to go into the record.

Mr. STRAUSS. Mr. Kohlmann reminds me of a telegram we received from the Secretary of State, that the Secretary of State at that time asked us to submit those documents before we signed them.

Senator SMITH of Michigan. What secretary?

Mr. STRAUSS. The Secretary of the United States.

Senator SMITH of Michigan. Secretary Bryan or Knox?

Mr. STRAUSS. Secretary Bryan.

Senator SMITH of Michigan. So you had been in the habit of going to Mr. KNOX about the same matters before?

Mr. STRAUSS. Oh, yes.

Senator SMITH of Michigan. It was not then an unusual custom?

Mr. STRAUSS. Oh, no.

Senator SMITH of Michigan. You do not know of your own knowledge what became of the \$500,000, the initial installment paid to Nicaragua on the contemplated loan of \$12,000,000 to \$15,000,000, covered in the Knox-Castrillo treaty, do you?

Mr. STRAUSS. There was not any such payment.

Senator SMITH of Michigan. There was a loan that you made to them?

Mr. STRAUSS. We made a loan of \$1,500,000, to be devoted exclusively to the currency problem.

Senator SMITH of Michigan. Under the Knox-Castrillo treaty?

Mr. STRAUSS. The Knox-Castrillo treaty never passed.

Senator SMITH of Michigan. It never passed here, but it passed down there.

Mr. STRAUSS. And we never made any advance in anticipation of that treaty passing. When it failed to pass, or, rather, when it was regarded as practically dead, we took up this \$1,500,000 loan, but we never made an advance under the old arrangement.

Senator SMITH of Michigan. I want some copies of contracts. See if you have got them. I want a copy of the supplemental loan agreement, dated March 26, 1912.

Mr. KOHLMANN. It was incorporated in Mr. Mallet-Prevost's testimony.

Senator SMITH of Michigan. The contract dated May 25, 1912, between the Republic and the Corporation of Foreign Bondholders.

Mr. KOHLMANN. There are several of those agreements, and all are incorporated.

Senator SMITH of Michigan. I want the one of May 25.

Mr. KOHLMANN. They are all dated May 25.

Senator SMITH of Michigan. I want a copy of the agreement of October 21, 1912, between the Republic and the Corporation of Foreign Bondholders.

Mr. KOHLMANN. I have that.

Senator SMITH of Michigan. Will you leave that?

Mr. KOHLMANN. I will leave that. That is incorporated in Mr. Mallet-Prevost's testimony.

Senator SMITH of Michigan. The copy of the Knox-Castrillo treaty, we have got that.

Mr. KOHLMANN. Yes. And it is also an exhibit to Treasury Bills Agreement of 1911.

Senator SMITH of Michigan. Page 46 of article 3:

The bankers shall loan to the railroad company, within three years from October 1, 1913, the sum of \$500,000 United States gold, which shall, at the discretion of said company, be expended on extensions and improvements of its railway and steamship lines and/or in the construction of new lines; said loan shall be made by the purchase from the railroad company, at 85 per cent of their par value, of 6 per cent 10-year bonds to be issued by the railroad company, to be secured by a first mortgage and lien upon its properties.

That is correct, is it not?

Mr. KOHLMANN. That is correct.

Senator SMITH of Michigan. I shall ask you to come back later, Mr. Strauss, if we want you.

Mr. STRAUSS. Certainly, with pleasure. Senator Pomerene asked for a statement of the disposition of funds.

Senator SMITH of Michigan. From what dates?

Mr. STRAUSS. I do not know what he had in mind. But we have several statements here; the first one shows the loan of October 15, 1911, and the disposition of the proceeds. The second one shows the supplemental loan, March 26, 1912, and the disposition of the proceeds. The third one shows the disposition of the funds recovered in the London settlement with the Ethelburga deal, £379,000 sterling. The fourth one shows the disposition of the funds of the October 8, 1913, loan and the \$1,000,000 paid for the railroad in October last, and there is finally a summing up, which deals with all of these various headings and shows the exact manner in which the proceeds of all those loans were dealt with.

Senator WILLIAMS. I think that is very valuable. Will you hand it to the stenographer?

Mr. STRAUSS. Yes, sir. That gives you a full statement of the whole thing.

Statements of Messrs. Brown Bros. & Co. and Messrs. J. & W. Seligman & Co. in connection with Republic of Nicaragua—June 26, 1914.

LOAN OF OCT. 15, 1911, TERMED "TREASURY BILLS."

| | |
|--|----------------|
| Amount of loan, interest 6 per cent..... | \$1,500,000.00 |
| Interest on loan..... | 93,600.10 |
| <hr/> | |
| Total loan and interest..... | 1,593,600.10 |
| Paid: | |
| By remittances from collector general of customs..... | \$1,069,356.97 |
| Cash from Ethelburga Syndicate settlement..... | 267,154.59 |
| Cash from proceeds of \$1,000,000 loan of Oct. 8, 1913..... | 249,710.90 |
| Interest credited on various accounts..... | 7,377.64 |
| <hr/> | |
| | 1,593,600.10 |

PROCEEDS OF TREASURY BILLS OF OCT. 15, 1911, OF \$1,500,000.

| | |
|---|----------------|
| Deposited with— | |
| Trustee, United States Mortgage & Trust Co..... | \$1,500,000.00 |
| Interest credited..... | 11,964.50 |
| <hr/> | |
| | 1,511,964.50 |
| Applied in payment: | |
| To exchange fund..... | \$1,150,000.00 |
| To capital of bank..... | 100,000.00 |
| To cost of coins and notes shipped to Nica- ragua..... | 145,419.41 |
| To currency experts' fees..... | 20,000.00 |
| To services of National Bank of Nicaragua in conversion department..... | 20,000.00 |
| To expenses of currency experts and salary of secretary..... | 7,713.57 |
| To employees' salaries and traveling expenses pending opening of bank..... | 6,863.27 |
| To trustee, United States Mortgage & Trust Co., expenses..... | 2,750.00 |
| To legal fees..... | 19,500.00 |

400 CONVENTION BETWEEN UNITED STATES AND NICARAGUA.

Applied in payment—Continued.

| | |
|---|-----------------------|
| To notary fees in Nicaragua..... | \$2,575.00 |
| To treasurer, State of Connecticut..... | 2,600.00 |
| To cables, printing, etc..... | 21,932.39 |
| Total disbursements..... | <u>\$1,499,353.64</u> |
| Balance at credit of banking, currency, and expense fund transferred to Brown Bros. & Co..... | 12,610.86 |

SUPPLEMENTAL LOAN OF MARCH 26, 1912.

Loan for \$500,000. Interest at 6 per cent, with a commission of 1 per cent.

Original purpose to provide funds for the exchange fund and to be repaid from Ethelburga Syndicate settlement.

Modified November 4, 1912. That as from the proceeds of the Ethelburga Syndicate settlement \$100,000 had been applied to the exchange fund, the bankers waived their right to apply the further sum of \$400,000 to the exchange fund and agreed that this \$400,000 be paid to the Government for its own needs, the bankers obligating themselves to supply to the exchange fund as needed the sum of \$400,000.

Further modified June 30, 1913. The bankers agreed to provide the further sum of \$100,000 for the purposes of the exchange fund, the result being that the bankers paid to the exchange fund \$400,000 and \$100,000, making a total of \$500,000.

| | |
|---|-------------------|
| Amount of loan..... | \$500,000.00 |
| 6 per cent interest..... | 11,803.58 |
| 1 per cent commission..... | 5,000.00 |
| Total loan, interest, and commission..... | <u>516,803.58</u> |

Paid:

| | |
|--|-------------------|
| By remittances from collector general of customs through United States Mortgage & Trust Co.... | \$62,939.22 |
| By cash from proceeds of loan of \$1,000,000 of Oct. 8, 1913, per statement..... | 453,864.36 |
| | <u>516,803.58</u> |

SUPPLEMENTAL LOAN OF MARCH 20, 1912.

| | |
|--|-------------------|
| Amount of loan..... | 255,000.00 |
| 6 per cent interest..... | 5,975.98 |
| 1 per cent commission..... | 2,550.00 |
| Total loan, interest, and commission..... | <u>263,525.98</u> |
| Paid by cash from Ethelburga Syndicate settlement, per statement.. | 263,525.98 |

The Republic drew drafts on bankers for \$255,000; the first draft for \$60,000; then \$30,000 each month from April to September and \$15,000 in October.

DISPOSITION OF ETHELBURGA SETTLEMENT FUNDS.

| | |
|---|---------------------|
| Received in London, Nov. 7, 1912, from Ethelburga Syndicate.... | £379,049.04.2 |
| Paid to Council of Foreign Bondholders: | |
| To pay Jan. 1, 1912, coupon and interest..... | £38,721.17.6 |
| To pay July 1, 1912, coupon and interest..... | 30,977.10.0 |
| To pay Jan. 1, 1913, coupon and interest..... | 30,221.10.0 |
| To pay account sinking fund for years 1911 and 1912..... | 26,016.16.0 |
| To pay 1 per cent commission to Council of Foreign Bondholders..... | 10,658.12.0 |
| To balance in hands of council..... | 2.06.6 |
| Total paid to Council of Foreign Bondholders..... | <u>136,598.12.0</u> |
| Balance transferred to New York..... | <u>242,450.12.2</u> |

Received:

| | |
|--|----------------|
| Equivalent of £242,450.12 in United States----- | \$1,181,037.52 |
| Additional cash received from London and Paris banks deposited prior to agreement----- | 8,226.94 |
| Coupons and interest collected on 1900 bonds not exchanged, interest adjusted----- | 6,429.42 |
| Total----- | 1,195,693.88 |

Cash applied as follows:

| | |
|--|--------------|
| To retire outstanding treasury bills of 1911---- | \$267,154.59 |
| To pay supplemental loan of Mar. 20, 1912----- | 263,525.98 |
| Amount of loan----- | \$255,000.00 |
| Six per cent interest----- | 5,975.98 |
| Commission----- | 2,550.00 |
| Paid by various drafts to Republic of Nicaragua----- | 400,000.00 |
| Paid to exchange fund----- | 100,000.00 |
| Paid commission and indemnity to Council of Foreign Bondholders, per contract----- | 38,394.48 |
| To payments to Nicaraguan Legation at Washington----- | 8,800.00 |
| To Ernest H. Wands, salary and expenses----- | 6,823.76 |
| To incorporation tax, railroad----- | 900.00 |
| To legal fees----- | 51,000.00 |
| To expenses, London, Paris, etc----- | 2,228.80 |
| To J. A. Whitaker, salary and expenses----- | 7,082.65 |
| To cables, printing, etc----- | 21,118.45 |
| Total disbursements----- | 1,167,028.71 |
| Balance at credit of Ethelburga Syndicate settlement account----- | 28,665.17 |

LOAN OF OCTOBER 8, 1913, AND PURCHASE OF 51 PER CENT OF RAILROAD.

| | |
|--|----------------|
| Amount of loan, interest 6 per cent----- | \$1,000,000.00 |
| Purchase of 51 per cent of railroad----- | 1,000,000.00 |
| Total cash available----- | 2,000,000.00 |

Cash applied as follows:

| | |
|--|--------------|
| To retire outstanding treasury bills of Oct. 15, 1911, per statement----- | \$249,710.90 |
| To pay off balance of supplementary loan of Mar. 26, 1912, per statement----- | 453,864.36 |
| To paid to exchange fund----- | 350,000.00 |
| To purchase of 470 shares of stock of National Bank of Nicaragua (Inc.)----- | 47,000.00 |
| To conversion department of National Bank of Nicaragua, at Managua, services for 1 year----- | 10,000.00 |
| To various expenses to trustee, cables, and printing----- | 5,000.00 |
| To legal fees----- | 19,000.00 |
| To loans and overdraft of Republic to National Bank of Nicaragua (Inc.)----- | 93,000.15 |
| To drafts drawn by Republic----- | 772,424.59 |
| Total paid----- | 2,000,000.00 |

MONEYS TO BE ACCOUNTED FOR BY BANKERS.

| | |
|---|----------------|
| Proceeds of \$1,500,000 treasury bills agreement of Oct. 15, 1911-- | \$1,500,000.00 |
| Proceeds of supplemental loan of Mar. 20, 1912----- | 255,000.00 |
| Proceeds of supplemental loan of Mar. 20, 1912----- | 500,000.00 |
| Proceeds of loan of Oct. 8, 1913----- | 1,000,000.00 |
| Purchase of 51 per cent of railroad----- | 1,000,000.00 |
| Total cash supplied by bankers----- | 4,255,000.00 |

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Deduct:

| | | |
|---|-------------------|--------------------------|
| Loans matured and paid off— | | |
| Treasury bills Oct. 15, 1911----- | \$1, 500, 000. 00 | |
| Supplemental loan of Mar. 20, 1912----- | 255, 000. 00 | |
| Supplemental loan of Mar. 20, 1912----- | 500, 000. 00 | |
| | | <u>\$2, 255, 000. 00</u> |

Net amount of cash supplied by bankers to be accounted for----- 2, 000, 000. 00

Additional cash to be accounted for—

| | |
|---|-------------------|
| Proceeds of Ethelburga settlement of Nov. 7, 1912, £379,049 4s. 2d., equivalent in United States----- | \$1, 846, 443. 45 |
| Additional cash received from Ethelburga banks----- | 8, 226. 94 |

1, 854, 670. 39

Less—

Retained in London by Council for Foreign Bondholders for sinking fund and coupons, £136,598 12s., equal in United States----- \$665, 405. 93

Commission and indemnity to Council of Foreign Bondholders, as per agreement----- 38, 394. 48

Expenses in London, Paris, and Amsterdam re 1909 bonds----- 2, 228. 80

706, 029. 21

Net Ethelburga cash after paying overdue interest and sinking fund----- 1, 148, 641. 18

Received from collector of customs----- 1, 132, 296. 19

Less:

Paid by order of Nicaragua to E. H. Wands, salary and expenses----- 6, 823. 76

1, 125, 472. 43

Interest and also coupons collected on 1904 bonds not exchanged----- 25, 771. 56

4, 299, 885. 17

Disbursements made from above:

Account of Republic to exchange fund—

| | |
|--|-------------------|
| Paid into gold reserve----- | \$2, 100, 000. 00 |
| Cost of coins and notes shipped to Nicaragua----- | 145, 419. 41 |
| United States Mortgage & Trust Co., trustee----- | 4, 000. 00 |
| Services of National Bank of Nicaragua in conversion department----- | 30, 000. 00 |
| Currency experts' fees----- | 20, 000. 00 |
| Expenses of currency experts and salary of secretary--- | 7, 713. 57 |
| Incorporation tax of bank and railroad----- | 3, 500. 00 |

\$2, 310, 632. 98

Account of Republic—

| | |
|---|--------------|
| Subscription to capital stock of bank----- | 147, 000. 00 |
| Employees' salaries and traveling expenses pending opening of bank----- | 6, 863. 27 |

Disbursements, etc.—Continued.

Account of Republic—Cont'd.

| | | |
|---|--------------|--------------------------|
| J. A. Whitaker, salary and expenses ----- | \$7, 082. 65 | \$160, 945. 92 |
| Drafts drawn by Republic of Nicaragua ----- | | 1, 529, 224. 74 |
| Interest on loans to bankers. ----- | 111, 379. 66 | |
| Commissions paid to bankers ----- | 7, 550. 00 | 118, 929. 66 |
| Notary fees in Nicaragua --- | 2, 575. 00 | |
| Legal fees ----- | 89, 500. 00 | 92, 075. 00 |
| Cables, printing, etc ----- | | 46, 800. 84 |
| | | 4, 258, 609. 14 |
| Balance ----- | | 41, 276. 03 |
| | | <u>\$4, 299, 885. 17</u> |

Balance at credit of following accounts:

| | |
|---|--------------------|
| Banking, currency, and expense fund ----- | 12, 610. 86 |
| Ethelburga Syndicate settlement ----- | 28, 665. 17 |
| | <u>41, 276. 03</u> |

The indebtedness of the Republic of Nicaragua to the bankers is the loan of October 8, 1913, evidenced by treasury bills amounting to \$1,060,000.

| | |
|--|--------------------|
| Principal of loan ----- | \$1, 000, 000 |
| 6 per cent interest to October 8, 1914 ----- | 60, 000 |
| | <u>1, 060, 000</u> |

Total obligation ----- 1, 060, 000

Senator SMITH of Michigan. Then I am to understand that you made no loan or passed no item over to the Nicaraguan Government of \$500,000, as indicated in my former question?

Mr. STRAUSS. You mean in anticipation, as you put it, of the Knox-Castrillo treaty?

Senator SMITH of Michigan. Yes.

Mr. STRAUSS. No, sir.

Senator WILLIAMS. What is that?

Mr. STRAUSS. Senator Smith asked me to whom we paid. I said there was no such advance. He was asking me that to make sure I had not misstated.

Mr. Cox. Possibly the Senator has this in mind. Even with the loan, possibly that treaty might still have passed, after putting up \$500,000 in anticipation?

Senator SMITH of Michigan. That is what I am trying to get at.

Mr. STRAUSS. But that was not our first loan at all.

Senator SMITH of Michigan. What loan was that you passed over, the \$500,000?

Mr. STRAUSS. We did not pass over \$500,000. There was \$1,500,000 loaned with which we dealt; that was used exclusively for currency matters. Then there is the so-called supplementary loan, consisting of \$755,000, \$500,000 to be made if needed, and \$255,000 to be made in monthly installments, to make up for certain expected deficits in the receipts. The \$500,000 was to be advanced for currency purposes, if needed. That arrangement, as I explained in my narrative, was subsequently modified, the bankers agreeing to pay \$100,000 of that into the exchange fund—no; that was what they had a right to demand—

and \$400,000—that was modified November 4, 1912; that as from the proceeds \$100,000 had been paid to the exchange fund, the bankers were to apply the further sum of \$400,000 to the exchange fund, and agreed that this \$400,000 be paid to the Government for its own needs. The bankers obligated themselves—

Senator SMITH of Michigan. You paid that money to the Government?

Mr. STRAUSS. Yes, sir.

Senator SMITH of Michigan. When?

Mr. STRAUSS. That was paid on drafts from down there. I have not the exact dates.

Senator SMITH of Michigan. As a matter of fact, was not that advance paid in return for national pesos at the rate of 14 to 1?

Mr. STRAUSS. Oh, no; that \$400,000 was paid to the Government for its own needs.

Senator SMITH of Michigan. And you did not take up the national currency at the ratio of 14 to 1, or 7,000,000 pesos at that advance?

Mr. STRAUSS. Out of that advance; no.

Senator SMITH of Michigan. What did you say?

Mr. Cox. I do not know that I understand you.

Senator SMITH of Michigan. I thought you said; yes.

Mr. Cox. As it says here, it was modified. First of all, this \$500,000 was to go into the exchange fund; that was the original intention. When the Ethelburga Syndicate settlement was made, \$100,000 was taken from that settlement and put in the exchange fund. The bankers said, according to the contract here, we were to furnish the \$500,000 for the exchange fund, that we will continue the obligation on our part and supply that money as the Government needs the money, and we will pay the \$400,000, which otherwise would go into the exchange fund, to the Republic on its drafts.

Mr. STRAUSS. Now, let me take up the narrative and let me say this, that no pesos were redeemed, bought, or retired in any way except through the exchange fund.

Senator SMITH of Michigan. But, if that were the case, then, if it was retired through the exchange fund, you would get the national currency of Nicaragua for that money, would you not?

Mr. STRAUSS. For any pesos we purchased through the exchange fund; yes.

Senator SMITH of Michigan. What I want to know is whether you got 7,000,000 pesos, and if you did not get them at the ratio of 14 to 1?

Mr. STRAUSS. We got a total of 44,000,000 pesos. I can not give you the details as to any particular 7,000,000.

Senator SMITH of Michigan. My information is that you put that money in exchange for pesos at the ratio of 14 to 1 and received in return 7,000,000 pesos, and that the profit on that exchange was \$60,000 in gold.

Mr. STRAUSS. Profit to whom?

Senator SMITH of Michigan. Profit to you.

Mr. STRAUSS. Oh, no; absolutely out of the question, Senator. All the redemption of paper money of pesos was made through the exchange fund. As I said before, we never owned a peso or a billete or a dollar of Nicaraguan currency; we never put any in the ex-

change fund; we never made any profit or dealt in it in any way. That is simply somebody's invention.

Senator SMITH of Michigan. Well, that statement has been made.

Mr. STRAUSS. That may be, but—Mr. Cox thinks that what may have given rise to this was the following: Under the supplemental loan agreement, as cited before, certain security was detailed, the stock of the railroad and the bank, billetes purchased with the proceeds. The billetes that were purchased with the proceeds were simply held apart until that loan was liquidated, and were then canceled. They were simply pledged for the account; they were never redeemed or bought by us, or any profit made by us; they were simply set apart as a part of the securities as specified in that loan. When the loan was paid off the billetes were canceled and incinerated.

Senator SMITH of Michigan. What was paid for them?

Mr. STRAUSS. When they were bought in?

Senator SMITH of Michigan. Yes, sir.

Mr. STRAUSS. A part of the proceeds of this supplemental loan.

Senator SMITH of Michigan. At what rate?

Mr. STRAUSS. I do not know. I never did know. The only provision, so far as concerns any money derived from this loan being used for retiring billetes, is this, those billetes were held until the loan is paid as further security for the loan if it ever became necessary to resort to security. The loan was paid up subsequently, which released the collateral, and the billetes were turned into the issue department down there and canceled and burned like any others. They were bought for account of the Government, held for account of the Government, and we never made any profit or could have made any profit on account of them.

Senator WILLIAMS. They were held down there as collateral by the bankers?

Mr. STRAUSS. They were set aside to be held as collateral if it ever became necessary under the terms of the agreement made up here.

Senator WILLIAMS. And they were afterwards destroyed?

Mr. STRAUSS. Yes, sir.

Senator SMITH of Michigan. Somebody paid something for them?

Senator WILLIAMS. I want to go back to that \$500,000 transaction and see if I can get it clear in my mind. As I understand it—if my figures are wrong somebody will correct me. As I understand it there was first an agreement that this \$500,000 was to be used, if necessary, in order to extinguish paper currency down there?

Mr. STRAUSS. That is right.

Senator WILLIAMS. And that later on, having recovered this three hundred and some odd thousand pounds, which had been left in the London banking house, this \$500,000 was not used for that purpose, but a part of the £300,000 was used instead, and then, later on, under a new agreement, this \$500,000 was at that time annulled—that agreement as to it. Then later on the Nicaraguan Government wanting money in connection with its revolutionary troubles, and so forth, it was agreed that they would advance to them the \$500,000, thereby renouncing the old cancellation. As I understand Mr. Mallet-Prevost's statement, that was about it. If that is in any respect incorrect, will some of you get it right?

Mr. STRAUSS. That is correct on the broad lines.

Mr. KOHLMANN. But not technically.

Senator SMITH of Michigan. That is the principle underlying it, but not the details?

Senator WILLIAMS. Then, as a matter of fact, they never used and retired the currency, although that was the original object of the negotiation, but that it was used to help the Nicaraguan Government at the time of its emergency and—

Mr. KOHLMANN. No; that is not correct.

Senator WILLIAMS. Then it was paid over to the Nicaraguan Government. Was it not paid over about the time of the revolution down there?

Mr. KOHLMANN. May I explain that?

Senator WILLIAMS. Yes.

Mr. KOHLMANN. When the agreement was made under which the money was to come from England, it was provided that instead of the bankers advancing \$500,000 for currency purposes, \$500,000 of the money coming from London should be used for that purpose. That far is clear.

Senator WILLIAMS. Now, go ahead.

Mr. KOHLMANN. When the money actually came from London the following October, Nicaragua required money for the purposes that you have stated; that is, in connection with the revolution and for other purposes, and the money that was paid to Nicaragua for that purpose was part of the money that came from London; not part of the money advanced under the supplemental loan agreement, and the way in which that was done was this: That agreement under which \$500,000 from London was to be put in the exchange fund was modified so that instead of paying \$500,000 into the exchange fund, \$100,000 was paid into the exchange fund, and \$400,000 of the London money was turned over to Nicaragua.

Senator WILLIAMS. That I had forgotten. Now, go ahead.

Mr. KOHLMANN. \$400,000 was paid over to Nicaragua, thereby the obligation of the bankers to advance \$400,000 under the supplemental loan agreement revived, and that \$400,000 under the supplemental loan agreement was afterwards drawn and paid under the supplemental loan agreement and was used for currency purposes.

Mr. STRAUSS. Through the exchange fund.

Mr. KOHLMANN. Through the exchange fund.

Senator WILLIAMS. That last part I did not understand.

Senator SMITH of Michigan. You call it \$500,000, just as I have all the time. I have been trying very hard from two witnesses to get track of this payment and how it was paid.

Mr. KOHLMANN. That is exactly it.

Senator SMITH of Michigan. Do you know F. W. Wilson, collector of customs at Bluefields?

Mr. STRAUSS. Yes.

Senator SMITH of Michigan. He is a man of high reputation and character?

Mr. STRAUSS. Yes; we investigated his record before he went down as Col. Ham's assistant.

Senator SMITH of Michigan. If he made the statement that this \$500,000, instead of going to the Nicaraguan Government, went to private individuals, you would take his word for it, would you not?

Mr. STRAUSS. No; I should say it was not primarily within his province at all. He would not ordinarily know anything about it. But if he came to me—will you say what his statement was again?

Senator SMITH of Michigan. No; I do not want to quote him. Well, you give him a high character, and if he makes a statement—

Mr. STRAUSS. People of high character sometimes make reckless statements. If his statement simply has reference to the division of the funds down there, I have nothing to say; I do not know anything about it. If it has reference to the payment of regular drafts drawn by our office down there, paid up here, I take issue. They were paid, so far as we were concerned, to the Government.

Senator SMITH of Michigan. What happened there, you do not know?

Mr. STRAUSS. No, sir.

Senator SMITH of Michigan. You could not follow it to its ultimate distribution?

Mr. STRAUSS. No, sir.

Senator SMITH of Michigan. I want to ask you with reference to the troops, whether you feel that our Marines should be withdrawn from Nicaragua?

Mr. STRAUSS. From all that I have heard, and I do not know how many Marines there are down there now—

Senator SMITH of Michigan. There have been nearly 3,000.

Senator WILLIAMS. I got the impression there were about 80 there now.

Senator SMITH of Michigan. I think Mr. Bryan said eighty-odd.

Mr. STRAUSS. What I have heard from people coming up from there the moral effect of even a handful of men there is to keep order.

Senator SMITH of Michigan. If there are 90,000,000 people back of that handful of soldiers, that of course would be true.

Mr. STRAUSS. I am just telling you what the people who come up from there say; that the mere corporal's guard of American Marines keep order there. If they were withdrawn, there are turbulent elements there, and I am satisfied that there are elements there—

Senator SMITH of Michigan. One policeman in a thickly populated portion of New York representing the municipality might hold a thousand people in check.

Mr. STRAUSS. It is what you might call an economical expenditure of force.

Senator SMITH of Michigan. Then you would not advise the withdrawal of the American Marines from there?

Mr. STRAUSS. No; apparently not if order is to be maintained.

Senator SMITH of Michigan. Have you had anything to do with their being sent there?

Mr. STRAUSS. No. My recollection is not very clear as to what happened at the time of that outbreak. The marines were sent down there, but I thought that was on appeals from down there. Whether the appeals were from the bank or the railroad manager to us to ask the department I do not remember.

Senator SMITH of Michigan. As a matter of fact, the marines now there have been very vigilant in protecting the railroad property down there, have they not?

Mr. STRAUSS. I think during the war, or during the revolution, as it was, it is public knowledge that they operated along the line of

the railroad. I do not think that since then they have done anything particular for the railroad. They have simply been in the community a moral effect there. Their presence has made for peace and order.

The CHAIRMAN. Did you have anything to do with the negotiations of the former treaty that failed in the Senate—the Knox-Castrillo treaty?

Mr. STRAUSS. No; nothing at all. That treaty, I think, was pending in the Senate when we first came into the situation.

The CHAIRMAN. You had nothing to do with the making of it?

Mr. STRAUSS. Nothing at all.

The CHAIRMAN. Have you been consulted about the proposed treaty now before this committee?

Mr. STRAUSS. I think Mr. Mallet-Prevost would know more about that. My recollection is that we were asked what it would be necessary to put into such a treaty in order to make the treaty sufficiently—well, a sufficient guarantee of order down there—to make it possible for Nicaragua to raise money.

The CHAIRMAN. Would the making and ratification of this treaty be of any personal advantage to your firm, Brown Bros.?

Senator WILLIAMS. Financially?

The CHAIRMAN. Senator Williams says financial advantage, but I mean financial advantage or any kind of personal advantage, to your knowledge.

Mr. STRAUSS. Our interests down there consists of \$1,060,000 treasury bills that mature next October that are secured by the customs and by 49 per cent of the railway and 49 per cent of the bank stock. We own 51 per cent of the railroad. Naturally, conditions of order and prosperity would be more agreeable to us than turbulence and revolutions, and to that extent it would be a financial advantage to us, of course, to have that community prosperous. Over and above that I think there is a certain pride that we take in seeing this whole thing work out well. To see the currency on an established basis, to see that country prosperous, apart from that there is nothing.

The CHAIRMAN. Do you consider the adoption of this treaty as essential to the safety of your investments down there?

Mr. STRAUSS. Why, it would certainly increase their safety. I have an idea that no country can continue indefinitely in revolution, and I rather imagine that while we would be tied up for a time, whatever happened there, we would probably in time work out. It is impossible to say in advance. I suppose that people that have money in Mexico now will work out in time, but in the meantime they are tied up. Of course, we would rather see that treaty pass. And the letters that we get from people down there indicate a state of public mind in financial affairs that would lead to the belief that the passage of that treaty would have a much greater effect on commercial and financial affairs than the mere payment of the \$3,000,000. They seem to have got keyed up to a state of mind that that is the one thing they are looking forward to to solve their troubles. I think it would need industry, thrift, and attention to business for some time in addition to that.

Senator WILLIAMS. Anywhere and any time law and order make business thrive, and as business thrives and protection increases, rates of interest are apt to be less and business of every description,

investments in that country of every description, ought to be safer and possibly more profitable as well, is not that generally applicable to this situation, as well as to any other?

Mr. STRAUSS. Oh, yes, sir.

Senator SMITH of Michigan. Senator Williams, the other day, asked whether, in the event of a revolution against our encroachment upon the sovereignty of Nicaragua, it might not impair all that you have sought to repair,

Senator WILLIAMS. No matter where the revolution came from, if it came from adopting the treaty, or if it did not, a revolution would hurt all investors in the country, of course.

Mr. STRAUSS. I think that the people down there expect results to flow from that treaty very much like results that have flowed from the Cuban precedent. Cuba has prospered immensely; it has increased its production, I think, from 220,000 tons of sugar, or less, to 2,500,000 tons.

Senator SMITH of Michigan. In how long a time?

Mr. STRAUSS. In 10 years or such a matter.

Senator SMITH of Michigan. Since our treaty was made?

Mr. STRAUSS. I do not know, but since the Spanish War.

Senator SMITH of Michigan. You are thinking about the production of one of our beet-sugar States, are you not?

Mr. STRAUSS. At the end of the war it was almost down to nothing. However, please do not quote me as an expert on sugar production. I can get the figures, but I do not profess to bear them in my head.

Senator WILLIAMS. It is an immense increase, whatever it is.

The CHAIRMAN. Are you sufficiently familiar with the conditions in Nicaragua to express an opinion as to whether this treaty, if made, would lead to disorder, probably to revolution—I mean the treaty itself—if the American troops were withdrawn?

Mr. STRAUSS. At the same time?

The CHAIRMAN. If they were withdrawn now, before the treaty was made?

Mr. STRAUSS. I think if the troops were withdrawn now before the treaty was made it would probably be an indication that the treaty would not go through, and that might precipitate—I think it would have a very good chance of precipitating trouble.

Senator WILLIAMS. Suppose no troops were there to overawe these people. Suppose, then, that the news got abroad amongst them that their present Government had deliberately surrendered their sovereignty to a foreign nation and had given them the right and power to govern it the same way it does Cuba. You remember what we did in Cuba we did by conquering territory. Suppose those people heard of that. Do you not believe they would rise at once and overthrow that Diaz Government, pitch it plumb out of doors before we could get anybody there to save it, even if we wanted to?

Mr. STRAUSS. I do not know. I have never been down there. My information, of course, is from people who have been there. All of our information points to the belief, in the first place, that there probably is not such a thing as public opinion in the sense that we know it in this country. The peon is a laborer and is satisfied if he makes a living.

Senator WILLIAMS. There is no public opinion there, you are right about that; but there is public sentiment, and I do not know of any country where the feeling of pride in their own sovereignty is more acute than in the Latin American Republics.

Mr. STRAUSS. They have suffered a good deal down there.

The CHAIRMAN. This ends the hearing so far as witnesses have been called. Senator Smith has indicated to me that he desires to have some witnesses appear at a later date.

Thereupon, at 5.30 o'clock p. m. Tuesday, June 30, 1914, the committee adjourned, subject to call of the chairman.

Pp. summary committee proceedings at Dayton Nov 11/14
that 1/2 million was for currency & interest - 370
"interest" in odd out of 300,000 - 370
not that dollar of the 1/2 million left by 37
Supplemental hearing - \$700,000 - 370
370
387
1103 - 4
406

CONFIDENTIAL

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA

PART 10

Printed for the use of the Committee on Foreign Relations



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1914

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

WEDNESDAY, JULY 8, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 2.30 o'clock p. m.

Present: Senators Stone (chairman), Hitchcock, Williams, Swanson, Smith of Arizona, Saulsbury, and Smith of Michigan.

The CHAIRMAN. The committee will come to order. Mr. Edwin Emerson is to testify to-day.

TESTIMONY OF MR. EDWIN EMERSON, MAGAZINE WRITER, 30 CHURCH STREET, NEW YORK CITY.

Mr. Edwin Emerson having been duly sworn by the chairman, testified as follows:

The CHAIRMAN. State your name.

Mr. EMERSON. Edwin Emerson.

Senator SMITH of Michigan. Where do you reside?

Mr. EMERSON. I live in New York City.

Senator SMITH of Michigan. You are with the Emerson Co., Church Street—

Mr. EMERSON. I am not with the company.

Senator SMITH of Michigan. What is your business?

Mr. EMERSON. I am a writer—an author. I have no office of my own.

Senator SMITH of Michigan. You came in obedience to a request that you be subpoenaed?

Mr. EMERSON. Yes.

Senator SMITH of Michigan. By way of preliminary I should like to ask—

The CHAIRMAN. Just a moment. Are you going into the case now? I want to ask a preliminary question.

Senator SMITH of Michigan. All right, go ahead.

The CHAIRMAN. What is your business?

Mr. EMERSON. I am a writer—an author.

The CHAIRMAN. You write books?

Mr. EMERSON. A magazine writer. Yes, sir; I write books, and I write articles.

The CHAIRMAN. What books have you written?

Mr. EMERSON. I have written a history of the Nineteenth Century, in three volumes; a history of the Russian-Japanese War; and a book on the campaign of the Rough Riders in the Spanish-American War.

Senator SMITH of Michigan. Were you with the Rough Riders?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. You mean you were a member of the command?

Mr. EMERSON. Yes, sir. And I have written a number of other books.

Senator WILLIAMS. Are you an American citizen?

Mr. EMERSON. Yes, sir.

Senator WILLIAMS. You live in New York?

Mr. EMERSON. I do.

Senator WILLIAMS. A citizen of that State?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. Are you a native American?

Mr. EMERSON. Yes, sir; my father and mother were Americans and my grandparents.

The CHAIRMAN. Proceed.

Senator SMITH of Michigan. You are familiar with Nicaragua, are you?

Mr. EMERSON. Yes.

Senator SMITH of Michigan. How much time have you spent there?

Mr. EMERSON. I have been there repeatedly. I have been there on three different occasions. The last time was in 1912.

Senator SMITH of Michigan. And when were the former visits?

Mr. EMERSON. I was there in 1894 and I was there in 1908.

Senator SMITH of Michigan. You were there during the last presidential election?

Mr. EMERSON. Yes, sir.

Senator SMITH of Michigan. Where were you on election day?

Mr. EMERSON. I was at the town of El Sauce, in the district of Leon.

Senator SMITH of Michigan. How large a town is El Sauce?

Mr. EMERSON. Oh, about 2,500 people.

Senator SMITH of Michigan. Did you give any attention to the election?

Mr. EMERSON. Yes; I had to. The town was in an uproar.

Senator SMITH of Michigan. Do you know how many votes were cast in that town for president?

Mr. EMERSON. Yes, sir.

Senator SMITH of Michigan. How many?

Mr. EMERSON. Twenty.

Senator SMITH of Michigan. In a town of 2,500 people?

Mr. EMERSON. Yes, sir.

Senator SMITH of Michigan. That is, in the district of Leon?

Mr. EMERSON. Yes, sir.

Senator SMITH of Michigan. And Leon is the largest city in Nicaragua, I believe.

Mr. EMERSON. The votes were cast by the soldiers—by the garrison. El Sauce had a garrison of 20 men—19 soldier and 1 officer—and they voted.

Senator SMITH of Michigan. And that is all the votes that were cast there?

Mr. EMERSON. Yes. They were soldiers of the Conservative Party.

Senator SMITH of Michigan. That is, of the Diaz Party?

Mr. EMERSON. Yes, sir.

Senator SMITH of Michigan. Where were they from?

Mr. EMERSON. I presume they were from the Atlantic coast. I do not know where each soldier comes from, but they were from that region, which is a conservative region.

Senator SMITH of Michigan. That is, the Bluefields region?

Mr. EMERSON. Yes, sir.

Senator SMITH of Michigan. Did you go over to Leon—

Mr. EMERSON. The town itself, I ought to say, is liberal, and the whole district, the whole region there, belongs to the political liberal element of Nicaragua.

Senator SMITH of Michigan. That is, this town—

Mr. EMERSON. El Sauce, in the district of Leon.

Senator SMITH of Michigan. How about Leon? Is that the largest city in Nicaragua?

Mr. EMERSON. That is the biggest city in Nicaragua. That is about 20 miles from El Sauce, also a Liberal city.

Senator SMITH of Michigan. Are you familiar with Leon?

Mr. EMERSON. Yes; I lived there for many weeks. I was on my way to Leon when I was at El Sauce.

Senator SMITH of Michigan. Do you know how many votes were cast for President in Leon in that election?

Mr. EMERSON. I was told that 234 ballots were cast.

Senator WILLIAMS. Who told you?

Mr. EMERSON. Oh, everybody. It was announced.

Senator WILLIAMS. That is, you do not know of your own knowledge?

Mr. EMERSON. I did not count the votes myself. I came into Leon the day after election.

Mr. WILLIAMS. Do you know that from any official source?

Mr. EMERSON. I think Col. Long, of the Marines, told me, and the jefe politico. It was generally announced. Immediately after election it was publicly announced.

Senator SMITH of Michigan. Two hundred and thirty-four votes cast?

Mr. EMERSON. That was in the daily paper; yes, sir.

Senator SMITH of Michigan. Was Leon under martial law at that time?

Mr. EMERSON. Yes.

Senator SMITH of Michigan. Tell the committee the situation in your own way.

Senator WILLIAMS. Who was President when this election took place?

Mr. EMERSON. Adolpho Diaz.

Senator SMITH of Michigan. By designation? He had not then been elected?

Mr. EMERSON. Yes; he was already President. This was in 1912.

Senator SMITH of Michigan. Yes; but was he not by designation of Estrada acting at that time?

Mr. EMERSON. Yes; he was acting President of the country. Estrada was the President.

Senator SMITH of Michigan. Tell the committee in your own way the condition of affairs at Leon as you viewed it. You say they were under martial law? Tell that in your own way.

Mr. EMERSON. I went to Leon as a war correspondent. Our troops and marines—

Senator WILLIAMS. What newspapers were you writing for?

Mr. EMERSON. I was a magazine writer—any magazine. I was not sent by any paper.

Senator WILLIAMS. You did not go as a war correspondent of any particular paper or magazine?

Mr. EMERSON. No. Our marines and bluejackets were lying just outside of Leon on the other side of the railroad in a semistate of siege. They controlled the railroad so that no troops could move up or down. The rest of the command was up at Managua. I was at Managua at the time of the fight at Coyotepe, and went and witnessed that; and then was told that there was going to be another at Leon. So Admiral Sutherland sent me down in a special car from Managua to Leon, and there I joined Lieut. Col. Long of the marines, in camp, just outside of Leon. The Leonese Liberals, who were in control there, practically offered to surrender. They sent a committee out, and I acted as interpreter for Col. Long, in which they promised in view of the fight that had been fought at Coyotepe, in which our troops were victorious, and as a result of which the Liberal leader, Benjamin Zeladon, had been killed after surrendering—

Senator SMITH of Michigan. After surrendering?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. Surrendering to whom?

Mr. EMERSON. To the Conservatives; to the Nicaraguan Government troops.

Senator SMITH of Michigan. How was he killed?

Mr. EMERSON. He was stood up against the wall and shot.

Senator SMITH of Michigan. By whose orders?

Mr. EMERSON. The orders of Emiliano Chamorro, general commanding.

Senator WILLIAMS. Which Chamorro is that? Is that the Chamorro who is here now?

Mr. EMERSON. Yes; the Chamorro who is here now, who is minister. I have his written order here, ordering the men if they took this man to shoot him.

Senator SMITH of Michigan. Go ahead.

The CHAIRMAN. Where is that order?

Mr. EMERSON. It is right there in this envelope [indicating].

Senator SMITH of Michigan. Do you want it, Senator?

The CHAIRMAN. Yes.

Senator WILLIAMS. Suppose you hand that to the stenographer.

Mr. EMERSON. It is in Spanish.

Senator WILLIAMS. We can have it translated, or you can translate it for us.

Mr. EMERSON. Here [indicating] is a facsimile of the order. I photographed it myself.

The CHAIRMAN. I want your translation.

Senator WILLIAMS. Have you got the original order?

Mr. EMERSON. This is the original order, a photograph of it.

Senator WILLIAMS. Is this in English?

Mr. EMERSON. No; this is in Spanish. I have a copy of it here.

Senator SMITH of Michigan. You had better print it in both Spanish and English.

(The letter referred to is as follows:)

JEFATURA GENERAL DEL EJÉRCITO,
Managua, 27 de Septiembre de 1912.

Sr. Gral. Du C AMILLO BARBERENA,
Su Campamento.

Para eximirles de toda responsabilidad   Ud., y dem as subalternos, este mando ha dispuesto hacer extensivas sus ordenes   todos los campamentos, por medio de sus respectivo jefes,   fin de que tomen las m as estrictas precauciones para capturar al General Zeladon y dem as jefes que le acompa an haciendolos pasar for las armas inmediatamente   excepcion de los que Ud. crea conveniente.

Respecto   la conducta que Ud. y su tropa observar , za he dado   Ud. mis rdenes privadas y que son las mismas impartidas   todos los jefes.

(f.) E. CHAMORRO.

Mr. EMERSON. This is the translation. It reads:

GENERAL HEADQUARTERS OF THE ARMY,
Managua, September 27, 1912.

To Col. CAMILLO BARBERENA,
In his camp.

In order to absolve you and other subalterns from all responsibility, the commanding officer has determined to extend his orders to all the troops, through their respective chiefs, with the object of having them take the strictest precaution for capturing Gen. Zeladon and other chiefs who accompany him, and for causing all of them except those of them whom you pardon to be shot on the spot. I have already given to you my private orders regarding the conduct of yourself and your troops. These are the same transmitted to all the chiefs.

EMILIANO CHAMORRO.

Senator SMITH of Michigan. Go ahead.

Mr. EMERSON. As a result of that Admiral Sutherland told me—

Senator WILLIAMS. Mr. Chairman, I think we ought to keep that original order in Spanish.

Mr. EMERSON. I gave it to the stenographer, in Spanish.

Senator WILLIAMS. I ask that it be given to the stenographer, and that it be kept.

The CHAIRMAN. Is that [indicating] the photograph?

Mr. EMERSON. This [indicating] is the photograph, and this [indicating] is the copy.

Senator WILLIAMS. Where is the original?

Mr. EMERSON. Here [indicating] is the original.

Senator WILLIAMS. Is that the original or a photograph of it?

Mr. EMERSON. That is a photograph of the original.

Senator SMITH of Michigan. Which you took yourself?

Mr. EMERSON. My photograph of the original.

The CHAIRMAN. Where was the original when you photographed it?

Mr. EMERSON. It was in the hands of this Col. Barberena.

The CHAIRMAN. Did he give it to you to photograph?

Mr. EMERSON. He lent it to me. I asked him for the original. He said he could not give me that. I asked him for permission to photograph it, and he said, "All right," and so I photographed it.

The CHAIRMAN. Where did that occur?

Mr. EMERSON. At Managua. I had it photographed at Managua.

Senator SMITH of Michigan. Go ahead.

Mr. EMERSON. As a result of this fight and the killing of Zeladon, it was announced that there was going to be another fight at Leon, and that Leon was going to be called upon to surrender, and if it did not surrender that our men would take it by storm.

The CHAIRMAN. Who announced that; the American officers or the Nicaraguans?

Mr. EMERSON. Admiral Sutherland told me this. He did not announce it publicly. He told me this in conversation.

The CHAIRMAN. That the American marines would engage in a fight to take Leon?

Mr. EMERSON. Yes, sir. He told me—he said, “If you want to see something, that is the place for you to go.” [Nobody could travel in Nicaragua at that time because our marines and bluejackets held the railroad, and also held the country. You could only travel with an official passport from the American commander. So I asked him to let me go to Leon, and he sent me on a special train with Lieut. Powers, who was the adjutant of Lieut. Col. Long, to the camp of our marines and bluejackets at Leon.]

Senator WILLIAMS. Do you remember how many bluejackets there were there then?

Mr. EMERSON. At that time there were about 1,000—800 or 1,000. And then more came from Masaya to Managua, increasing the command to about 1,800 or 2,000. I saw them arriving. So I went to the camp and met Col. Long. He took me into his tent and kept me there as his guest, and told me he expected there would be “doings” the next day. That night there came this committee of liberals from Leon, and one of them was a son of the former President of Nicaragua, Madriz, and they practically offered to surrender. They said they would surrender the following day at noon; that they would turn over the rifles; that they would stack the rifles and have the machine guns and turn them over to our troops.

Senator SMITH of Michigan. The American troops?

Mr. EMERSON. The American troops. So on the following morning Col. Long and his command formed ready for anything that might occur. Every man had his extra allowance of cartridges and canteen, and they took the guns along, the 3-inch guns that were being trundled along by the marines, and we moved out. The bluejackets were also along. We moved out toward Leon, about a quarter of a mile away from the camp. When we got to the railroad, where they were to meet us and stack their guns, with the machine guns, there was nobody there, and Col. Long came to me and said, “What do you think this is? Do you think this is a ruse?” I said, “It looks like it.” He said, “There is nothing for us but to go right in.” So he gave the order for the advance, and he disposed his troops in such a way that they went down into the hollow where they would be out of range of the fire, and with that the fire began to come from Leon, the machine guns and rifles, and then bullets were flying around us. We had leaves over us, and leaves began to drop down from where the bullets struck them, and the bullets struck the trees. So he sent the men, the bluejackets on one side and the marines on the other side, down into the hollow of the river. There was a trestle bridge there that led across this river. And then Col. Long started to walk across this bridge under fire. I had offered Col. Long that I

would act as a volunteer aid if there was a fight, and he had accepted my offer, so there was nothing for me to do but to follow him. He walked across this bridge—it was a very long bridge—under fire, and he walked very slowly, too. It was an open trestle-work bridge. So you had to step from tie to tie. He was followed by his adjutant, myself, and a trumpeter. We walked along there and the troops came along underneath. We came to the outskirts of the town and we took the town. The marines went up on one street and the blue-jackets on the other, and there was firing from then until nightfall. I stayed close to Col. Long.

Now and then he would give me an order to transmit to some other officer, which I would do, and then came back to him. Then we entered the main plaza. There was a machine gun still there, and a machine gun up at the cathedral, and barbed-wire entanglements all around the church. As we went there several of our men were killed. A man standing right next to Col. Long was shot dead, and another man was seriously wounded. He asked me where the shots came from. I told him that I thought they came from the top of the cathedral. He said, "We had better take that. You had better take a bunch of men and clean them up." I took a bunch of 12 men and we broke into the church. We went up the steps, and they were firing down from the roof, and when we got up they got down, and then they started firing across from some other churches, and our men fired back. I had a machine gun brought up and I held the roof of the church for about an hour or so. By that time the men had been driven out of the town, more or less. They were still in the outskirts, but the fighting continued until nightfall, and then there was sniping all night, and the next day they had pulled out. They never surrendered any machine guns or any rifles, and Col. Long had a house-to-house search made, and managed to get a lot of bombs, hand grenades, and rifles. But the men that had done the fighting had pulled out. The next day we took the fort. There was a fort that commanded Leon, but by the time we got up there they were gone.

Col. Long then got out some kind of a notice that the town was under martial law. I think I have the notice here. It reads:

The commander in chief of the naval forces of the United States makes it known to the public in general that the President of the Republic has given orders that no armed troops should approach the city of Leon within two miles while the forces under my command are occupying the city.

Then there is another one—

Senator SMITH of Michigan. Who signed that?

Mr. EMERSON. C. G. Long, lieutenant colonel of the American marines, and commandant of the forces of the United States.

Senator SMITH of Michigan. What is the date?

Mr. EMERSON. Leon, October 8, 1912.

Here is another one. It reads:

The forces under my command will remain in this city permanently to protect the lives and properties of the inhabitants. The people of Leon therefore must remain tranquil and rest assured that nothing will be done to prejudice the peace.

Leon, October 9, 1912.

CHARLES G. LONG,
Lieutenant Colonel.

Here is another one. It reads:

HEADQUARTERS OF THE AMERICAN FORCES,
Leon, October 10.

The public is herewith informed that they must turn over all arms that they have in their possession to headquarters, or to any other detachment of the forces of the United States—machine guns, bombs, rifles, pistols, swords, etc., all before the 15th of this month.

Foreigners, private parties, and merchants who have rifles of their own are obliged to give the number of them and to state what kind they have in writing to this headquarters.

After the date given, the 15th, any person who is found with arms that they have no permit for will be subjected to very severe punishment under the law.

CHARLES G. LONG,
Lieutenant Colonel.

The CHAIRMAN. What is the date of that?

Mr. EMERSON. That is October 10, Leon.

Here is another one. It reads:

HEADQUARTERS OF THE AMERICAN FORCES,
Leon, October 10.

The undersigned asks all foreigners residing in this city to come to his office to register their names, addresses, citizenship, and occupation immediately.

C. G. LONG,
Lieutenant Commander of Marines, etc.

Here is another one. This is the first one that I ought to have read. It reads:

The military forces of the United States having assumed charge of Leon and of the surroundings, martial law is applied with all its vigor and will be carried out by the forces under my command. The following dispositions have been decreed:

It is absolutely forbidden to sell strong liquor. All public establishments and private houses must be closed at 6 p. m. No door can remain open, and in case any window or door is open it must be lighted up. No person will be allowed to walk on the streets after 7 o'clock at night unless he has a passport or permit signed by the commander of this district. At no hour and at no place will people be allowed to gather on the streets.

No color—

Well, that means—

Senator SMITH of Michigan. Bunting?

Mr. EMERSON. Yes.

whether it be red or green, can be displayed.

You see, in Nicaragua, the Liberals are red and the Conservatives are green. They carry ribbons, colors on their hats, and on their arms, and everywhere.

No person will carry arms unless it is some one who has a special permit by the undersigned. Those persons who have received permits and who walk on the streets after the hour designated must carry a lighted lantern.

Leon, October 8, 1912.

CHARLES G. LONG,
Lieutenant Colonel of Marines of the United States.

So you see the city was under martial law.

Senator SMITH of Michigan. Mr. Emerson, what is the date of the election for President? It was in that month, was it not?

Mr. EMERSON. It was in that month—October.

Senator SMITH of Michigan. What time in the month—immediately following the occupation of Leon?

Mr. EMERSON. I should say about two weeks afterwards.

Senator SMITH of Michigan. But while it was still under martial law?

Mr. EMERSON. While it was still under martial law; yes.

Senator WILLIAMS. Are you talking about the election of 1908 or 1912?

Senator SMITH of Michigan. 1912.

Senator WILLIAMS. That is dated 1908.

Mr. EMERSON. 1912.

Senator WILLIAMS. I thought you said it was dated 1908?

Senator SMITH of Michigan. You spoke of Leon being the Radical or Liberal city of the country?

Mr. EMERSON. Yes.

Senator SMITH of Michigan. From your stay there were you able to form any opinion as to the relative strength of the Conservative and the Liberal following in Leon?

Mr. EMERSON. There was no Conservative following in Leon. Leon is all Liberal. The only Conservatives were the officeholders. That is all. Because Leon is all Liberal; just like our solid South is Democratic.

Senator SMITH of Michigan. Or like Ulster, perhaps—

Mr. EMERSON. Leon has been a Liberal stronghold for the last 200 years and is looked upon as a Liberal stronghold all over Central America. Liberals from all the different Republics that are exiled—from Guatemala or Honduras, for instance—come to Leon and live there. They have the best Liberal university.

Senator SMITH of Michigan. Were you at Masaya at the time of the fighting?

Mr. EMERSON. Yes, sir.

Senator SMITH of Michigan. I wish you would describe that to the committee—the part that our soldiers took in it and, if possible, the date when it occurred.

Mr. EMERSON. That was October 2, I think. Masaya lies between Managua, the capital, and Granada, which is on Lake Granada. Granada is the stronghold of the Conservative Party of Nicaragua.

By the way, you asked me what proportion. I should say that about one-fourth of the Nicaraguans are Conservative and about three-fourths are Liberal. The Conservatives hold the Atlantic coast, the wet region of Nicaragua, and the Liberals hold the highlands and the west coast.

Senator SMITH of Michigan. The Conservatives are in the Bluefields district?

Mr. EMERSON. Yes; Managua is the capital of that region and that has always been Conservative. Those two towns have always been against each other, as you say Ulster and Ireland—

Senator SMITH of Michigan. Belfast and Dublin.

Mr. EMERSON. Yes. The capital is betwixt and between. The capital is a modern city and has always been half and half. Masaya lies between them and is a town of about, I should say, 10,000 or 12,000 people and is dominated by two hills, one of which is called Coyotepe and the other is called Barranca. The railroad from Managua to Masaya runs between those two hills, which are close together, so that the people who hold those hills dominate the railroad. Masaya has always been a Liberal town. The Liberals hold Masaya and the Liberal forces under Zeladon held those two hills. Mena, who was

the leader of that revolution, was in ^{Granada} Managua with all the arms and ammunition that had belonged to the Government and that he had gotten hold of through being minister of war.

Senator SMITH of Michigan. He was minister of war under Estrada or under Diaz, or both?

Mr. EMERSON. Both. I think, under both, and certainly under Diaz. And he was a candidate for the presidency. He had a quarrel with Diaz and our minister—Minister Weitzel—so he took the field and he went to Granada, where he had all these arms. His men occupied these hills. Gen. Zeladon, a Liberal leader, a young lawyer and a member of Congress and ex-diplomat, commanded on top of Coyotepe. Our marines, under Maj. Butler, advanced against Managua and when they came within cannon range of these hills the Nicaraguans opened fire. So the train that carried our marines stopped. Then there were some parleys back and forth under a white flag and Zeladon was told to surrender. He said he would not surrender.

Then it was claimed that our men were only carrying food supplies into Granada, and that they were not making war on the Nicaraguans; that it was merely a case of protecting the railroad, which was described as an American railroad, but it was known in Nicaragua as the Nicaraguan Railroad—the National Nicaraguan Railroad. A small command under Maj. Butler went through, and then one part of our command was on one side of the hill and the other part of the command was in front of the hill. They took the hill in between them. Then another summons was sent to Zeladon to surrender, and he said he would not surrender. We said that if he had not surrendered by 6 o'clock the next morning that our men would storm the hill. That hill was considered impregnable. Nicaraguans have held it over and over again in different wars and fights, and nobody has been able to take it. The only man who took it in past history was Walker, the filibusterer. But otherwise no one was able to take it. They thought they had a strong position there. They had cannon and machine guns and thought they were strongly intrenched. By 6 o'clock they had not surrendered, so our men were given the signal, and they went up the hill. They were up in 30 minutes, and chased all the Nicaraguans off. Then they were on top of the hill. I took a photograph of Col. Pendleton standing on top of the hill with his men. When this happened the Nicaraguan soldiers who had been standing by, who had been besieging this position for a month or more and had not been able to make any headway, they sailed into the town of Masaya, which lies under the brow of the hill. They massacred everybody they could lay hands on, and the women and children of the town fled into the church of Masaya, and these Nicaraguans, or Government soldiers, brought up a field piece, and they fired the door of the church down, and they brought up two machine guns, and they opened up with the machine guns and fired into these people. There must have been 300 or 400 people all crowded into that church.

Senator SMITH of Michigan. Who fired into the church?

Mr. EMERSON. The Nicaraguan soldiers. They killed about 250 people right there in the church. They simply mowed them down with the machine gun. Then they fell upon the rest of the inhabitants. They loosed everything there, and they simply tore that town

to pieces. It was the worst looking horrible wreck I ever saw, and the dead were littered all over it. And they blew up the—

Senator WILLIAMS. That was the Conservative Party of the Nicaraguans?

Mr. EMERSON. Yes. Masaya was a Liberal town.

The CHAIRMAN. Were you present there?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. You saw what you describe?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. There is one thing I did not quite understand. Who was the general commanding the Liberal forces?

Mr. EMERSON. Benjamin Zeladon.

The CHAIRMAN. Did I understand you to say that he had been secretary of war?

Mr. EMERSON. No; that was Mena. Zeladon was a general under Mena. Zeladon held this hill, but the chief of them all was Luis Mena, who had been secretary of war, and who was a candidate for the presidency.

The CHAIRMAN. I knew of that fact, but I understood you to say that the other man had also been secretary of war, or something.

Mr. EMERSON. No; he had been a diplomat, and he had been a judge at the peace court at Cartega. He had been a representative of Nicaragua at the peace court, and he had been a minister of Nicaragua in Guatemala, I think, or Honduras.

The CHAIRMAN. Under whose administration?

Mr. EMERSON. Under Zelaya's. He was a young man. He was a statesman. He was a leader of the Liberal Party in Congress. He was an orator and a lawyer. When it came to war, then he took the field, as they all do.

The CHAIRMAN. To what party did Mena belong?

Mr. EMERSON. Mena had belonged to the Conservative Party all his life. He was one of Chamorro's men, but when Mena fell out there was an arrangement between Chamorro, the gentleman who is here now as minister, and Adolpho Diaz, the gentleman who is President, and he himself, Mena—there had been an arrangement that they were to succeed each other as President. First one was to be President, and then he was to hand over the presidency to the other when his term expired, and then to the third, and they were to cast lots for it. That is how they were to act. This did not suit our minister, Weitzel, and he requested Diaz to succeed himself. At least that was my understanding of it. And so Mena fell out with his two associates and took the field against them.

The CHAIRMAN. He joined the Liberals?

Mr. EMERSON. Yes. He offered to join the Liberals, and he had the arms and they had the men, but he was at Granada with the arms and they were at Leon. So they marched from Leon—they tried to march to Granada, but our marines and bluejackets would not let them. They had no arms. They were just an unarmed body of volunteers—I think 600 of them. More started out, but our marines and bluejackets would not let them go by the railroad or along the road.

They went through jungles and swamps, and they arrived in a very worn-out and dilapidated condition at Granada to be given these arms. But by that time we had taken Granada. Just as they

arrived there, the day before, Maj. Butler took Granada, made Mena a prisoner, and they did not get the arms.

Senator SMITH of Michigan. They sent Mena out of the country on an American cruiser to Panama?

Mr. EMERSON. Yes.

Senator SMITH of Michigan. And kept him out until after the election had been held?

Mr. EMERSON. Yes; he is still out. I saw him when he was a prisoner of state at Panama. He was sent out in a box car from Granada. I saw him on the way and talked to him. He was put on one of our cruisers and taken to Panama and held as a prisoner of state.

Senator SMITH of Michigan. By the orders of the Secretary of State?

Mr. EMERSON. So I presume.

The CHAIRMAN. What Secretary of State?

Senator SMITH of Michigan. Secretary Knox.

Mr. EMERSON. There was a contention about it. He brought habeas corpus proceedings to be liberated, and the decision of our judge was that the habeas corpus proceedings did not apply. I have it here somewhere.

The CHAIRMAN. You described a battle between Americans and the Liberals at some small town.

Mr. EMERSON. Yes, sir; at Coyotepe and the hills at Masaya.

The CHAIRMAN. How long was that battle after the events that you describe that these 600 people, unarmed, were marching from Leon to Granada to meet Mena and secure arms from him?

Mr. EMERSON. I should say about a week.

The CHAIRMAN. Where did the Liberals that commanded one of those hills, and who fought the American forces, get the machine guns, cannon, and rifles you say they had?

Mr. EMERSON. Those they had gotten from Mena at Granada. You see, they were not the men who came from Leon. These were the men of Masaya and the neighborhood.

Senator SAULSBURY. Were they Liberals or Conservatives at that time?

Mr. EMERSON. They were Liberals at that time.

Senator SAULSBURY. Mena was a Conservative at first and turned Liberal, and these fellows turned with him, did they? Did they belong to his command?

Mr. EMERSON. No; they were already Liberals, and against the Government because it was a government of the minority. When Mena turned against his associates he had no following of his own but just his family and a few hundred men, and so in order to get a following he turned Liberal.

Senator SMITH of Michigan. He was popular with the soldiers?

Mr. EMERSON. He had the arms, but had no following. They had the following, but had no arms. So he threw himself into the arms of the Liberals.

The CHAIRMAN. While the Conservatives were in the minority and out of power and the Liberals were in power and had arms, how did it happen that the Conservatives got control of the Government?

Mr. EMERSON. That was through the Estrada revolution—the Juan Estrada revolution. After the time when Zelaya was turned out—

Zelaya was originally a Liberal. He came into the Presidency as a Liberal, through a civil war in which he and the Liberals were victorious. Then he gradually turned into simply an out-and-out dictator and despot, so that the Liberals no longer followed him. They were disappointed in him as a leader. He held the country down until this episode of the killing of Cannon and Grece. Then he was practically ordered to get out by our Government and he got out. And then Juan Estrada—I think he was succeeded by Madriz.

Senator SMITH of Michigan. By Madriz for a few months?

Mr. EMERSON. Madriz, who was a judge at the peace court at Cartega. Then came the Juan Estrada revolution—one of Zelaya's original followers, who lived at Bluefields, and Adolpho Diaz, who was a merchant at Bluefields. They worked up with this revolution; and, with the protection of one of our gunboats and general authority from us, and help with arms and money, etc., from New York and New Orleans, why, they won out, and they put themselves into the saddle. Bluefields can only get its supplies from the water, and our gunboats would not let any come in, so they won that way.

Senator SAULSBURY. Was that purely a ruse of Maj. Butler to get by the hill which was held by the Liberals—to get on both sides of it—when you say he said he was going to carry supplies to Granada?

Mr. EMERSON. I think Maj. Butler was acting under orders.

Senator SAULSBURY. Was it purely a ruse or was he really carrying supplies to Granada?

Mr. EMERSON. No; I do not think he was—I do not know. They carried some supplies for the marines, but I never saw any supplies. X

Senator SAULSBURY. Then it was a ruse to get on the other side of the hill, so as to take the place from both sides?

Senator SMITH of Michigan. That is what the record shows.

Mr. EMERSON. That is what the Nicaraguans thought. The explanation that Col. Pendleton and Maj. Butler gave to me—I never asked for that explanation; it was just in the course of talk—was that they first had orders from the Navy Department not to proceed, and then they had orders that they were to proceed, and then they had orders to have an armistice or an amicable arrangement. Then they had orders to take Mena and make him prisoner. Then they had orders to demand the surrender of Zeladon, and as soon as they got orders to actually move ahead they were, of course, overjoyed, but there was a lot of hemming and hawing and pushing back.

Senator SMITH of Michigan. Then they had orders to take the part of the Diaz people?

Mr. EMERSON. I do not quite understand you.

Senator SMITH of Michigan. Then they received orders from the Government at Washington to take the part of the Conservatives?

Mr. EMERSON. That I do not know about.

Senator SMITH of Michigan. I have the record here.

Mr. EMERSON. I know we upheld the Conservatives. When I say "we," I mean our armed forces were against the Liberals and had no use for any Liberal, and were down on the Liberals. It was all done on behalf of the Conservatives.

Senator SAULSBURY. You described an understanding between, I think, Estrada, Diaz, and Mena about dealing around regarding the Presidency, and casting lots for it. Is that personal knowledge with

you from talks with those men, or how did you obtain that understanding?

Mr. EMERSON. I think that is what is known as the Dawson compact. Mr. Dawson was sent down by the State Department, and that is the arrangement that he made.

Senator SAULSBURY. And you said that did not suit our minister, Weitzel?

Mr. EMERSON. Well, it did not suit him that Mena should become President.

Senator SMITH of Michigan. Why? Tell that if you can. Tell what he did.

Senator SAULSBURY. State what is personally known to you, and what is mere rumor or hearsay.

Senator SMITH of Michigan. Or what Weitzel may have told you.

Mr. EMERSON. I asked Mr. Weitzel why he turned against Mena, and he said that Mena became unmanageable. That is the answer he gave.

Senator SMITH of Michigan. Did he say anything about Diaz?

Mr. EMERSON. He inferred that Diaz was manageable, because he was supporting Diaz. Mr. Weitzel served an ultimatum on Mena. When Mena took the field he served an ultimatum on him to turn over all his arms and to surrender within 24 hours. Then the 24 hours expired and nothing happened at all. And about a month afterwards, or six weeks afterwards, our marines and bluejackets came up, and he served a formal ultimatum. I have it here.

Senator SMITH of Michigan. Whose ultimatum?

Mr. EMERSON. Mr. Weitzel's.

Senator SMITH of Michigan. Let us have it. Let us see what it says.

Mr. EMERSON. It is in Spanish and English. Here is the ultimatum as it was typewritten [indicating], and here it is as it was printed in the Official Gazette in Spanish and English.

Senator SMITH of Michigan. Read it.

Mr. EMERSON. It is quite long.

Senator SMITH of Michigan. It is not so very long if that is all there is of it.

Mr. EMERSON. It reads as follows:

MANAGUA, August 16, 1912.

Sr. Gen. LUIS MENA, *Masaya or Baranca*.

SIR: When I visited you on July 29 last at the Guardia de Honor in Managua, you informed me that your life was in danger from attack by the armed forces of the Nicaraguan Government, and that you were therefore willing to make a peaceful settlement of the difficulty, provided your safety and that of your followers was secured by sufficient guaranties. I offered to use my good offices to that end, and you promised to prevent any further firing by your men, to make no offensive move whatsoever, and to deliver up your arms and barracks to the person who should be appointed by the Government for that purpose. As further evidence of your solemn pledge you gave to me a letter addressed to President Diaz containing your resignation as Minister of War and suggesting the appointment of a civilian chief to succeed to that office.

I then called on Gen. Emiliano Chamorro in the barracks of Las Limas and received from him a letter addressed to the President, likewise pledging himself to deliver the command of the Government forces to the person who should be designated for that purpose.

President Diaz accepted both these letters in good faith and appointed Dr. Carmilo Barberena Diaz as the new Minister of War. Thereupon I informed you by telephone of this action and you replied that Dr. Barberena was per-

fectly satisfactory to you and that you would deliver the barracks to him. The President then made known the appointment of Dr. Barberena as the new Minister of War, the decree being signed by himself and countersigned by Sr. Don Miguel Cardenas, the Minister of Gobernacion.

While these negotiations were being completed you fled from the city under cover of darkness after cutting the electric-light wires.

On July 30, at 3.10 p. m., you sent me a telegram from Masaya in reply to mine, and in it you reaffirmed your pledge and sought to explain or excuse your sudden flight from the capital. You also thanked me for my efforts in behalf of the peace and tranquility of Nicaragua by interposing my good offices to avoid a new conflict.

On July 31 I telegraphed to you again reminding you of your pledge of loyalty to President Diaz and urging you to respond promptly to the offer of a peaceful settlement made in a spirit of conciliation and friendship by the President and by Gen. Chamorro, and impressing on you not to assume the grave responsibility for the further shedding of blood on Nicaraguan soil.

I received no immediate reply to this telegram, but I was informed by the manager of the railroad company that you had already begun to seize the trains and the steamships belonging to that company, and that you were using the steamers for bombarding towns along the lake and for other unlawful purposes.

Accordingly, I sent you a third telegram dated August 3, in which I informed you of the protest to the legation made by the railroad company, which is a citizen of the United States, and I warned you to restore the property and to desist in the future from any interference with it whatsoever, because otherwise you would be held to a strict personal responsibility.

In reply you sent me a letter dated Masaya, August 4, with which you transmitted a paper signed by two individuals, who arrogating to themselves the title of a so-called national assembly, purported to excuse your unlawful and unjustifiable seizure of American property.

In the evening of August 10 I received a letter dated Campamento de La Victoria, August 10, 1912, at 4 p. m., in which an individual, who signed himself as Gen. B. Zeledon, gave notice to me, as dean of the diplomatic corps resident in Nicaragua, of his intention to bombard the city of Managua within 12 hours of the receipt of a negative reply to his demand for the surrender of the capital by the Government of Nicaragua.

I replied to him at 10 p. m. the same day, that after conference with my colleagues of the diplomatic corps I was of the opinion, in which they agreed, that his proposed or threatened act was not only in violation of the terms of an armistice arranged with you by the minister of Salvador and the chargé d'affaires of Costa Rico, but that it was also unlawful and contrary to the usages of civilized peoples. In the name of the diplomatic corps, therefore, and in my own, I protested against any such act of barbarity, which would place in jeopardy the lives of hundreds of innocent people, and I especially warned him against endangering the lives and property of American citizens and other foreigners.

Notwithstanding this protest and similar protest signed by my colleagues of the diplomatic and consular corps representing many foreign countries, the said Gen. Zeledon opened fire on this city on August 11, 1912, and for four days he wantonly and deliberately dropped shells in dangerous proximity to the American Legation, on the Red Cross Hospital, and on the houses of private citizens, including Americans, in a way which could not serve, and was not intended to serve, any useful military purpose whatsoever. As a result of this barbarity the lives of many women and babes have been sacrificed and much innocent blood has been shed.

From the foregoing review of recent events it will be clearly apparent that I have exhausted all friendly and peaceful efforts on my own part and on the part of my colleagues from El Salvador and Costa Rica to persuade you to observe your solemn pledge, and thereby reestablish peace and order in Nicaragua. I have had in mind your statement to me at various times that you felt grateful to the United States, because you had once been rescued from Zelaya's prison by Mr. Merry, the then American minister, and that on another recent memorable occasion your life had been saved by M. Northcott, my predecessor in this legation.

I now demand that within 24 hours of the receipt of this note by you from the bearer, Capt. E. H. Conger, United States Marine Corps, you return to the

lawful owners all American property seized by you, and that you deliver to the Government of Nicaragua the barracks, forces, and supplies now held by you.

I trust most sincerely that I may be able to inform the Government of the termination of hostilities on your part, so that as soon as the Government of Nicaragua has restored civil peace and constitutional order and is again able to afford adequate security to life and property the United States marines may be promptly withdrawn from the territory of this Republic.

GEORGE T. WEITZEL, *American Minister.*

Senator SMITH of Michigan. Let me show you, in connection with Senator Saulsbury's question, a letter addressed by Col. Pendleton to Gen. Zeladon, and ask if you have ever seen that letter before [showing letter to witness].

Mr. EMERSON. Yes, sir; I have seen this letter. Col. Pendleton showed it to me.

Senator SMITH of Michigan. I wish you would read that letter for the benefit of the committee and the answer of Gen. Zeladon. That is on the question of their coming in between those two peaks.

Mr. EMERSON (reading):

HEADQUARTERS FIRST PROVISIONAL REGIMENT,
UNITED STATES MARINES, CAMP WEITZEL,
Managua, Nicaragua, October 2, 1912.

From: Colonel commanding expeditionary forces, by direction of the commander in chief.

The United States Government has ordered that no disturbers be permitted to occupy any position menacing the railroad between Corinto and Granada, in consequence of which you are herewith directed to evacuate all your positions on the Barranca Coyotepe and in the town of Masaya.

Should you accede to this command you will signify the fact by hoisting in plain view from all sides a white flag on the top of Coyotepe and one on the top of the Barranca and will march your troops to my lines near Nindiri station on the railroad, where they will be required to lay down their arms.

No delegation or commission from you suggesting or requesting any other terms will be received, nor will such request or suggestion be considered.

If my demands are not acceded to promptly at 8 o'clock to-morrow morning, Thursday, October 3, I shall open fire with all my guns and drive you from your position.

Very respectfully,

J. H. PENDLETON.

The answer is: "Masaya, October 3"—

The CHAIRMAN. Did you see that letter?

Mr. EMERSON. Yes; I saw that letter.

The CHAIRMAN. The one you are about to read?

Senator SMITH of Michigan. That is Gen. Zeladon's reply.

Mr. EMERSON. Yes; I think I have the same letter among my papers—a copy of it. [After examining papers.] Yes; I have seen that.

The CHAIRMAN. The original?

Mr. EMERSON. Yes, sir.

Mr. SMITH of Michigan. It is very brief.

Mr. EMERSON. I saw it. Col. Pendleton showed it to me. It reads:

MASAYA, *October 3, 1912.*

To Col. J. H. PENDLETON, *in camp.*

(SIR) I have received your note dated yesterday in which you inform me that the Government of the United States has ordered that no disturbers be permitted to occupy positions which menace the railroad between Corinto and Granada; that in consequence, you give me notice to evacuate all my positions on the Barranca, Coyotepe, and in this city; that if I comply with this demand I

will make it known by flying in a position preferable visible from Coyotepe and the Barranca and other points, white flags; that forthwith my troops should march toward your lines near the station of Nindiri on the railroad line where the arms should be deposited; that you will not receive any delegation or commission coming to ask other conditions of you than those indicated; that if your order is not complied with to-day at exactly 8 o'clock in the morning, the fire from your artillery will open up and drive me from my positions.

I confess to you that I have read your above-mentioned note and I have been reluctant to believe that it is signed by one trained in military matters who serve under the flag of the Great American Nation that prides itself on being the guiding spirit of the democratic Republics of the American Continent; and my surprise increases still more when I consider it impossible that the Government of the United States of North America and, above all, the Senate of the country of Washington, and of Lincoln, has authorized its servants to come and intervene with armed forces in the internal affairs that we Nicaraguans discuss in this land, which is ours and bequeathed sovereign and independent to us by our fathers.

After serving protest in the matter by virtue of what was determined upon by the majority of the patriots of this city and by the majority of the generals under my command, in spite of my opinion to the contrary, trains were permitted to pass through the midst of my positions upon the railroad line which leads to Granada, and from the date of the permission up to the present, trains have continued to pass with all guaranties on the part of my forces.

Having obtained them the passage of trains, (I do not see even remotely the reason which you can give to your superiors for exacting the surrender of my position and a disarmament of my army; and consequently I dare think that you will withdraw your threats in view of the justice which assists me. But if unfortunately for the honor of the United States of North America you and your chiefs are deaf to the well-founded reasons which I cite, and carry forward your threatened attack,) your trains by that act itself will be considered as hostile instead of enjoying the guaranty which up to now they have enjoyed. (I will make with my forces the resistance that the case requires, and that the dignity of Nicaragua, which we represent, demands, and afterwards there will fall upon you, your chiefs, and the mighty Nation to which you belong the tremendous responsibilities that history will set forth and the eternal reproach of having employed your arms against the weak who have been fighting to reconquer the sacred privileges of the fatherland.)

I hope that you will deign to send me your answer before proceeding to attack my positions in order that I may know what action to take.

(Respectfully,

B. F. ZELEDON.)

The CHAIRMAN. How many troops did he have?

Mr. EMERSON. I could not say for certain. It was said by our men that he had about 400 up there. Some said he had thousands. It was said by the Liberals that there was only a few hundred.

The CHAIRMAN. What is your impression?

Mr. EMERSON. I should say he had about 400 from the volume of the fire.

The CHAIRMAN. It speaks in that letter of a majority of his generals counseling with him and agreeing with him.

Mr. EMERSON. Yes.

The CHAIRMAN. How many generals did he have for 400 men?

Mr. EMERSON. Probably about 300. There are an awful lot of generals in Nicaragua.

Senator HITCHCOCK. How many men did Col. Pendleton have there—how much of a force?

Mr. EMERSON. I think he had about 1,800 or 2,000.

Senator HITCHCOCK. Who was in charge of the American forces?

Mr. EMERSON. Pendleton.

Senator HITCHCOCK. What was the size of the American force present at that time?

Mr. EMERSON. I think from 1,800 to 2,000.

Senator SMITH of Michigan. But at this particular point at Masaya, where this particular controversy arose between Gen. Zeladon and Col. Pendleton, how many soldiers did Pendleton have?

Mr. EMERSON. At this very time when this correspondence was happening Pendleton was drawing in more men—men were marching from Managua to Coyotepe. About a thousand of our men marched from Managua to Coyotepe the afternoon of that day and that night. They marched around and got into position that night. But previously there must have been about 600 men there, I think. There was Maj. Butler's command—

Senator SMITH of Michigan. Did they open fire on Gen. Zeladon's forces at 8 o'clock?

Mr. EMERSON. Promptly, yes.

Senator SMITH of Michigan. How many men were killed, if you know?

Mr. EMERSON. Of the Nicaraguans?

Senator SMITH of Michigan. Yes.

Mr. EMERSON. I think there were 46 killed, but I do not recall the exact number.

Senator SMITH of Michigan. How many wounded?

Mr. EMERSON. Many of them must have gotten away. There was quite a number wounded. You see, they streamed down the hill into Masaya as soon as they lost the action, and they lost it right away.

Senator SMITH of Michigan. How many of our soldiers were killed?

Mr. EMERSON. Four.

Senator SMITH of Michigan. How many wounded?

Mr. EMERSON. Seven.

Senator HITCHCOCK. Was our action for the supposed purpose of protecting the railroad property?

Mr. EMERSON. Well, I do not know what it was for. It was in obedience to orders.

Senator HITCHCOCK. What did they purport to be issued for?

Mr. EMERSON. Judging from this, apparently to drive them off the railroad?

Senator HITCHCOCK. To protect the railroad property?

Mr. EMERSON. Yes; but the railroad—they had not done anything to the railroad. They did not tear up any part of the railroad or destroy any part of the railroad. They merely dominated the railroad.

Senator SMITH of Michigan. When was this banquet held—this dinner—where the objects of our occupation were toasted? Was that before or after Masaya?

Mr. EMERSON. That was after.

Senator SMITH of Michigan. How long after?

Mr. EMERSON. I think, in November, early in November.

Senator SMITH of Michigan. After the election?

Mr. EMERSON. Yes. That was an informal affair. It was not held by our officers.

Senator SMITH of Michigan. You said that you interviewed Mena after he was arrested?

Mr. EMERSON. Yes.

Senator SMITH of Michigan. And taken aboard our cruiser?

MR. EMERSON. No; when he was in a box car being shipped down to the cruiser I interviewed him, and then again afterwards I interviewed him at Panama when he was a prisoner there.

Senator SMITH of Michigan. He was then under Col. Goethal's charge?

MR. EMERSON. I presume so. He was being passed around. Nobody wanted to have him.

Senator SMITH of Michigan. He was incommunicado, was he not?

MR. EMERSON. I saw him.

Senator SMITH of Michigan. You saw him and talked to him?

MR. EMERSON. Yes; but nobody else saw him. I went to see him with the chaplain.

Senator SMITH of Michigan. They took him out of the country before election and kept him out until after election?

MR. EMERSON. I think he is still out.

Senator SMITH of Michigan. Do you know anything about the participation of the American minister, Mr. Weitzel, in the choice of a candidate for the presidency down there?

MR. EMERSON. Not definitely. I only know from conversations and from talking with Mr. Weitzel. I was on friendly terms with him, of course.

Senator SMITH of Michigan. Are you able to enlighten the committee at all as to his activities at that time?

MR. EMERSON. I think it all hinged on the railroad—the possession of the railroad. The bankers were to make a loan to Nicaragua. The Nicaraguan Government needed money bitterly. They had no money and did not know where to get it. President Diaz told me that he was as poor as a church mouse and that he needed money for all kinds of enterprises and partly to carry on this war, and he could not lay his hands on any money.

Senator SMITH of Michigan. Did he tell you he needed his salary?

MR. EMERSON. Yes.

Senator SMITH of Michigan. What did he say about that?

MR. EMERSON. He said that he sent around to Mr. Bundy Cole, who was the representative of Brown Bros. and had charge of the disbursements. He sent around for part of his salary and Bundy Cole told him he did not have any money for such purposes. He said it was very hard; that he only got \$5,000 salary and the collector of the State Department got \$10,000; that Bundy Cole got \$12,000, and that the financial experts sent by the State Department each got \$8,000. And then there were the other collectors and administrators who got other sums, and then there was the Mixed Commission, who between them got \$32,000, and that he could not get any.

Senator SMITH of Michigan. His salary was \$5,000 a year?

MR. EMERSON. His salary was \$5,000 a year.

Senator SMITH of Michigan. He could not get that?

MR. EMERSON. At the time he spoke to me he said he could not get it. He said he was poorer when he was president of Nicaragua than he had ever been when he was a private party. He said he did not know where to turn even for his personal expenses.

Senator SMITH of Michigan. You say this railroad was taken away from Mr. Julio Weist. I think the committee would like to know about that.

Senator WILLIAMS. What is that?

Senator SMITH of Michigan. The committee would like to know how it was taken from the man who had a lease of it for 25 years. Tell what you know about it and how you know it.

Mr. EMERSON. Mr. Weist, who had been the lessee of the railroad, who had had built a new part of the railroad, who was the manager of the railroad, told me that he was sitting in his office one morning attending to the affairs of the railroad when a Nicaraguan Army officer appeared in the door, followed by a number of bare-footed Nicaraguan soldiers. He said, "The Government has taken over the railroad."

Senator SMITH of Michigan. When was this?

Mr. EMERSON. I think that must have been in July. ^{1911 Oct?}

Mr. CHAIRMAN. Who told you that?

Mr. EMERSON. Mr. Weist—Julio Weist. He had been the manager and practically the owner—the lessee of the railroad.

Senator SMITH of Michigan. Go ahead, please.

Mr. EMERSON. And he said, "I should like to know more about it." He said, "I am not going to have any talk at all. You are to get out." He said, "I protest against this. I want to see the German consul." He said, "You can see him whenever you like, but you are to get out, and get out quick." He said, "Let me gather up my private papers." He said, "You can not gather up your papers or put your hands on anything. I give you two minutes notice to get out." And Mr. Weist got out.

Senator WILLIAMS. Within the two minutes?

Mr. EMERSON. Within the two minutes, you bet. They were there with guns, you know, and that was the end of his management or ownership of the railroad.

Senator SMITH of Michigan. He had a 25-year lease on it, I think.

Mr. EMERSON. Yes.

Senator SMITH of Michigan. Have you any data or any reports showing the value of the property at that time?

Mr. EMERSON. Yes; I have the data that he gave me.

Senator SMITH of Michigan. Let us see what you have.

Mr. EMERSON. Here [indicating] is the printed information giving all the financial statements, and here [indicating] is what I put down. Here is a typewritten statement that he gave me on the valuation of the railroad.

Senator SMITH of Michigan. Out of this printed pamphlet?

Mr. EMERSON. No; this is additional.

Senator SMITH of Michigan. Is this in English or Spanish?

Mr. EMERSON. That is in Spanish, and here [indicating] is an English statement that he gave me in typewriting. Here [indicating] is what I put down at the time when he spoke to me. It reads:

THE NICARAGUAN RAILROAD.

[Notes given by Julius Weist to Edwin Emerson at Managua, Nicaragua, September, 1912.]

The Nicaraguan Railroad & Steamship system consists of a narrow gauge, single-track line, running from Corinto, on the Pacific, to Granada, on Lake Granada, and of steamships running from Granada to San Juan del Norte and Greytown, on the Atlantic.

The first line from Corinto to Momotombo was constructed by H. C. Norris. To this was added the later line, running from Managua, the capital, to Granada.

Subsequently these railroads were leased to Julius Weist in December, 1904. Weist constructed the additional lines from La Paz to Managua (36 miles) and from Masaya to Diriamba.

In the previous year (1903) the Lake Steamer Line, which had been run by the Carribean & Pacific Transit Co., an off shoot of the Atlas Line, was sold to the Nicaraguan Government under the presidency of Jose Santos Zelaya.

After the Estrada revolution, when Adolfo Diaz came into power, the Nicaraguan Government confiscated the complete railway system on the pretext that the conditions of the original concession had not been kept.

These conditions were: During the first five years an annual payment of 350,000 pesos; during second five years an annual payment of 400,000 pesos; during the third period of five years an annual payment of 450,000 pesos.

In the year before Julius Weist took over the railroads the Government had received 350,000 pesos on this account, but alleged a deficit of 350,000 pesos for the previous year. After Weist took over the railroads the annual payments were made regularly, also 60,000 railroad ties were renewed annually instead of the required number of 20,000.

On October 3, 1911, the Nicaraguan Government confiscated the railroad by force of arms.

According to a rule laid down by the Mixed Commission appointed by the United States and by Nicaragua, we read: Article 6, October, 1911: "No cancellation or annulment which may have been decreed before this law was given by the Government of Nicaragua shall take effect until the decision of the commission has been given and the payment of the indemnity (no fixed sum, but at least 100,000 pesos) has been made.

In November, 1911, the Nicaraguan Government offered to settle Weist's claim amicably, but nothing came of this.

On February 29, 1912, Julius Weist, through the German consulate at Managua, filed a formal protest with the Nicaraguan Congress against the Government's spoliation of his railroad, but nothing ever came of this.

Since then Weist has been making impotent efforts through diplomatic channels to get damages from the Nicaraguan Government for the loss of his railroad.

Senator HITCHCOCK. What he really lost was the benefit of the lease? The railroad already belonged to Nicaragua, did it not?

Mr. EMERSON. Well, he said not. He said that the railroad was originally constructed with the capital of the firm of Bleichroeder, in Berlin, and that then he had come into possession of it. He had already been there as manager.

Senator SAULSBURY. What was the physical condition of that railroad when you were there?

Mr. EMERSON. Weist said it had been fine, but at the time when our marines and bluejackets were running it it was awful, because they did not know how. They meant well, but they did not know how. They were running it into the ground. Not a cent was spent on it.

Senator SAULSBURY. You went on it a number of times?

Mr. EMERSON. I went on it constantly. It was as much as your life was worth to ride on it.

The CHAIRMAN. How long were the marines running it?

Mr. EMERSON. When I was there.

The CHAIRMAN. How long?

Mr. EMERSON. Several months. Bluejackets would be in the cab and bluejackets acting as conductors and brakemen, but they had no flags, no lamps, or any equipment, so the railroad got to be a joke. One time I rode horseback faster from Managua to Leon than Col. Pendleton and the others were able to do it on the railroad.

The CHAIRMAN. The management of the road may have been a joke, but what made the road itself, the track, and the equipment, which you say Weist said was fine until the American people took

charge of it—what depreciated or impaired the character of the property itself? I speak not now of the management.

Mr. EMERSON. In the first place, all the former employees were either fired or left, so that the men who were experts and who knew how were not available, and they were tyros trying to do it in behalf of the Government, and then afterwards our military men who are not trained railroad men. In addition to that, no railroad ties were renewed. He was under contract, as stated, to renew 20,000 ties a year, but from the moment the Government took that over there was not a single tie renewed or any work done on the roadbed in Nicaragua, which is a country where there are very heavy rainfalls and washouts and things of that kind, so that a road which is not looked after will very quickly deteriorate. I think it was a very cheaply built railroad.

Senator SAULSBURY. What was the condition of the bridges? How was the track on the bridges? What was the weight of the rails?

Mr. EMERSON. I could not tell you. I have seen a statement, but I do not recall.

The CHAIRMAN. This statement that you have read last, did you write that?

Mr. EMERSON. I wrote that. Those are the notes that I took from Mr. Weist speaking to me. I met him in the International Club, and he talked to me about his railroad, and I put down his items with a view of an article. I was going to write an article about it.

Senator SMITH of Michigan. Here [indicating] is a pamphlet. Let me call your attention to this. It seems to be information regarding "ferro-carril," which is this railroad, from 1907 to 1909. Is any of your data from this report?

Mr. EMERSON. No; he simply handed me that in addition.

Senator SMITH of Michigan. Have you read this?

Mr. EMERSON. I glanced at it.

Senator SMITH of Michigan. Have you made any notes from it?

Mr. EMERSON. No, sir; but I have made these notes about the financial condition of the railroad. The Nicaraguan Railroad paid to the Government in 80½ months, from January, 1904, to October, 1910, the sum of \$2,678,380.90, or \$399,281 per year.

The CHAIRMAN. Is that dollars?

Mr. EMERSON. That is pesos, probably. It has the dollar mark on it, but they use the same. This is pesos, but that means the cordoba, which is a silver dollar in Nicaragua, and which is practically at par with our dollar.

Senator SMITH of Michigan. Then you are really figuring in dollars there?

Mr. EMERSON. Yes; but it means their dollar. It does not mean our dollar.

Senator SMITH of Michigan. No; but it does not mean a peso. That is what I am trying to get at.

Mr. EMERSON. But a dollar is a peso.

Senator HITCHCOCK. Of course during this period when this lease obtained the peso was not at par; the peso was a depreciated currency at that time.

Mr. EMERSON. They have two forms of currency in Nicaragua, hard silver, which is always good, and gold. They have that on the Atlantic coast. The people there will not handle paper money. They

will not take it or have anything to do with it. Then in the interior and on the west coast they have paper money, which is very much depreciated, which is worth about 8 cents on the dollar. But all Government payments have to be made in hard coin; they have to be made in the silver dollar.

Senator SMITH of Michigan. Just so that we understand one another, whether we are getting a real dollar or a paper dollar.

Mr. EMERSON. These payments have to be made in silver.

Senator SMITH of Michigan. In actual hard dollars?

Mr. EMERSON. In actual hard dollars.

Senator HITCHCOCK. So in round figures they averaged for those 80 months about 400,000 pesos a year to the Government?

Senator SMITH of Michigan. Dollars, you mean?

Mr. EMERSON. Yes.

Senator HITCHCOCK. Dollars. How could you say the Government did not own the railroad when it was receiving this income from the railroad?

Mr. EMERSON. He leased it. He had a 25 years' lease.

Senator HITCHCOCK. So the Government owned the railroad and not the Bleichroeder firm?

Mr. EMERSON. No; but the Bleichroeder people built it. They furnished the capital.

Senator HITCHCOCK. They may have had a claim against it, but it was really owned by the people of Nicaragua?

Mr. EMERSON. Yes; it is called the National Railroad of Nicaragua, but it was run by the lessee.

Senator SMITH of Michigan. What you are reading is what was paid to the Government?

Mr. EMERSON. Yes; to the Nicaraguan Government.

Senator SMITH of Michigan. That does not include Weist's profit in the operation?

Mr. EMERSON. No; this is what he gave me:

Income of railroad in 1898, \$423,916; in 1899, \$507,745; in 1900, \$588,239—

Senator WILLIAMS. What does he mean by "dollars" there—the Nicaraguan dollar?

Mr. EMERSON. Yes.

Senator WILLIAMS. Is that the value in American dollars?

Mr. EMERSON. It is practically the same as our American dollars. It may be 98 cents or 99 cents.

Senator WILLIAMS. The Nicaraguan hard peso has in it about the same amount of silver as the Mexican silver dollar. If that is the case, it floated simply as coin value at that time. That was before this new currency system, was it not?

Mr. EMERSON. Yes.

Senator WILLIAMS. Then if it floated at its bullion value, whatever it was, it was about 50 cents on the dollar of our dollar?

Mr. EMERSON. Yes; the same as the Mexican dollar.

Senator WILLIAMS. Is that intended to be a statement of American dollars or the silver peso of Nicaragua?

Mr. EMERSON. I never asked him, but I think it is meant for the Nicaraguan dollar, because that is their coinage.

Senator WILLIAMS. Then that is about 50 cents of our money.

Mr. EMERSON. In 1901 the income was \$576,239; in 1902, \$761,841; and in 1903, \$997,788.

Senator HITCHCOCK. That was all before the lease was made, when the Government itself was operating the road?

Mr. EMERSON. Was it?

Senator HITCHCOCK. The lease seems to begin in 1904.

Mr. EMERSON. But previous to that somebody had the lease. Norris, was it not?

Senator HITCHCOCK. It is entitled "Possession of the Government" in this statement I have.

Mr. EMERSON. This is six years, and the average yearly income during those years was \$637,746. Now, he has given it since he had the railroad. In 1904 it was \$1,442,749; in 1905, \$1,911,577; in 1906, \$2,368,692; in 1907, \$2,711,419; and in 1908, \$2,737,218. So that for five years it was \$11,172,657.

Senator SMITH of Michigan. Those were the gross revenues, as I understand it?

Mr. EMERSON. The average annual income under his management was \$2,234,531 and the annual payment to the Government \$637,746.

NICARAGUAN RAILROAD.

Paid to the Government in 80½ months (January, 1904, to October, 1910), \$2,678,380.90, or \$399,281 per year.

Income of railroad was:

| | |
|-----------------------------------|--------------|
| 1898..... | \$423, 916 |
| 1899..... | 507, 745 |
| 1900..... | 558, 239 |
| 1901..... | 576, 239 |
| 1902..... | 761, 841 |
| 1903..... | 997, 788 |
| 6 years..... | 3, 826, 480 |
| Average annual income..... | 637, 746 |
| 1904..... | 1, 442, 749 |
| 1905..... | 1, 911, 577 |
| 1906..... | 2, 368, 692 |
| 1907..... | 2, 711, 419 |
| 1908..... | 2, 737, 218 |
| 5 years..... | 11, 172, 657 |
| Average annual income..... | 2, 234, 531 |
| Annual payment to Government..... | 637, 746 |

Senator HITCHCOCK. I do not understand you. You say the average annual income obtained by the Government was \$2,000,000?

Mr. EMERSON. \$637,000.

Senator HITCHCOCK. Oh, yes.

Senator WILLIAMS. He paid to the Government \$600,000. Did he get the difference from that and what he received?

Mr. EMERSON. I suppose so; yes. I do not think he was the sole owner. I think he represented a company. What he got out of it principally, I think, was his salary.

Senator SMITH of Michigan. What was his salary; do you remember?

Mr. EMERSON. I do not know what it was.

Senator SMITH of Michigan. Do you know what the salary of the manager now is?

Mr. EMERSON. When I saw him he had nothing. He was simply out in the cold.

Senator SMITH of Michigan. I mean the present management. I think we have got that, though. I want to show you this statement which is entitled, "National Railroad and steamers," from the report given by the Government to Mr. Wands, the financial expert for agents. Where did you get that?

Mr. EMERSON. Mr. Weist handed it to me.

Senator SMITH of Michigan. I should like to have that go into the record. I have not read it, but it looks as though it contained what the Government got out of it in the different years and the gross revenues from it. It seems to be an official statement.

Senator WILLIAMS. Where did this come from? Who made it out?

Senator SMITH of Michigan. Where did it come from, Mr. Emerson?

Mr. EMERSON. Mr. Weist handed this to me.

Senator WILLIAMS. I suggest that this go into the record. Just head that "Statement handed to the witness by Mr. Weist."

(The statement referred to is as follows:)

[From report given by Government to H. Wands, financial agent, who came out to study preliminaries for loan.]

NATIONAL RAILROAD AND STEAMERS.

According to the contract celebrated on the 26th of December, 1904, the Government has leased the National Railroad and steamers, the first for a term of 15 years and the second for a term of 25 years, both terms to be calculated from 1st of January, 1905.

Here it is necessary to mention that the railroad had been leased already a year before to Mr. Julio Wiest, according to the contract celebrated on the 26th of December, 1903, so that the second contract, as far as the railroad is concerned, was only a ratification of the first with the terms of payment of the yearly rental modified.

By order of the actual Government the lease of the railroad and steamers was "de facto" suspended last October, putting it in the hands of a receiver, who took charge of its administration and still manages it. At the same time a suit was begun to cancel the lease—contract; this suit is still pending, we can therefore only examine the results of the lease during the time it was in operation.

The company was obliged to pay a yearly rental of \$350,000, national currency, during the first five years and \$400,000 the following five, the first year of this second term was the year 1910.

But for the Government the lease began virtually on the 1st of January, 1904, and although according to the terms of the contract the rental was 25 per cent of the gross revenue; the advantages derived by the Government were much larger—as we will see farther on—and the products obtained by the Treasury on account of the lease must be reckoned therefore from this date.

The company paid the Government during the first year, besides the rental of 25 per cent (of the gross revenue), the arrears of expenses, etc., which were not paid during the latter's administrations. These amounted to \$297,793.43, so that the amount paid by the enterprise in 1904 was actually \$653,480, and this sum represents the net product which the Government obtained from the railroad during this year.

Therefore, taking this into consideration, the amount actually received by the Treasury on account of the lease of the National Railroad and steamers in 82 months, or from January, 1904, till October, 1910, is \$2,678,380.90. This gives the yearly average of \$399,281.60 and represents the net utility it received.

This result, without doubt, is due to the superior administrative capacity of the company and its ability to obtain more favorable results.

Without any possible refutation this is proved by comparing the gross products obtained during a number of years by the Government and by the company:

Administration of the Government:

Gross revenue of the railroad—

| | |
|------------|----------------|
| 1890 ----- | \$423, 916. 66 |
| 1899 ----- | 507, 745. 08 |
| 1900 ----- | 588, 239. 08 |
| 1901 ----- | 576, 949. 26 |
| 1902 ----- | 761, 841. 41 |
| 1903 ----- | 997, 988. 80 |

Total for six years ----- 3, 826, 480. 29

The yearly average obtained by Government administration is therefore \$637,766.72.

Administration of the company:

Gross revenue of the railroad—

| | |
|------------|-------------------|
| 1904 ----- | \$1, 442, 749. 88 |
| 1905 ----- | 1, 911, 577. 70 |
| 1906 ----- | 2, 369, 692. 08 |
| 1907 ----- | 2, 711, 419. 08 |
| 1908 ----- | 2, 737, 218. 21 |

Total for five years ----- 11, 172, 657. 60

The yearly average of the gross revenue obtained by the company

during 5 years' lease is therefore \$2, 234, 531. 40

Average obtained by the Government ----- 637, 766. 72

The company obtained yearly more ----- 1, 506, 184. 68

Which is equivalent to 250.2 per cent per annum.

This increase of the revenue of the railroad obtained by the company is therefore three times larger than the amount the Government had to pay for services rendered for its account by the railroad and steamers whilst the company administered it. This account is as follows:

Payments made by the Government:

| | |
|------------|---------------|
| 1904 ----- | \$39, 999. 90 |
| 1905 ----- | 88, 444. 14 |
| 1906 ----- | 74, 319. 37 |
| 1907 ----- | 214, 796. 46 |
| 1908 ----- | 145, 379. 71 |

The Government paid for services in 5 years ----- 562, 942. 58

This compared with the increase of revenue as above stated ----- 1, 596, 784. 68

Leaves still an increase per annum ----- 1, 033, 842. 10

And this represents the increase or advantage obtained by the superior administration of the company.

To this is due, without doubt, the fact that company was able to pay to the Government the amount above mentioned for rentals.

If to these so eloquent facts we will add the well-known fact that from the reduced revenue obtained by the administration of the Government during the six years preceding the lease the administration and maintenance expenses have still to be deducted, which exceeded in more than one year 100 per cent, leaving a deficit which the treasury had to pay with products from other revenues—a deficit which in the year 1904 only was calculated in the budget as \$139,033—taking as a basis the result of 1903 (revenue, \$850,000; expenses, \$989,033), we get without a doubt a clear idea what it means to the State if the railroad and steamers are managed by the Government and what it has been in the hands of the company which held the lease and which understood better how to administrate, maintain, and manage it for the benefit of both parties.

Senator HITCHCOCK. That shows that the Government was receiving from the lessee over \$600,000 a year from the railroad?

Mr. EMERSON. Yes.

Senator WILLIAMS. That is, 600,000 Central American silver dollars, floated at the bullion value.

Senator HITCHCOCK. That is what is not quite clear to me—what the value was.

Mr. EMERSON. It is not to me, either. I did not inquire into that feature. It floats up and down, and has different valuations.

Senator HITCHCOCK. You say it was not in the paper currency of the country?

Mr. EMERSON. No; it had to be in silver.

Senator HITCHCOCK. You have been there; what was the real value of that silver in American money?

Mr. EMERSON. Now it stands at par, but when I was there it was about 80 cents, and previous to that when I was there it was about 60 cents.

Senator HITCHCOCK. What years were they?

Mr. EMERSON. When I was there in 1894 it was about 50 cents. When I was there in 1908 it was 60 cents, and when I was there in 1912 it was 80 cents.

Senator SMITH of Michigan. Did it get up as high as 98 or 97?

Mr. EMERSON. I understand it was at par, worth as much as an American dollar, so some one who recently returned from Nicaragua told me; one of our marine officers.

The CHAIRMAN. You went to Nicaragua in 1894?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. How long were you there then?

Mr. EMERSON. I think for about a month. It was at the time of the war between Nicaragua and Honduras.

The CHAIRMAN. You were down there in Central America about a month during that war?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. Did you spend the whole of that time—

Mr. EMERSON. I was also in Central America in 1901 and 1902.

The CHAIRMAN. In Nicaragua?

Mr. EMERSON. No; I touched it at a port, but I was not in the country.

The CHAIRMAN. In 1894 you were there about a month. Did you spend the whole of that month in Nicaragua, or a part of it in Honduras?

Mr. EMERSON. Well, a small part in Honduras; yes. We crossed the frontier. It was a campaign, you know.

The CHAIRMAN. What part of the State of Nicaragua did you traverse during that month?

Mr. EMERSON. To Matagalpa, and from Matagalpa to Segovia, to—I forget the name of the place; I think it is Diriamba, a place across the border of Honduras. It was not a place of any importance; it was just a small settlement.

The CHAIRMAN. How many miles did you traverse?

Mr. EMERSON. Oh, several hundred miles from Managua. I went up to Matagalpa again in 1912—125 miles to Matagalpa.

The CHAIRMAN. What was your mission there in 1894?

Mr. EMERSON. Just a newspaper man.

The CHAIRMAN. Were you representing some newspaper?

Mr. EMERSON. Yes; I was writing for Collier's at the time—Collier's Weekly.

The CHAIRMAN. Did you write them accounts of what you saw?

Mr. EMERSON. Not of Nicaragua. I did of other parts of Central America.

The CHAIRMAN. But you were there to observe the occurrences of the war in 1894?

Mr. EMERSON. Yes; but the things that they published are other articles that I sent them. They did not always publish everything that I sent, you know.

The CHAIRMAN. Did you write them the descriptions of battles?

Mr. EMERSON. Things like that; yes.

The CHAIRMAN. Which they did not print?

Mr. EMERSON. Some they printed and some they did not. They printed an account of the battle of Rio Hache, what was then Colombia, and an account of the battle and siege of Bocas del Toro, which is now Panama, but which was then in Colombia. You see, some of the Nicaragua people joined in that Panama revolution and moved up into what is now Panamá.

The CHAIRMAN. That was not in 1894?

Mr. EMERSON. No; that was in 1902.

The CHAIRMAN. I am talking about 1894.

Senator HITCHCOCK. You mean 1904.

The CHAIRMAN. It was 1894 that you went first, was it not?

Mr. EMERSON. The first time I was ever in Nicaragua was in 1901, and again in 1902.

The CHAIRMAN. When was that war between Nicaragua and Honduras?

Mr. EMERSON. I think that was in 1894, but I am not sure.

The CHAIRMAN. You were there then and traveled across Nicaragua?

Mr. EMERSON. Yes.

The CHAIRMAN. And you were for a short time during that month in Honduras? That is what you stated, as I understood you.

Mr. EMERSON. Yes.

The CHAIRMAN. And that was your first trip to Nicaragua?

Mr. EMERSON. In the interior; yes. I had touched at ports of Nicaragua before—no; afterwards—1901.

The CHAIRMAN. This was your first appearance in Nicaragua?

Mr. EMERSON. Yes.

The CHAIRMAN. You were in Nicaragua and Honduras, all told, about a month at that time?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. And you were there representing Collier's, to describe the events of the war? I mean that was your chief business there at that time?

Mr. EMERSON. Yes; I was simply there as a writer.

The CHAIRMAN. And representing Collier's Weekly?

Mr. EMERSON. Well, I was doing it on my own behalf. They did not—

Senator WILLIAMS. You had no contract with them? You were just writing articles, and they would accept what they chose and reject what they chose?

Mr. EMERSON. Exactly.

The CHAIRMAN. Your next trip down there, you say, was in 1901?

Mr. EMERSON. Yes.

The CHAIRMAN. For what did you go at that time?

Mr. EMERSON. Collier's Weekly.

The CHAIRMAN. Representing them?

Mr. EMERSON. Representing them.

The CHAIRMAN. Under contract?

Mr. EMERSON. Well, I did not have a contract. I had an understanding. There was nothing in writing.

The CHAIRMAN. All I want is to get at the facts of it.

Mr. EMERSON. I went down again on my own behalf, but they undertook to pay me a weekly sum and to pay my expenses. And when I came back I rendered an account and they paid me.

The CHAIRMAN. That was in 1901?

Mr. EMERSON. It was in 1901 and 1902.

The CHAIRMAN. How long were you in Nicaragua on that trip of 1901?

Mr. EMERSON. I was not really in there at all. I only touched—I was only at the port of Corinto.

The CHAIRMAN. And where did you go from there?

Mr. EMERSON. Panama.

The CHAIRMAN. When were you next in Nicaragua?

Mr. EMERSON. 1902.

The CHAIRMAN. 1902 next?

Mr. EMERSON. Yes.

The CHAIRMAN. How long were you there in 1902?

Mr. EMERSON. I only touched at the port.

The CHAIRMAN. Then, in 1908, you went to Nicaragua again?

Mr. EMERSON. Yes.

The CHAIRMAN. Where from?

Mr. EMERSON. San Francisco—that is, from Salvador to Nicaragua, but I started from San Francisco, Cal.

The CHAIRMAN. What was your mission in Nicaragua at that time?

Mr. EMERSON. As a writer.

The CHAIRMAN. On your own account or for some one?

Mr. EMERSON. On my own account. I went all through Central America at that time.

The CHAIRMAN. You were making a general visit through Central America?

Mr. EMERSON. Yes, sir; I started with Mexico and wound up with Panama.

The CHAIRMAN. Was there anything special going on in Nicaragua at that time, 1908, that took you to that country?

Mr. EMERSON. No; what took me to Central America—

The CHAIRMAN. No; Nicaragua.

Mr. EMERSON. No; I went to Nicaragua because the steamer went that way.

The CHAIRMAN. And you got off there?

Mr. EMERSON. Yes.

The CHAIRMAN. And remained how long?

Mr. EMERSON. Just over the steamer—just over one steamer.

The CHAIRMAN. Where did you land?

Mr. EMERSON. Corinto.

The CHAIRMAN. Did you go into the interior?

Mr. EMERSON. Yes; I went into the interior to Managua.

The CHAIRMAN. How far is it from Corinto to Managua?

Mr. EMERSON. It is about a day's run by rail.

The CHAIRMAN. How long were you in Corinto?

Mr. EMERSON. The day when I landed and the day when I departed, or about a half a day.

The CHAIRMAN. Did you go direct to Managua?

Mr. EMERSON. By rail.

The CHAIRMAN. How long were you in Managua?

Mr. EMERSON. I was over one steamer of the Pacific Mail. They go once a week. I landed at Corinto, went to Managua, stayed there about four or five days, then came back and got the next steamer from Corinto to Panama.

The CHAIRMAN. You mean that you went back to Corinto and caught the next steamer?

Mr. EMERSON. Yes.

The CHAIRMAN. And left the country?

Mr. EMERSON. Yes.

The CHAIRMAN. What did you do in Managua during the several days you were there?

Mr. EMERSON. Well, I called on the President and had a talk with him.

The CHAIRMAN. Who was he?

Mr. EMERSON. Gen. Zelaya. And I met some foreigners and was made a member of the club and went about and saw some sights, etc. I do not recall just all I did, but it was like a traveler visiting a strange place.

The CHAIRMAN. Sight-seeing?

Mr. EMERSON. Yes.

The CHAIRMAN. Were you making any especial investigations into governmental, political, or social conditions at that time in Managua?

Mr. EMERSON. Just in a general way as a writer. Anything that would have been of interest I would have been glad to write about.

The CHAIRMAN. Did you write anything of your observations at that time in Managua?

Mr. EMERSON. No; I wrote about them afterwards. I wrote some magazine articles.

The CHAIRMAN. Were they published?

Mr. EMERSON. Yes.

The CHAIRMAN. In what magazine?

Mr. EMERSON. In the Army and Navy Life.

The CHAIRMAN. Of what date?

Mr. EMERSON. 1909. I think they appeared in February or March, in two or three numbers, I think, February, March, and April, possibly. It was in the spring of 1909 that they appeared.

The CHAIRMAN. Did your description of what you saw at Managua appear in two or three different numbers of the Army and Navy Life?

Mr. EMERSON. The article that I wrote for the Army and Navy Life was entitled, "How Americans are treated in Central America," and covered a number of instances, some in Nicaragua, some in Guatamala, some in Salvador or Honduras, but which ever it was they were not in the form of an account of my travels or a diary.

They simply gave instances that applied. There were some of Nicaragua and those I put into those articles. I got the facts in Nicaragua.

The CHAIRMAN. That was your second visit into the interior of Nicaragua?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. Your third and last visit, as I understand you, was in 1912?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. When did you go to Nicaragua in 1912; at what time of the year?

Mr. EMERSON. In September.

The CHAIRMAN. On what mission did you go then?

Mr. EMERSON. The same mission, to write about the war, to write about affairs there.

The CHAIRMAN. In the employment of anyone?

Mr. EMERSON. No, sir.

The CHAIRMAN. On your own account purely?

Mr. EMERSON. Yes, sir.

The CHAIRMAN. Did you write about conditions there at that time?

Mr. EMERSON. I wrote, yes; but I never published them. I never have published any articles.

The CHAIRMAN. Did you offer them for publication?

Mr. EMERSON. I did.

The CHAIRMAN. To whom?

Mr. EMERSON. A number of magazines—probably 10 or 12.

The CHAIRMAN. And they were not accepted?

Mr. EMERSON. They were not. I went off on another trip, so that I really did not apply myself properly to that. When I came back very soon after that I went to Mexico, so I dropped Nicaragua. Had I stayed in New York I probably would have sold the articles, but I was not there to do it.

The CHAIRMAN. This matter that you have delivered to the committee, and which you have delivered to the reporter to be incorporated in your testimony was embodied in the articles that you wrote and offered the magazines?

Mr. EMERSON. Perhaps parts of it. I gathered this testimony thinking I might use it in articles that I might write, but a good deal of it I never used. I had no occasion to. This is the first real use that most of this matter I have ever put to, but I thought at the time I got it it might be something interesting that I might write about, or might be asked to write about.

The CHAIRMAN. Have you now, or at any time have you had any interests in Nicaragua?

Mr. EMERSON. No; none at all. You mean business or financial interests?

The CHAIRMAN. Yes, sir.

Mr. EMERSON. None whatever.

The CHAIRMAN. May I inquire without meaning to be impertinent whether you are a gentleman of considerable means—a man of wealth?

Mr. EMERSON. No; I am not, I am sorry to say.

The CHAIRMAN. Do you live by your writings?

Mr. EMERSON. I do.

The CHAIRMAN. How long were you in Nicaragua on your 1912 visit?

Mr. EMERSON. Four months.

The CHAIRMAN. You were at Managua?

Mr. EMERSON. Part of the time.

The CHAIRMAN. And at Leon?

Mr. EMERSON. Part of the time.

The CHAIRMAN. About how long in Managua?

Mr. EMERSON. Well, I was there repeatedly. I would be there and then I would go off and then I would come back again. Then I would go off somewhere else and come back again.

The CHAIRMAN. How long were you in Leon?

Mr. EMERSON. At a stretch?

The CHAIRMAN. Yes.

Mr. EMERSON. I was in Leon repeatedly, but the longest stretch, I think, was perhaps three weeks. I was there from the occupation—the first time was while the Liberals still held Leon, while our troops were outside, acting through them, and I got a story from one of the men there. Then I came back and entered with our troops, and remained there with our troops until, I think, the latter part of October, and then I went on a trip to Matagalpa, in the interior, up toward the north, toward Honduras. I returned from there again to Leon, and then went from Leon to Managua again, and then went to Granada, and then came out of Nicaragua by way of the river, by way of the Atlantic coast, in December, and went up to Panama.

The CHAIRMAN. Will you state, please, as far as you can, the list of towns you visited during the four months you were there?

Mr. EMERSON. Well, all the towns along the railroads and then the towns of San Juan del Sur; Rivas, on the Isthmus; San Jorge, on the lake; Momotomba, where the volcano is; the two islands in Lake Granada; Jinotepe, Chinandega, Masaya, Granada, Matagalpa, and a whole number of other towns.

The CHAIRMAN. You were acting as aid to Col. Long?

Mr. EMERSON. Yes.

The CHAIRMAN. And took part in the battle at Leon?

Mr. EMERSON. Well, the occupation—the battle; yes.

The CHAIRMAN. You took the roof of the church?

Mr. EMERSON. Yes.

The CHAIRMAN. And had command of a squad of men informally?

Mr. EMERSON. Yes.

The CHAIRMAN. And did you write about your experiences?

Mr. EMERSON. No, sir.

The CHAIRMAN. You never did?

Mr. EMERSON. No.

The CHAIRMAN. Have you any interest in this matter pending before the committee?

Mr. EMERSON. No interest but to tell you the truth.

The CHAIRMAN. How?

Mr. EMERSON. No interest but to give you whatever information you would desire, and to tell you the truth. It is nothing to me what comes of it, or what is decided. I have nothing at stake in connection with Nicaragua.

The CHAIRMAN. What prompted you to offer to give this testimony?

Mr. EMERSON. I have just come back from Vera Cruz, and came through by way of Washington. I read in the newspapers that a committee had been appointed investigating the affairs of Nicaragua, and the name of the chairman was mentioned. So I went to a telephone and called him up and asked whether he was interested in getting information.

Senator WILLIAMS. You called up whom?

Mr. EMERSON. I called up Senator Smith and asked him whether he was interested in getting information about Nicaragua at that time. He asked me over the telephone—

The CHAIRMAN. When was that?

Mr. EMERSON. That was about 10 days ago. He asked me if I had been there. I said "Yes." He said he would be glad to meet me and asked me to come here. He asked me whether I had been there and had seen things with my own eyes, and I said "Yes." Then he asked me if I had any data about the railroad. I said I had it at my home in New York, but I did not know just where. He asked me if I had any other information which I had gotten at first hand in Nicaragua; for instance, about Zeladon's death. I told him that I had a letter, a facsimile letter, in which his death had been ordered. He asked me to see whether I could find those in New York, and if so to communicate with him. So I went home and got my things out of storage, went through my boxes, and I found those Nicaraguan notes that I had. So I wrote a letter to the Senator, stating that I had found those notes. In reply he sent me a letter asking me to come here to-day, and I answered him saying that I would.

Senator SMITH of Michigan. Who was with you when you were in Nicaragua—anybody?

Mr. EMERSON. Yes; my wife was with me.

Senator WILLIAMS. Have you those articles which you wrote while you were down there, which were never published?

Mr. EMERSON. No; not here.

Senator WILLIAMS. I mean in your possession. Have you sold any of them lately?

Mr. EMERSON. No.

Senator WILLIAMS. Do you contemplate selling any of them?

Mr. EMERSON. No; it is passé, you know.

Senator WILLIAMS. Have you seen this report in the New York World this morning [indicating]?

Mr. EMERSON. Yes.

Senator WILLIAMS. Do you know anything about it; who prepared it or whence it came or anything about it?

Mr. EMERSON. No. I do not know who wrote it or on whose information.

Senator WILLIAMS. Or whence the writer got his information?

Mr. EMERSON. No.

Senator WILLIAMS. Where were you born?

Mr. EMERSON. I meant to explain that. When the Senator asked me whether I was a native I should have said I was a natural-born American citizen. I was born in Dresden, Saxony. I went to school in Germany.

Senator WILLIAMS. There is one more thing I should like to ask you. Do you know personally Dr. Corea, who used to be minister here of Zelaya?

Mr. EMERSON. I have never been introduced to him and I have never spoken to him, but he was once pointed out to me.

Senator WILLIAMS. You do not know anything about him?

Mr. EMERSON. No; I never had any dealings with him. I would know him if I saw him.

Senator WILLIAMS. Did you ever know anything about this Dietrich concession?

Mr. EMERSON. No.

Senator WILLIAMS. That was before you were there?

Mr. EMERSON. Yes.

Senator SMITH of Michigan. Did Julio Weist say anything to you about his claim against the Nicaraguan Government?

Mr. EMERSON. He was quite downhearted about it.

Senator SMITH of Michigan. Did he mention any figure?

Mr. EMERSON. No.

Senator SMITH of Michigan. He never told you what the claim amounted to?

Mr. EMERSON. No.

(Thereupon, at 5 o'clock p. m., the committee adjourned, subject to the call of the chairman.)

R.R. 8/16/43

CONFIDENTIAL

Patterson

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
SECOND SESSION

ON

CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA

PART 11

Printed for the use of the Committee on Foreign Relations



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1914

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

MONDAY, JULY 13, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10 o'clock a. m.

Present: Senators Stone (chairman), Hitchcock, Williams, Swanson, Smith of Michigan, and McCumber.

The CHAIRMAN. The committee will come to order. We will now hear Mr. William J. Patterson.

TESTIMONY OF WILLIAM J. PATTERSON, LAWYER, OF NEW YORK CITY.

The CHAIRMAN. Senator Smith, will you examine Mr. Patterson? Senator SMITH of Michigan. Judge, you are, I believe, one of the executors of the estate of Samuel M. Jarvis?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. And as such executor, you are familiar with his affairs?

Mr. PATTERSON. Yes; for the most part I should say.

Senator SMITH of Michigan. Do you know anything about his effort to acquire an interest in Nicaraguan affairs two or three years ago?

Mr. PATTERSON. Only in a very general way. Some of those negotiations I was personally familiar with, particularly during his absence.

Senator SMITH of Michigan. That is, after he left for Europe on his last visit?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. He left for Europe in September, I believe?

Mr. PATTERSON. He left, I think, early, perhaps, the second day of September and returned in October.

Senator SMITH of Michigan. In 1913?

Mr. PATTERSON. In 1913.

Senator SMITH of Michigan. Do you know whether he put in a bid or proposition to the Department of State for certain banking and other concessions in Nicaragua?

Mr. PATTERSON. No; there was a proposition made to him.

Senator SMITH of Michigan. By whom?

Mr. PATTERSON. By representatives of Nicaragua, which was communicated to the State Department. But it was not his proposition originally. It was theirs.

Senator SMITH of Michigan. It was not his. Do you recall who they were?

Mr. PATTERSON. Mr. Chamorro was present at that conference—I refer to the conference in the State Department.

Senator WILLIAMS. Who was Secretary of State at that time, Mr. Bryan?

Mr. PATTERSON. Mr. Bryan. That was in September, I think, last September.

Senator SMITH of Michigan. Who else was present?

Mr. PATTERSON. Mr. John G. Gray was present.

Senator SMITH of Michigan. Who was he?

Mr. PATTERSON. Mr. Gray was a lawyer living in Delaware.

Senator SMITH of Michigan. Did he have any special employment?

Mr. PATTERSON. Not outside of his profession that I know of.

Senator SMITH of Michigan. Does he represent anybody in particular?

Mr. PATTERSON. Not that I know of. I really am not familiar with his business.

Senator SMITH of Michigan. Do you know whether he represented Mr. Minor C. Keith?

Mr. PATTERSON. Nothing was said as to that connection at that conference at all. I have no knowledge of Keith or the people he represents, or anything of that kind. He was not connected with that negotiation.

Senator SMITH of Michigan. This meeting you are describing took place here at the State Department?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Who else was present?

Mr. PATTERSON. Mr. William C. Beer, a lawyer of New York, was present. I think there was one other gentleman present from the Nicaraguan legation whose name I do not recall.

Senator SMITH of Michigan. Was he the former minister of finance?

Mr. PATTERSON. I met Mr. Cuadra in New York, but I do not believe he was present at the meeting. I think there was another gentleman with Mr. Chamorro, whose name I do not recall.

Senator SMITH of Michigan. What took place at that meeting?

Mr. PATTERSON. Allow me to state just briefly the general situation.

Senator SMITH of Michigan. I wish you would. State it in your own way.

Mr. PATTERSON. What they were seeking to do, as I learned from my connection with the matter, was to obtain some one who would represent Nicaragua in the way of financial agent or representative, and who would procure for them sufficient funds, if possible, to take over the Brown Bros. contract—terminate that and furnish additional money. Mr. Jarvis was approached and the suggestion made that he act as a sort of finance commissioner for Nicaragua in that connection. They were considering negotiations to that end. The expectation was that he would attempt to raise them some money abroad, and he went abroad, not expressly on that business but expecting that if the appointment should be made he would make an effort to procure them a loan or some advancement in Europe.

Senator SMITH of Michigan. How much of a loan?

MR. PATTERSON. As I remember, it was estimated that it would take about \$750,000 to take over the Brown Bros. contract or option—

Senator SMITH of Michigan. Option? .

MR. PATTERSON. I think they had an option on the stock of that railroad. They made some advancement. They had an option which had not been exercised, as I understood it; but the contract with Brown Bros. was in such shape that it could be terminated, as it was represented by the Nicaraguan legation to Mr. Jarvis; it could be terminated upon the payment of about \$750,000. But as a condition to that appointment they wanted Mr. Jarvis to advance, or to procure from any source, a certain amount of cash.

Senator SMITH of Michigan. How much? .

MR. PATTERSON. About \$200,000.

Senator WILLIAMS. In addition to the \$750,000?

Senator SMITH of Michigan. What was that to be used for?

MR. PATTERSON. That, as I understood, was to be used for pressing needs of Nicaragua in a general way. I have no knowledge that it was for any express purpose.

Senator WILLIAMS. Was that in addition to the \$750,000 that was to be paid to Brown Bros.?

MR. PATTERSON. Oh, yes; because that amount was due Brown Bros. and they had to be paid.

Senator SMITH of Michigan. Was the principal desire to get rid of Brown Bros. at that time?

MR. PATTERSON. That was my understanding.

Senator SMITH of Michigan. And they sought Mr. Jarvis for that purpose?

MR. PATTERSON. Yes; they sought Mr. Jarvis. I think they were looking for almost anybody who would act to secure them some money, but the negotiations were carried on at that time with Mr. Jarvis.

Senator SMITH of Michigan. Did that conference eventuate in anything? I would like to know just what it did eventuate in.

MR. PATTERSON. The proposition which they made was that if \$200,000 were procured and paid at once, they would then make this appointment of Mr. Jarvis. I do not know that the office was specifically designated, but it was in the nature of financial representative of Nicaragua—

Senator SMITH of Michigan. Supervisor?

MR. PATTERSON. Yes; for the purpose of obtaining further funds. It was estimated that they would probably need some millions of dollars, not within any fixed time, but they would require first this \$200,000 and then the \$750,000 for Brown Bros., and within a few months would require considerable more. Their proposition to him, as I say, was that if he would procure them and pay over at once \$200,000, then his appointment would be made and he could go to Europe or elsewhere and raise the balance of the money. That negotiation I was personally familiar with. Mr. Jarvis was then in London. I cabled him the proposition which they made, and he declined it absolutely, and that was the end of the negotiation.

Senator SMITH of Michigan. He declined the \$200,000 feature of it?

Mr. PATTERSON. He declined everything. Of course the appointment was to be on that condition, so when he declined the payment of \$200,000 that ended it.

Senator HITCHCOCK. Was there any security for this \$200,000?

Mr. PATTERSON. No; none was offered as I recall.

Senator HITCHCOCK. Brown Bros. had security?

Mr. PATTERSON. Brown Bros. had security.

Senator SMITH of Michigan. Now, Judge Patterson, you are familiar with the fact that just before Mr. Jarvis's departure for Europe a plan was hit upon in his office whereby certain features of the Nicaraguan situation were to be taken in hand and an agent was dispatched with a certified check as evidence of the good faith of his intentions at that time, are you not?

Mr. PATTERSON. An agent dispatched where?

Senator SMITH of Michigan. Dispatched to Nicaragua, and he got as far as New Orleans and was called back.

Mr. PATTERSON. I am familiar with that part of it, but I have no knowledge of any certified check.

Senator SMITH of Michigan. What is that part of it, and where did that arrangement start—that is, you have told us about the conference in the State Department—

Mr. PATTERSON. Yes.

Senator SMITH of Michigan. Was Mr. Bryan present at that conference?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Who else?

Mr. PATTERSON. The names of the gentlemen I have already mentioned, as I recall. There was Mr. William C. Beer—

Senator SMITH of Michigan. I recall that, but was there anyone else representing the State Department?

Mr. PATTERSON. I rather think Mr. Long was present at that meeting.

Senator SMITH of Michigan. Now, afterwards—

Senator HITCHCOCK. Before you leave the matter of that conference, will you say whom Mr. Gray represented?

Mr. PATTERSON. Mr. Gray, I suppose, represented Jarvis's interest as much as anything. He was advising with us. He was there as a friend or representative, I suppose, of the Jarvis interest. I do not know. He was negotiating with the other people.

Senator SMITH of Michigan. Which other people?

Mr. PATTERSON. That is with the Nicaraguan people. I think he came in touch with the Nicaraguan people who brought the matter to Mr. Jarvis. I think he was the one who suggested it. The details of that negotiation I do not recall, because that was with Mr. Jarvis personally before he went abroad, and much of that negotiation I was not personally familiar with.

Senator SMITH of Michigan. Was he employed by Mr. Jarvis?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. Did he take part in the conference?

Mr. PATTERSON. He took part in that conference; yes, sir; at the State Department.

Senator SMITH of Michigan. And in the conference in New York?

Mr. PATTERSON. And in the conference in New York.

Senator HITCHCOCK. Could you tell from what he said whom he represented?

Mr. PATTERSON. Only in this way, that he was in favor of this plan of the appointment of Mr. Jarvis, if it could be obtained upon terms that would be satisfactory.

Senator HITCHCOCK. Why was he in favor of it?

Mr. PATTERSON. That, sir, would only be a surmise on my part.

Senator HITCHCOCK. Could you give your surmise?

Mr. PATTERSON. Yes, sir; I can.

Senator WILLIAMS. He seemed to be a go-between between Jarvis and Nicaragua.

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. And he came to Jarvis from the Nicaraguan people?

Mr. PATTERSON. I think he, at first, negotiated with them and brought the matter to Mr. Jarvis.

Senator SMITH of Michigan. What is your surmise?

Mr. PATTERSON. My surmise is that if that plan went through down there, there would be some opportunity for him to take a hand in it in some shape.

Senator SMITH of Michigan. In the railroad feature?

Mr. PATTERSON. Yes, sir; but, as far as I know, there was never any definite arrangement.

Senator SMITH of Michigan. That was really what he did, however, was it not?

Mr. PATTERSON. As I say, my inference—and it would be only an inference, because I never discussed that feature with him—is that whatever the understanding or expectation was, it was talked over privately with Mr. Jarvis. I was never present when that matter was mentioned.

Senator HITCHCOCK. You say he is an attorney?

Mr. PATTERSON. Yes, sir.

Senator HITCHCOCK. How did he become involved in the affair, or in that conference; who called him in?

Mr. PATTERSON. That I could not say. These negotiations with Mr. Jarvis—the preliminary negotiations—continued along, I should say, for some weeks prior to the time Mr. Jarvis went abroad. For the most part, I was not present.

Senator SMITH of Michigan. You say he did not represent Mr. Keith?

Mr. PATTERSON. I say nothing whatever was said about Mr. Keith or whom he represented. Mr. Keith was never represented in the negotiation to my knowledge, so there was nothing to show that he had anything to do with it.

Senator SMITH of Michigan. Who called the conference; do you recall that?

Mr. PATTERSON. I should say that that conference here was the result of a talk which Mr. Cuadra—if that is his name—had with me in New York two or three days previously. The substance of that conversation was that Brown Bros. were insisting upon closing up their negotiations either one way or the other, and they—the Nicaraguan agents—wanted to know whether Mr. Jarvis was going to accept this appointment, coupled with the securing of the

payment of the money. I said I would communicate with Mr. Jarvis. He was then abroad; but who suggested the meeting here I do not know. I think it was suggested at that time that we had better take it up here in Washington with some other representative of the Nicaraguan Legation. I think it was my suggestion to them that if they would let me know just exactly what their demand of Mr. Jarvis would be, I would cable him at once to London, and if they were satisfied the matter could be closed. If not——

Senator HITCHCOCK. You think Mr. Gray was there before you went there yourself?

Mr. PATTERSON. Yes, sir; I think so.

Senator SMITH of Michigan. Do you know Gen. Chamorro?

Mr. PATTERSON. Yes, sir; I have met him.

Senator SMITH of Michigan. Do you know Pedro Cuadra?

Mr. PATTERSON. I have met him; yes, sir.

Senator SMITH of Michigan. Did you meet those gentlemen at 60 Broadway, in the office of Samuel M. Jarvis?

Mr. PATTERSON. I do not think I ever met Mr. Chamorro there, but I think Mr. Cuadra was there.

Senator SMITH of Michigan. What date—September 2, 1913?

Mr. PATTERSON. That would be impossible for me to say.

Senator SMITH of Michigan. That was the day Mr. Jarvis left for Europe.

Mr. PATTERSON. I can not fix the date; but I remember that there was a meeting there just before he left, and possibly on the same day or the day previously.

Senator SMITH of Michigan. Who was there?

Mr. PATTERSON. I think Mr. Gray was present at that meeting.

The CHAIRMAN. Cuadra, was he there?

Mr. PATTERSON. I think Cuadra was there. I am not sure about Chamorro, whether he was present or not. I know there was somebody there representing the Nicaragua legation here.

Senator SMITH of Michigan. Was Mr. Beer there?

Mr. PATTERSON. Yes, sir; he was there, too.

Senator SMITH of Michigan. Was Mr. Jarvis there?

Mr. PATTERSON. Mr. Jarvis was there.

Senator SMITH of Michigan. Was Mr. Long there?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. About what date was this? You say about the day he went away. He left on the 13th of September.

Mr. PATTERSON. That was the day; or the day before. It was just before his departure.

Senator SMITH of Michigan. What were they in Mr. Jarvis's office for?

Mr. PATTERSON. The matter that was discussed there was the matter of his appointment as financial agent for Nicaragua.

Senator SMITH of Michigan. Mr. Jarvis was interested in the loan matter—the proposed loan matter; that is, they brought it to him, and he was canvassing the matter?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. The control of the National Railway was to be included as part of the security for the loan, was it not?

Mr. PATTERSON. My understanding was that upon the payment to Brown Bros. of the amount due them, the person or persons furnish-

ing the money would take over whatever rights they had. Now, I never knew exactly what they were or what they included.

Senator SMITH of Michigan. There is no doubt about it including the railroad, is there?

Mr. PATTERSON. The railway was discussed; but whether it would be controlled, or what the interest was, I do not know. I raised the question at the time, but I never saw any papers or documents, and I do not know to this day.

Senator WILLIAMS. They were to step into Brown Bros.' shoes, were they?

Mr. PATTERSON. That was so represented.

Senator WILLIAMS. And in addition to that they were to furnish two hundred and some odd thousand dollars more?

Mr. PATTERSON. \$200,000, I think, they wanted at that meeting. That Mr. Jarvis declined.

Senator SMITH of Michigan. Upon Mr. Jarvis's request the Department of State sent a cablegram to the American Legation at Managua inquiring as to the value of the national railway system. As you remember it, what was the reply?

Mr. PATTERSON. I do not know anything about that cable.

Senator SMITH of Michigan. You have heard about it, have you not? You knew the cable was sent?

Mr. PATTERSON. No; I have no knowledge of the cable being sent. Allow me to make this suggestion, that I was not a party to and not personally cognizant of all those negotiations.

Senator SMITH of Michigan. I understand that.

Mr. PATTERSON. And I do not recall that cablegram at all.

Senator SMITH of Michigan. It may have been sent and you not know it?

Mr. PATTERSON. Oh, yes.

Senator SMITH of Michigan. But you do not recall its having been sent to Mr. Jefferson?

Mr. PATTERSON. No, sir; I do not.

Senator SMITH of Michigan. And his reply?

Mr. PATTERSON. No, sir; I have no knowledge of that.

Senator SMITH of Michigan. Who was associated with Mr. Jarvis in the matter of attempting to secure this loan—these gentlemen that you have enumerated?

Mr. PATTERSON. No, sir; there were none of those. You mean in a financial way?

Senator SMITH of Michigan. Yes.

Mr. PATTERSON. None of them that I know of.

Senator SMITH of Michigan. Were these lobbyists whose names you have mentioned lawyers, or what were they? I do not want to use an offensive term, but I want to know how you regarded them.

Mr. PATTERSON. No, sir; I do not.

Mr. PATTERSON. Mr. Gray was a lawyer; he is a practicing lawyer, as I understand it; so is Mr. Beer.

Senator SMITH of Michigan. We know about him and Mr. Beer.

Mr. PATTERSON. Those are the ones.

Senator SMITH of Michigan. Was there anyone else there in that conference except the people you have mentioned?

Mr. PATTERSON. No, sir; that is, no one representing the financial interests, and I have given, according to my best recollection, the

names of everyone present. If I have omitted anyone, it has been unintentional. But there were no financial interests there represented directly.

Senator SMITH of Michigan. Do you know why the matter of the loan was dropped by Mr. Jarvis?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Why?

Mr. PATTERSON. Because they had asked him to make an advance of \$200,000, which he would not agree to.

Senator SMITH of Michigan. It was not because of his inability to raise the amount of money involved?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. He was perfectly able to do that, was he not?

Mr. PATTERSON. I think so. He always expressed his confidence in being able to do that—not advancing it personally, I understand, but he believed confidently that his financial acquaintance—

Senator SMITH of Michigan. And connections?

Mr. PATTERSON. And connections were sufficient to secure that money if he had the appointment so that he could say that he represented the Nicaraguan Government officially.

Senator SMITH of Michigan. Did you come to Washington at any time in regard to the Jarvis loan—say, on September 20, 1913?

Mr. PATTERSON. I was only here once; that is the time I refer to as the conference having taken place. Whether that was on the 20th or not I do not recall.

Senator WILLIAMS. That was after Mr. Jarvis had gone to Europe?

Mr. PATTERSON. Oh, yes, sir; that was during his absence.

Senator SMITH of Michigan. But about that time?

Mr. PATTERSON. I should say somewhere about that time.

The CHAIRMAN. Was Mr. Jarvis expecting to get the money?

Mr. PATTERSON. His idea was to get the money abroad. He believed he could do it either in Paris or London.

Senator SMITH of Michigan. He was a man of financial ability? He had financed Santo Domingo and Cuba?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. So he was a man of means and standing?

Mr. PATTERSON. He was a man of resources financially.

The CHAIRMAN. How much was he worth?

Mr. PATTERSON. Personally, in the neighborhood of three millions, as the inventory of the estate, so far as we have gone, would indicate.

The CHAIRMAN. What was his business?

Mr. PATTERSON. He originally lived in Kansas City and was connected with—

The CHAIRMAN. Yes; but in New York?

Mr. PATTERSON. Later he was connected with a trust company—the North American Trust Co.—which he and others founded. After that he started in Cuba and organized the National Bank of Cuba, since grown to be a very large institution. He organized the telephone business of Cuba, which has grown to be a very large business and in which his estate is very largely interested.

Senator SMITH of Michigan. Mr. W. C. Beer and Mr. John Gray went to the Department of State with you upon the occasion of your visit here, did they?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Was Mr. Long present at that time?

Mr. PATTERSON. He was present at least a portion of the time.

Senator SMITH of Michigan. Refreshing your recollection, Mr. Gray was quite interested in the aspect of the Nicaragua situation, was he not?

Mr. PATTERSON. I can only judge from the way he spoke. I have no knowledge whatever of the extent of his connection or interest.

Senator SMITH of Michigan. From the way he spoke, was he interested?

Mr. PATTERSON. He was.

Senator SMITH of Michigan. He was interested. Did Mr. Jarvis make any payments to Chamorro or to Cuadra on September 2, or upon any other date?

Mr. PATTERSON. Not a dollar, to my knowledge.

Senator SMITH of Michigan. You have no knowledge of that?

Mr. PATTERSON. I am quite sure he did not.

Senator SMITH of Michigan. Have you made search of the records of Mr. Jarvis's check books to ascertain whether that was true?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. What books did you examine?

Mr. PATTERSON. All of them.

Senator SMITH of Michigan. That is, of the companies of which he was president?

Mr. PATTERSON. Well, he signed no checks of companies, nor was there any company with which he was connected that had anything to do with this matter. That was his personal matter purely.

Senator SMITH of Michigan. What was that?

Mr. PATTERSON. I say his connection with this Nicaraguan matter was a personal business purely.

Senator SMITH of Michigan. And none of his companies'?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. He was a member of a sort of holding company of his institution, was he not?

Mr. PATTERSON. No, sir; I can name to you the principal corporations with which he was connected. He was very largely interested in the Cuban Telephone Co., a large stockholder of the National Bank of Cuba, the holder of quite a large amount of real estate in Westchester County, and also interested in the stock of the Bank of Santo Domingo. Those are the principal ones.

Senator SMITH of Michigan. Can you state the object of Mr. Long's visit?

Mr. PATTERSON. To Mr. Jarvis?

Senator SMITH of Michigan. Yes.

Mr. PATTERSON. No, sir; I know nothing about such a visit.

Senator SMITH of Michigan. Did Mr. Jarvis ever pay Mr. Long any sum of money by check or otherwise?

Mr. PATTERSON. Not to my knowledge, nor is there any record of any payment of that kind.

Senator SMITH of Michigan. Might it not be that the principal reason of Mr. Jarvis's dropping the loan matter, that certain arrangements regarding certain business affairs of Santo Domingo and the ultimate control of the national railway having been arranged with Brown Bros. & Co., he had no further desire to secure the loan? It has been stated here that he could not put it through. Now, I am asking that to find out whether he could not do it, or whether he did not want to do it, and whether he did not want to do it because he was interested in Santo Domingo and left them in Nicaragua.

Mr. PATTERSON. No, sir; there were never any negotiations, so far as I know, with Brown Bros. at all, or any understanding of any kind. The reason, as I say, that the negotiations were broken off or stopped were that Nicaraguans demanded payment in advance of any appointment of the sum of \$200,000, which he, Mr. Jarvis, absolutely declined to pay, in the cablegram which was sent from London to me. I communicated that to the representatives of Nicaragua in Washington—the representatives of the Nicaraguan Government—and that ended entirely our connections with the matter. I heard afterwards, or understood, that they went on with their negotiations with Brown Bros.

Senator SMITH of Michigan. I think I asked you whether you knew of your own knowledge, or from anyone, what Mr. Jarvis stated about the telegram sent by the State Department to Mr. Jefferson at Managua, upon the suggestion of John Gray, with reference to the valuation of the Nicaraguan Railway, and the answer he received, which was communicated to Mr. Jarvis, who said the railroad was worth \$4,500,000. What do you know, if anything, about that?

Mr. PATTERSON. I have no knowledge of that cablegram at all—not a particle.

Senator SMITH of Michigan. Have you any knowledge as to the value placed upon the railroad by the minister, if he did value it?

Mr. PATTERSON. None whatever.

Senator SMITH of Michigan. You have not heard about that?

Mr. PATTERSON. No; nothing at all.

Senator SMITH of Michigan. Would you be apt to know about a thing of that kind?

Mr. PATTERSON. Not necessarily.

AFTER RECESS.

WILLIAM J. PATTERSON—Recalled.

Senator SMITH of Michigan. The check book which you hand to the committee is whose check book?

Mr. PATTERSON. That is Mr. Jarvis's personal check book at that time. It is now in the hands of his executors.

Senator SMITH of Michigan. Is this the only personal check book he had?

Mr. PATTERSON. No, sir; the only one on that bank.

Senator SMITH of Michigan. On the Empire Bank?

Mr. PATTERSON. Yes, sir; covering that period.

Senator SMITH of Michigan. I notice that the pages that are sealed are of such checks as precede number 1811, which you hand to the committee?

Mr. PATTERSON. Yes; if that is the number.

Senator SMITH of Michigan. And these checks are the only checks of which you have any knowledge drawn by Mr. Jarvis on the Empire Trust Co., dated September 2?

Mr. PATTERSON. I think, if you will permit me—you may commence with September 1, if you wish.

Senator SMITH of Michigan. No. 1813, I will refer to that. And they embrace the following items: "N. B. of Cuba, checks for traveling, \$1,500"; that is No. 1811, dated September 2, 1913. No. 1812, "Browning, King & Co., \$40." No. 1810, "Cuban Telephone Co., against demand note payable to the Empire Trust Co., with interest, \$12,000." "N. B. of Cuba." What is that again?

Mr. PATTERSON. The National Bank of Cuba.

Senator SMITH of Michigan. Checks for traveling, No. 1811, \$1,500. No. 1813 is \$337.15, and is payable to Rojas, Niese & Co. Who are they?

Mr. PATTERSON. That is an incorporated company acting as agents of the National Bank of Santo Domingo in New York.

Senator SMITH of Michigan. No. 1814, "Dover Trust Co., \$2,030," same date. No. 1815, "Black Boyd Manufacturing Co., for fixtures, \$1,118," same date. No. 1816, "R. N. & Co."

Mr. PATTERSON. Rojas, Niese & Co.

Senator SMITH of Michigan. For deposit, \$2,500. No. 1817, same company, same date, for deposit, \$2,500. No. 1818, same date, same company, \$2,500. No. 1819, same date, Cuban Telephone Co., \$5,000.

Mr. PATTERSON. Those that are attached are canceled checks.

Senator SMITH of Michigan. These are all canceled on this page. What are these entries, Judge, on the back of that?

Mr. PATTERSON. Those are simply bookkeeper's memoranda. His secretary, who kept the books, made memoranda there for his own use.

Senator SMITH of Michigan. I do not want to pry into your books.

Mr. PATTERSON. That is all right. That is intended to include September, which I supposed you wished.

Senator SMITH of Michigan. You have no other September checks in this book?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. Except the ones that accidentally—

Mr. PATTERSON. Yes; by mistake included in that.

Senator SMITH of Michigan. To whom is that payable, Judge?

Mr. PATTERSON. I will give you the data on that. Now, Senator, that is August.

Senator SMITH of Michigan. It looks like 9-1.

Mr. PATTERSON. No; 8-26 is the date.

Senator SMITH of Michigan. I was looking at "9-1-13" there.

Mr. PATTERSON. That is the bookkeeper's memorandum. You see the check was issued 8-26—the 26th day of August. Now, for his purposes—and I do not know what they were—he made a memorandum on the back of that check.

Senator SMITH of Michigan. You say you have these checks returned from the Empire Trust Co.?

Mr. PATTERSON. I assume so. I did not have time to get them out.

Senator SMITH of Michigan. You have not seen them, so you could not tell us by whom they were indorsed or for what purpose they were used?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. But can you furnish us those checks?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. I should like very much to have you do so.

The CHAIRMAN. What checks are those you wish?

Senator SMITH of Michigan. The ones of September 2.

The CHAIRMAN. The checks issued by Jarvis during the month of September, 1913, on what bank?

Senator SMITH of Michigan. On the Empire Trust Co.

Mr. PATTERSON. And do you mean all the checks that you have had a memorandum made of to the stenographer?

Senator SMITH of Michigan. Yes. Now, I think I asked you, and you answered that this was the only check book that Jarvis used on the Empire Bank.

Mr. PATTERSON. During that period.

Senator SMITH of Michigan. And you know of no other checks issued by him on this Empire Bank just before he left for Europe?

Mr. PATTERSON. No. I am very well satisfied there would not be any, that being the record and the check book in use at that time.

Senator SMITH of Michigan. Will you kindly tell me what other bank you issued checks against?

Mr. PATTERSON. There was an account carried in this agency of the National Bank of Santo Domingo, which was carried under the name of Rojas, Niese & Co.

Senator SMITH of Michigan. Did he sign those checks?

Mr. PATTERSON. He signed them all when he was there, and when absent left authority to his secretary to sign under certain limitations, certain restrictions, certain purposes—for current purposes, for instance. That is the first one beginning with the 2d day of September. That is the first one in September.

The CHAIRMAN. The bank upon which these checks you have just referred to were drawn is located in Santo Domingo?

Mr. PATTERSON. The bank, the main office, or the home office of the bank is in Santo Domingo. They maintain an agency in New York. That agency is conducted under the name of Rojas, Niese & Co., and his checks were made upon Rojas, Niese & Co., and these are the stubs.

Senator SMITH of Michigan. Was Mr. Jarvis a member of the Lawyers' Club?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. I notice a check in this book, No. 43, under date of 9-19-13, "Pay to R., N. & Co." Who is that?

Mr. PATTERSON. Rojas, Niese & Co.

Senator SMITH of Michigan. And where do they operate?

Mr. PATTERSON. In New York. Yes; that is the same company.

Senator SMITH of Michigan. Account of Nicaragua, \$500?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Do you know what that was for?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. What was it for?

Mr. PATTERSON. That was a check advanced to or given to Mr. Moffat—I think his name is Thomas P. Moffat—for expenses of a trip that was then talked of to Nicaragua, which was not made.

Senator SMITH of Michigan. How expensive a trip would that be to Nicaragua?

Mr. PATTERSON. It was estimated at that time that that would cover it.

Senator SMITH of Michigan. That \$500 would cover it?

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. That check was never paid?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. The check was paid, as a matter of fact?

Mr. PATTERSON. The check was paid. I will give you the history of that. Mr. Moffat started and got as far as New Orleans and returned and collected the full amount of the check and owes us the difference yet between his bill which was \$200 and \$500. He owes us approximately \$300, I believe.

Senator WILLIAMS. In connection with that check there has been a good deal said about this man who went to New Orleans and was recalled. How did it happen that he came back? Was he called back, and if so, by whom? If he came back on his own initiative what explanation did he make? Just tell us about it.

Mr. PATTERSON. Yes, sir. I will give you the history of the transaction. At the time of this meeting, which I have mentioned here, and when the representatives of the Nicaraguan Government wanted Mr. Jarvis to advance them \$200,000, I was here at that time and cabled the proposition to Mr. Jarvis in London, who declined to make the advancement. In the meantime Mr. Moffat had started for Nicaragua under an express arrangement made with him that if Mr. Jarvis should decline to accept the proposition which the representatives of the Nicaraguan Government had made, he should return, upon our request reaching him before he sailed. I received Mr. Jarvis's cablegram declining to accept the proposition and immediately sent Mr. Moffat a telegram to Louisiana to return, which he did.

Senator SMITH of Michigan. To New Orleans?

Mr. PATTERSON. To New Orleans; yes, sir.

Senator WILLIAMS. So that Mr. Moffat returned upon Mr. Jarvis's telegram, or upon your telegram in consequence of your receipt of Jarvis's cablegram?

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. And Mr. Moffat did not return upon account of any communication between him and the State Department here in Washington?

Mr. PATTERSON. Not to my knowledge; no, sir. That arrangement was made specifically between myself and Mr. Moffat upon an express agreement that he should return upon our request, and, as I say, I sent him immediately upon receiving this cablegram from London—I sent him a telegram promptly in order to catch him before the vessel sailed. The idea of his going was to possibly save some time, inasmuch as the sailings to Nicaragua were infrequent.

If he missed the next steamer, then it would be some time before he could reach there; so it was thought best that he should start, subject to recall in case the proposition was not accepted. The recall was made and he returned, and that was the end of the transaction.

Senator WILLIAMS. Do I understand, or have I correctly understood, so far as Moffat's return was concerned, that that was a matter which Jarvis controlled through you, and that he did actually return because he was requested to do it by the Jarvis's interests?

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. And not by any subterranean influence from the State Department?

Mr. PATTERSON. The State Department had nothing whatever to do with it so far as I know. I have no reason to suppose they knew anything about the arrangement. At least I did not confer with them. I considered that a matter, an agreement, entirely between ourselves and Mr. Moffat.

The CHAIRMAN. For what purpose was Mr. Moffat going to Nicaragua?

Mr. PATTERSON. The understanding which I had and obtained from Mr. Moffat was that owing to his previous residence in Nicaragua and his acquaintance with its affairs and with President Diaz, if the negotiations were going ahead he could aid in completing them, and particularly in the matter of the appointment of a finance commission or a representative of the Nicaraguan Government to secure funds for it. I do not know, as I said before, that the office was ever definitely designated, but that was the nature of it. I may say further that Mr. Moffat was anxious to go on his own personal account, as he stated if he could get his expenses paid, because he was largely interested in a concession of some timberlands in Nicaragua, and was anxious to look after his own personal interests at the same time.

Senator SMITH of Michigan. I notice that check No. 45, payable to R. N. & Co., account of Nicaragua, for \$500, is made payable to the same people to whom you made checks the same day that Mr. Jarvis went away for \$2,500 each?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Which harmonizes entirely with the suggestion which I think I have made of record. I should like to know why that check was made to R. N. & Co., account of Nicaragua. What business had R. N. & Co. with Nicaragua?

Mr. PATTERSON. Let me look at the other checks to which you refer, Senator, please.

(Senator Smith handed papers to witness.)

Mr. PATTERSON. The checks Nos. 1817 and 1818, to which you refer, were deposits of money with Rojas, Niese & Co., with which concern Mr. Jarvis was in the habit of making deposits. The check for \$500 was made, to my personal knowledge and at my request, after Mr. Jarvis's departure, and the "Nicaragua" was added to it simply to designate the purpose for which it was used.

Senator SMITH of Michigan. By way of identification?

Mr. PATTERSON. Yes, sir.

Senator HITCHCOCK. Was that for the purpose of defraying the expenses of this man sent to Nicaragua?

Mr. PATTERSON. Yes, sir.

Senator HITCHCOCK. What was the reason for making the check payable to these other bankers instead of to him?

Mr. PATTERSON. That was the only way we could get the money out of Mr. Jarvis's account. The account was in Rojas, Niese & Co. He made a check on them for this amount, and then I do not in reality remember whether that check was given to Mr. Moffat or whether it was cashed by Rojas, Niese & Co., on presentation of this check. I am not certain about that.

Senator SMITH of Michigan. Why did you not make it on the Empire Trust Co.

Mr. PATTERSON. Because we were not using the Empire Trust Co. for incidental and current expenses of that kind. I do not know of any legal reason.

Senator HITCHCOCK. Mr. Jarvis was placing money on deposit with Rojas, Niese & Co.?

Mr. PATTERSON. Yes, sir.

Senator HITCHCOCK. Then if you wanted to draw a check against them for this Mr. Moffat, why did he not draw a check to Moffat's order and hand it to him?

Mr. PATTERSON. In the first place, you must remember that Mr. Jarvis was not doing this personally. That was the method which the secretary, I suppose, under him—that is, Mr. Jarvis's secretary, under such instructions as he received from Mr. Jarvis to cover such items as this—drew on Rojas, Niese & Co.'s account instead of the Empire Trust Co. I do not know whether he had power to draw on the Empire Trust Co. at all.

Senator HITCHCOCK. If he could draw on Rojas, Niese & Co., he could draw payable to anybody's order?

Mr. PATTERSON. Yes, sir; exactly.

Senator HITCHCOCK. Why draw on Rojas, Niese & Co. a check he made payable to the order of Rojas, Niese & Co.?

Mr. PATTERSON. I do not know any reason except because he wanted to draw out the cash. Afterwards that check, if they could indorse it and then get the cash out and turn it over to—

Senator HITCHCOCK. I understand this Mr. Moffat actually drew the money after he came back?

Mr. PATTERSON. Oh, no.

Senator SMITH of Michigan. He drew it before he went?

Mr. PATTERSON. He did not make such a mistake.

Senator SMITH of Michigan. Then, in that case, he took to Rojas, Niese & Co. a check made payable to the order of Rojas, Niese & Co. How could he get the money from Rojas, Niese & Co. on that check?

Mr. PATTERSON. My recollection is that he turned that check right in to Rojas, Niese & Co. and drew the money there and gave it to him.

Senator SMITH of Michigan. You went to Rojas, Niese & Co. with the check?

Mr. PATTERSON. Yes; they were in the same suite of offices we occupied; had their banking department there. I think that was probably the reason for drawing it there.

Senator WILLIAMS. I want to get one thing clear. Do I understand this man got the \$500 before he started?

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. Do I understand that he did not spend it all and that he never has paid back the difference?

Senator SMITH of Michigan. That is going into a matter that is in litigation. It ought not be passed on here in any such manner as that.

Mr. PATTERSON. Permit me to say that part of it is not in litigation. That is admitted in the pleading. He only spent a portion of that money.

Senator WILLIAMS. You sent a check of \$500 and he spent a portion of the money and the balance of it he owes that firm of bankers yet?

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. Is that it or not?

Mr. PATTERSON. Exactly, sir.

Senator SMITH of Michigan. You say, sir, that Rojas, Niese & Co.— what is this “Inc.” for there?

Mr. PATTERSON. That is “Rojas, Niese & Co. (Inc.)”

Senator SMITH of Michigan. You say they have offices in the same suite?

Mr. PATTERSON. In the same suite; yes, sir; at that time.

Senator SMITH of Michigan. As Jarvis & Co.?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Do they have a bank?

Mr. PATTERSON. They do not have a bank. They simply act as agents of the National Bank of Santo Domingo, but Mr. Jarvis had money on deposit with them; was a stockholder in that company.

Senator SMITH of Michigan. Was he an officer in the company?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. He was a stockholder in the Rojas, Niese & Co. (Inc.)?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. And had money with them?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. In a checking account?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. And where were these deposits made under date of the 9th of September of \$2,500, these two deposits of \$2,500 each?

Mr. PATTERSON. Where did Rojas, Niese & Co. deposit them?

Senator SMITH of Michigan. No; where were they made, right there in that office?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Why were their two checks drawn on, Nos. 1817 and 1818, to make a deposit the same day?

Mr. PATTERSON. That I could not answer. I never looked into that feature of it.

Senator SMITH of Michigan. You were not present during this meeting of September 2, Mr. Jarvis sailing that night?

Mr. PATTERSON. I was present at one meeting, whether it was this particular one I could not say. I was present a portion of the time during one meeting just before Mr. Jarvis sailed, either that day or the day before; I am not certain which.

Senator SMITH of Michigan. Did you have meetings both days?

Mr. PATTERSON. That I could not say. I was present at only one, as I recollect.

Senator SMITH of Michigan. Who was present at that time?

Mr. PATTERSON. Well, as I have stated, my recollection is that Mr. Gray was there.

Senator SMITH of Michigan. John Gray?

Mr. PATTERSON. And I think Mr. Cuadra and another representative of the Nicaraguan Government or from the Nicaraguan legation, I do not now remember his name.

Senator SMITH of Michigan. Mr. Chamorro?

Mr. PATTERSON. No; I think not.

The CHAIRMAN. Was it Mr. Livingston?

Mr. PATTERSON. Now you mention the name, I think it was.

Senator SMITH of Michigan. Was Chamorro there?

Mr. PATTERSON. Not to my recollection.

Senator SMITH of Michigan. Is it not possible he was?

Mr. PATTERSON. Oh, yes.

Senator SMITH of Michigan. Was W. C. Beer there that day?

Mr. PATTERSON. I am not certain about that. He may have been. I do not recollect clearly that he was.

Senator SMITH of Michigan. Do you remember whether the party had lunch that day?

Mr. PATTERSON. No, sir. I was not present at that.

Senator SMITH of Michigan. You did not go to the Lawyer's Club or any other place to lunch with them?

Mr. PATTERSON. No; I was not with them. My office was in a separate part of the building.

Senator SMITH of Michigan. Will you tell the committee when Mr. Jarvis left for Europe?

Mr. PATTERSON. My present recollection is on the second day of September.

Senator SMITH of Michigan. At what hour?

Mr. PATTERSON. That I could not say. I do not remember the sailings of the boat.

Senator SMITH of Michigan. What ship did he go on?

Mr. PATTERSON. I could not tell you that.

Senator SMITH of Michigan. But it was that day?

Mr. PATTERSON. That is my recollection; that he left on the second day of September.

Senator SMITH of Michigan. I think that it would be instructive to the committee to see these two checks, Nos. 1818 and 1817, and also the deposit slip. And I should like very much to see check No. 1819, the same date, made to the Cuban Telephone Co. for \$5,000.

I show you a check dated September 2, 1913, No. 1819, payable to the Cuban Telephone Co., for \$5,000. Was that check used?

Mr. PATTERSON. Apparently this is a canceled check and was not used. I have no knowledge of it except what appears on the face of the check.

The CHAIRMAN. You asked, as I understood, that Judge Patterson should furnish you that check?

Senator SMITH of Michigan. No; the other two, Senator.

The CHAIRMAN. You said you would like also to see the check for \$5,000, payable to the telephone company.

Mr. PATTERSON. There may be another one.

Senator SMITH of Michigan. I notice one check for the same amount, the same date, No. 1820, for \$5,000, drawn by Samuel M. Jarvin, and I show you that check and will ask whether that check was used?

Mr. PATTERSON. Apparently this check, as shown by its face, was canceled and not used. I have no other knowledge except what appears on the face of the check.

Senator SMITH of Michigan. Drawn and signed on that date, the day he left for Europe, but not used?

Mr. PATTERSON. As appears from the face of the check itself. I would be glad to get you the full information about what was done.

Senator SMITH of Michigan. Yes; I have no doubt of it, Judge. Do you know who signed that check for \$25,000, first dated September, 22, and then changed to September 29, No. 1823? I think it reads there—you read what that stub says, please.

Mr. PATTERSON. That reads, as I make it [reading]:

September 29, 1913. Empire Trust Co.

Senator SMITH of Michigan. "22d" being erased?

Mr. PATTERSON. Yes; immediately preceding the "29th" the figures "22" erased. Then follows: "Empire Trust Co.," with the letters "P. D." apparently erased. Then follows: "For check of Empire to Rojas, Niese & Co., \$25,000."

Senator SMITH of Michigan. From what you have read would you say that that sum was for deposit to Rojas, Niese & Co.?

Mr. PATTERSON. No; I happen to know what that was for. That was a check, as I now recollect it—

Senator SMITH of Michigan. I do not want you to state it unless it bears on this controversy.

Mr. PATTERSON. It has nothing to do with this. It is an entirely separate matter. It was a check drawn and signed by myself as attorney, in fact, for Mr. Jarvin.

Senator SMITH of Michigan. I notice on the back of this stub the bookkeeper evidently keeps his balance. Am I right about that?

Mr. PATTERSON. I have not the least idea, Senator, I know those are the figures of the bookkeeper, but what he keeps on there, or his methods, I have never paid particular attention to.

Senator SMITH of Michigan. You assume that what he keeps there is correct and that it indicates the state of the account? Am I right about that?

Mr. PATTERSON. Well, the writing there speaks for itself and I could not add to it in any manner whatever, because I have no knowledge whatever of it.

Senator SMITH of Michigan. I have called your attention to check No. 1818 for \$2,500, payable to R. N. & Co. (Inc.) for deposit. Also your attention to the Cuban check No. 1819 and another Cuban check, No. 1820, and I find in the bank balance the following checks enumerated evidently by the bookkeeper, giving the amount of moneys drawn, the amount in the bank, and this memorandum shows: "Outstanding 1783, \$833.33; check 1818, \$2,500," which is one of the checks to which I have called your attention. "Check 1819 for \$5,000," which is one of the checks to which I have called your attention. "Check No. 1820, for \$5,000," to which I have called

your attention. "Checked off balance at \$13,333.35," all of which amount is deducted from what is entered here as bank balance, \$92,550.02. Taking \$13,333.33 from \$92,550.02, leaves abalance of \$79,216.69, with an "O. K" in ink opposite this amount. Then, I find that this total amount is again used on the margin of the stub and to the balance of \$79,216.69, which is again O. K'd. on the margin in ink—is added \$264.33, making a balance of \$79,481.02, from which has been deducted \$300, making \$79,181.02, with another entry of \$350,- which deducted from this amount leaves the tital bank balance at \$78,831.02. I believe you say that you have had nothing to do with these figures?

Mr. PATTERSON. I have not.

Senator SMITH of Michigan. And can neither verify or challenge them?

Mr. PATTERSON. No, sir. Those are the figures of the bookkeeper himself in connection with his keeping of books, to which I never gave any attention.

Senator SMITH of Michigan. I have asked you for these checks and deposit slips. I will be obliged to you if you will send them over to us, and later, if the committee should desire to examine this book, members of the committee who are not here, I should like to have it so that we may do so.

Senator WILLIAMS. To whom were these checks made payable?

Senator SMITH of Michigan. The testimony shows.

Senator WILLIAMS. I mean what the checks show?

Senator SMITH of Michigan. The testimony shows they were made to Rojas, Niese & Co.

Mr. PATTERSON. Rojas, Niese & Co.

Senator WILLIAMS. That is this New York firm that represents the Dominican bank?

Mr. PATTERSON. That is right.

Senator SMITH of Michigan. That is one of their—

Senator WILLIAMS. Offshoots.

Senator SMITH of Michigan. That is one of their offshoots, in the same suite of rooms with themselves, and bears directly upon testimony which I shall give from other sources later.

Senator WILLIAMS. By whom were these checks signed—by Jarvis, or Jarvis's secretary?

Senator SMITH of Michigan. Jarvis signed all of those checks.

Mr. PATTERSON. All which checks, Senator?

Senator SMITH of Michigan. The four to which I have alluded on the Empire Trust. The other check which I find there credited to Nicaragua account, in favor of R. N. & Co., I understand you signed?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Did you sign that after his death or before?

Mr. PATTERSON. Oh, that was in September, Senator. He did not die until in December. It was done under power of attorney. There were no checks signed by him in September.

Senator SMITH of Michigan. Except on that day?

Mr. PATTERSON. Except either on the 1st or the 2d.

Senator SMITH of Michigan. Of course, he was away after that?

Mr. PATTERSON. Yes; he was away after that.

Senator WILLIAMS. When did Jarvis die?

Mr. PATTERSON. The 26th day of December. You want the original checks, Nos. 1818 and 1817?

Senator SMITH of Michigan. I do; and the deposit slips.

Mr. PATTERSON. No. 1819 is here and canceled, you see.

Senator SMITH of Michigan. And 1820. That will be preserved just as it is, of course?

Mr. PATTERSON. Then, I need give no attention to that, because that is already presented.

Senator SMITH of Michigan. No; except as the date when it was surrendered might have something to do with the balance struck on the other side of the sheet, which seems to be upon that particular day.

Mr. PATTERSON. What I mean, whatever you desire of that it is here and subject to your inspection?

Senator SMITH of Michigan. Yes; that is all right. Now, have you a contract over there entered into by Mr. Jarvis or submitted to the State Department bearing upon the Nicaraguan matter?

Mr. PATTERSON. I have never seen any contract of that kind.

Senator SMITH of Michigan. Have you any correspondence with the State Department bearing upon it?

Mr. PATTERSON. Not to my knowledge, although I have not examined the correspondence with particular reference to that matter.

Senator SMITH of Michigan. I wish you would do that, Judge, and if you find any letters to the State Department bearing upon the Nicaraguan matter or replies from the State Department or any officials from the State Department. I should like very much to see them. If you have in your files anywhere what purports to be a copy of a telegram from Minister Jefferson fixing a value on the Nicaragua National Railway I would like to have that, too. That, I think, is all.

The CHAIRMAN. I want to ask you: Do you know Mr. Long?

Mr. PATTERSON. Yes, sir; of the State Department?

The CHAIRMAN. Of the State Department. The gentleman who has been nominated minister to Salvador?

Mr. PATTERSON. Yes, sir.

The CHAIRMAN. Was he ever present, so far as you know, at any conference with Jarvis respecting Nicaraguan matters in New York?

Mr. PATTERSON. Not to my knowledge.

The CHAIRMAN. Was he ever present at the State Department when you were present when Nicaraguan matters were discussed?

Mr. PATTERSON. Not excepting the one instance that I have already mentioned.

The CHAIRMAN. What you have stated is all there is to it so far as you know?

Mr. PATTERSON. Yes, sir.

The CHAIRMAN. Was any money ever paid or offered to Long for any purpose whatever by Jarvis or anybody connected with him?

Mr. PATTERSON. None whatever, to my knowledge.

The CHAIRMAN. Did you ever hear of anything of the kind?

Mr. PATTERSON. I never heard that matter mentioned or suggested in any form whatever.

Senator SMITH of Michigan. Were you in Mr. Jarvis's office on the 28th day of August, 1913, when Mr. Long was there?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. Was W. C. Beer and John Gray?

Mr. PATTERSON. I was not present at any meeting of that kind.

Senator SMITH of Michigan. Or the 23d of August?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. Or at any other time when he was present?

Mr. PATTERSON. Or at any other time when Mr. Long was present.

Senator SMITH of Michigan. He says in his statement that he was there.

Mr. PATTERSON. I am not in a position to contradict that. I simply say I have no knowledge of it, and I was not present at any time when Mr. Long was present, to my recollection.

Senator SMITH of Michigan. Were you the legal adviser of Mr. Jarvis.

Mr. PATTERSON. Yes, sir; that is, in very many matters; not exclusively.

Senator SMITH of Michigan. Were you a copartner?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. Were you connected with any of these subsidiary companies?

Mr. PATTERSON. I have been general counsel and an officer of the Cuban Telephone Co. for some years, which he was largely interested in and an officer, and an officer in some of the real estate companies with which he was connected.

Senator SMITH of Michigan. Were you connected with this Rojas, Niese & Co.?

Mr. PATTERSON. I am a director in Rojas, Niese & Co., and attorney for it.

Senator SMITH of Michigan. What did you say their business was?

Mr. PATTERSON. The general business of the company is a mercantile one, importing and exporting merchandise to Porto Rico, Cuba, and Santo Domingo.

Senator SMITH of Michigan. Who was president?

Mr. PATTERSON. And in addition to that they have been acting as the agent, the New York agent, of the National Bank of Santo Domingo, in looking after whatever business they may have here in the way of cashing bills of exchange.

Senator SMITH of Michigan. Who is president?

Mr. PATTERSON. Mr. Rojas is president of that company.

Senator SMITH of Michigan. Who is he?

Mr. PATTERSON. He is a gentleman who has been for some years connected with exporting to and importing goods from Latin-American countries; what you might call an exporter.

Senator SMITH of Michigan. Where does he reside when he is home?

Mr. PATTERSON. New York City.

Senator SMITH of Michigan. Who was secretary of the company?

Mr. PATTERSON. The secretary of the company, I believe, is a Mr. Russell, who is not directly connected with the business of the company, but I think he is the acting secretary.

Senator SMITH of Michigan. Who is the assistant secretary; who does the business at the offices?

Mr. PATTERSON. I do not think there is any assistant secretary.

Senator SMITH of Michigan. Does Mr. Jarvis's secretary—what is his name?

Mr. PATTERSON. Jones.

Senator SMITH of Michigan. Does he act in that capacity in the Rojas, Niese & Co.?

Mr. PATTERSON. No; that business is conducted—the whole routine of it—almost exclusively by Mr. Rojas, the president, and Mr. Samuel, who was previous to April, 1913, I think it was that they organized this company and commenced—previous to that time he was an exporter; he and Mr. Rojas were in the same business, the exporting business; then they took in another man by the name of Niese, organized the corporation by the name of Rojas, Niese & Co. (Inc.); Niese, I think, is the treasurer of the company, but the business is conducted almost entirely by Rojas and Samuel.

Senator SMITH of Michigan. My recollection is that the Jarvis Co. came before this committee in connection with the Honduras matter several years ago. Do you recall that?

Mr. PATTERSON. Yes; we have some interests in Honduras. I do not remember the particular matter to which you refer, however.

Senator SMITH of Michigan. I mean the so-called attempted Knox loan, when certain customs were to be pledged, etc., by the Republic of Honduras.

Mr. PATTERSON. I remember the time that was under discussion. I do not now recall that he appeared before the committee. He may have done so. I had nothing to do with it.

Senator SMITH of Michigan. He appeared here before this committee and submitted certain contracts which affected the Government of Honduras somewhat, and certain concessions that were then being asked. Have you any knowledge of that?

Mr. PATTERSON. It may be possible. I did not have anything to do with that transaction.

Senator SMITH of Michigan. In the management of the Santo Domingo matter at any time has your firm collected or managed in any way the customs of Santo Domingo?

Mr. PATTERSON. You mean the National Bank of Santo Domingo?

Senator SMITH of Michigan. Yes; that is your bank, is it not?

Mr. PATTERSON. Yes, sir. No; except it acts as the depository for the general receiver of customs under a contract and also for the Dominican Government.

Senator SMITH of Michigan. How long have you acted as depository?

Mr. PATTERSON. Since November, 1913, I think that commenced.

Senator SMITH of Michigan. There was quite a sharp rivalry, was there not, over obtaining the customs deposits of Santo Domingo?

Mr. PATTERSON. I do not know that there was so much rivalry particularly in that as there was rivalry in connection with the loan, the million and a half loan.

Senator SMITH of Michigan. Did you make that loan?

Mr. PATTERSON. No; it was made by the National City Bank.

Senator SMITH of Michigan. As a matter of fact, the customs were always carried in the other bank down there, were they not?

Mr. PATTERSON. They were always carried by Michelena, who for some years was the depository, a private banker.

Senator SMITH of Michigan. You got them after Mr. Sullivan became minister?

Mr. PATTERSON. We got them after this administration took hold of things down there; yes, sir.

Senator SMITH of Michigan. Did you have any trouble getting them?

Mr. PATTERSON. I do not think so; any serious trouble. There was to be a change there. Everybody conceded that.

The CHAIRMAN. Did Mr. Long assist you in getting those deposits?

Mr. PATTERSON. Not to my knowledge. I am not prepared to say. I had not myself any communication with Mr. Long whatever about it.

Senator SMITH of Michigan. Do you know whether Mr. Jarvis had?

Mr. PATTERSON. That I could not say.

Senator SMITH of Michigan. When you and John Gray and W. C. Beer went to the State Department in September, 1913, to whom did you go?

Mr. PATTERSON. To whom?

Senator SMITH of Michigan. Yes.

Mr. PATTERSON. This meeting that we had was held with Mr. Bryan.

Senator SMITH of Michigan. Who was present?

Mr. PATTERSON. As I have stated—

Senator SMITH of Michigan. I mean up there. You have stated who was with you. But who was present? Any of the department officials?

Mr. PATTERSON. No; I think Mr. Long was in there perhaps a portion of the time. I do not think he was all the time.

Senator WILLIAMS. Mr. Long at that time was an employee of the Department of State?

Senator SMITH of Michigan. Yes. He held the same position that he did afterwards—Chief of the Latin-American Division.

Mr. PATTERSON. He was connected with the State Department. Whether he held that particular position or not I am not prepared to say, but I know he was there in some capacity with the State Department.

Senator SMITH of Michigan. You know of the dealings between your firm and Mr. Thomas C. Dawson?

Mr. PATTERSON. Senator, what firm do you refer to?

Senator SMITH of Michigan. I mean the Jarvis Co., of course.

Mr. PATTERSON. No, sir; I do not know anything about any dealings with Mr. Dawson.

Senator SMITH of Michigan. Did you pay interest on this account in your bank in Santo Domingo, the Santo Domingo customs?

Mr. PATTERSON. The receiver general's account, you mean?

Senator SMITH of Michigan. Yes.

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. How much?

Mr. PATTERSON. I do not wish to be bound by this statement. It is only my recollection, because I am not in particularly close touch with it.

Senator SMITH of Michigan. Then do not answer it at all if you can not answer it certainly.

Mr. PATTERSON. My recollection is it is 2 per cent on balances.

Senator SMITH of Michigan. Daily balances?

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. What is 2 per cent?

Mr. PATTERSON. The amount which is paid by the bank on those deposits of customs.

Senator SMITH of Michigan. Have you any interest in Salvador?

Mr. PATTERSON. None whatever.

Senator SMITH of Michigan. Or Costa Rica?

Mr. PATTERSON. None whatever.

Senator SMITH of Michigan. Or Guatemala?

Mr. PATTERSON. None whatever.

Senator SMITH of Michigan. Your foreign interests, then, are largely in Santo Domingo and Cuba?

Mr. PATTERSON. Our interests are largely in Santo Domingo and Cuba, and we have one piece of property in Honduras.

Senator SMITH of Michigan. What is that?

Mr. PATTERSON. That is a mining property we are interested in—the Jarvis estate.

Senator SMITH of Michigan. You have not any railroad interests in any of these—

Mr. PATTERSON. None whatever.

Senator SMITH of Michigan. When you went to the State Department the day you have referred to, what did you go there for?

Mr. PATTERSON. My purpose, as representing Mr. Jarvis, was to discuss the Nicaraguan situation.

The CHAIRMAN. With whom?

Mr. PATTERSON. With the State Department—with Mr. Bryan—with a view of letting the department know what we had in contemplation, if anything should eventuate.

Senator SMITH of Michigan. Did you tell them what you had in view?

Senator WILLIAMS. Right there I should like to ask one question. Did the State Department seem to be desirous of having various bidders in the market for this Nicaraguan proposition? What was your impression of the intent of the State Department to get more than one bidder so that Nicaragua might be taken care of in some way? What was generally your impression?

Mr. PATTERSON. That was the impression, and I think the statement was made by Mr. Bryan that he wanted to do the very best that could be done, so far as his recommendations might be concerned, for the Nicaraguan people.

Senator WILLIAMS. So that Mr. Bryan was attempting to get Brown & Co. and you bidding against one another, so that Nicaragua might get a fair chance? Was that the idea?

Mr. PATTERSON. Or any other interest that might see fit to come in; yes. Yes, sir; that was the idea. It seemed to be the impression that Brown Bros. rather had their hands on the throat of Nicaragua, and the Nicaraguan Government, as stated by its representatives, was anxious to do better if it could, and the department was anxious to consider any plan; to be consulted on any plan in conference; any plan contemplated which would give the Nicaraguan Government anything better than what it was already offered by Brown Bros.

Senator WILLIAMS. Do you know under what Secretary of State the original Brown proposition had been closed, or consummated—Brown Bros.' proposition in Nicaragua, as far as it had gone?

Mr. PATTERSON. Previous to the present administration, but I am not personally conversant with the matter, Senator.

Senator WILLIAMS. Do you know anything about the Knox business back there behind all this?

Mr. PATTERSON. Nothing except what I saw in the papers, because at that time we were not at all interested.

Senator WILLIAMS. Of your own personal knowledge you have no knowledge of that?

Mr. PATTERSON. No, sir.

Senator SMITH of Michigan. You went into the matter then thoroughly with the Secretary of State in person that day?

Mr. PATTERSON. We went into it this far, that it was stated there in Secretary Bryan's presence what the absolute demands of the Nicaraguan Government were. They were stated, then, that to relieve their pressing needs they would have to have at least \$200,000 from some source.

Senator SMITH of Michigan. Immediate cash?

Mr. PATTERSON. Immediate cash; and the question was asked whether Mr. Jarvis or any of his representatives were in position to advance \$200,000. I represented Mr. Jarvis, and I replied that if they would frame their proposition definitely I would communicate with Mr. Jarvis at once and get his reply.

Senator SMITH of Michigan. How long were you at the State Department?

Mr. PATTERSON. I should think probably an hour.

Senator SMITH of Michigan. What was the date?

Mr. PATTERSON. That I could not tell without consulting my diary.

Senator SMITH of Michigan. The 19th of September?

Mr. PATTERSON. It was somewhere about that date, but the exact date I could not tell without consulting my memoranda to refresh my recollection.

Senator SMITH of Michigan. Your communication with Jarvis was after that meeting?

Mr. PATTERSON. On the same date from here.

Senator SMITH of Michigan. By cable?

Mr. PATTERSON. By cable.

Senator SMITH of Michigan. If the \$200,000 proposition had not been injected into it, would you have gone ahead with it?

Mr. PATTERSON. If the Nicaraguan Government has seen fit to constitute Mr. Jarvis its agent to look after its financial affairs in the attempt to raise the money he would—so he expressed himself.

Senator SMITH of Michigan. You think, do you, he could have done it?

Mr. PATTERSON. I think so, and he felt very confident.

Senator WILLIAMS. What was the thing that halted Jarvis? The \$200,000 proposition in cash?

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. That was in addition to whatever might have to be arranged to settle the claim of Brown Bros., was it?

Mr. PATTERSON. Yes, sir; that they had to have, as they claimed, for their immediate pressing necessities.

Senator WILLIAMS. And the man in New Orleans was recalled by Jarvis or by the Jarvis interests?

Mr. PATTERSON. Yes; he was recalled by me after my receipt of Mr. Jarvis's refusal to accept the proposition.

Senator WILLIAMS. What halted Mr. Jarvis was the \$200,000 proposition, was it not?

Mr. PATTERSON. Yes, sir.

Senator WILLIAMS. And he instructed you to halt on that, and you wired to the man in New Orleans?

Mr. PATTERSON. I had arranged with Mr. Moffat previous to that halt.

Senator WILLIAMS. I understand that has already appeared in the testimony. And in consequence of this previous arrangement you wired him to come back?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. Did you discuss your intention to wire him with any of the department?

Mr. PATTERSON. I do not think so. I have no recollection of saying anything about that in the department, because I think that was done after we left the department.

Senator SMITH of Michigan. Who sent the message to New Orleans?

Mr. PATTERSON. I sent that message myself.

Senator SMITH of Michigan. That is all, if you will kindly furnish us with what we asked for.

Mr. PATTERSON. Those checks?

Senator SMITH of Michigan. Yes.

Mr. PATTERSON. Shall I send those here to the committee?

Senator SMITH of Michigan. Yes; send them to Senator Stone.

WEDNESDAY, JULY 22, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

ADDITIONAL TESTIMONY OF WILLIAM J. PATTERSON.

The CHAIRMAN. Mr. Patterson, you have been recalled at the instance of Senator Smith of Michigan, who desires to ask you some additional questions.

Senator SMITH of Michigan. Mr. Patterson, have you the exhibit asked for by the committee upon the occasion of your former appearance before the committee as a witness?

Mr. PATTERSON. Yes, sir [producing papers].

Senator SMITH of Michigan. These exhibits consist of two checks Nos. 1817 and 1818, the deposit slips used by Samuel M. Jarvis in depositing the amounts referred to on the stubs of such checks for deposit. Have you those?

Mr. PATTERSON. Yes, sir; with the exception of the deposit slips. There were no deposit slips used in any of those deposits which were made with Rojas, Niese & Co.

Senator SMITH of Michigan. What evidence did you have that the deposits were made with them?

Mr. PATTERSON. Simply on the books of Rojas, Niese & Co., and on the books of Mr. Jarvis.

Senator SMITH of Michigan. Both of which you are familiar with?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. And in both companies you are interested; am I right about that?

Mr. PATTERSON. Mr. Jarvis is not a company, you know.

Senator SMITH of Michigan. I will change the form of the question. Of course I do not want to impute anything to you.

Mr. PATTERSON. You said "both companies." That was an individual. It was not a company. I am a director—

Senator SMITH of Michigan. Then, I will say, in which you are interested.

Mr. PATTERSON. Yes; interested to this extent, I was then and am now a director in the Rojas, Niese Co. (Inc.), and was attorney for Mr. Jarvis at that time.

Senator SMITH of Michigan. The checks which you presented to the committee are the checks referred to?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. And they bear upon their face the following:

No. 1817.

NEW YORK, *September 2, 1913.*

Empire Trust Co., pay to the order of Rojas, Niese & Co. (Inc.) two thousand five hundred dollars. \$2,500.

(Signed) SAMUEL M. JARVIS.

On the back is the entry:

Pay to the order of the National Nassau Bank of New York.

ROJAS, NIESE & Co. (INC.). Special.

That is stamped. Also the entry:

Received payment September 16, 1913. Indorsement guaranteed. The National Nassau Bank, of New York. A. W. Gilbert, cashier.

No. 1818.

NEW YORK, *September 2, 1913.*

Empire Trust Co., 5375.

What is that; do you know—5375? Is that a serial number of some kind?

Mr. PATTERSON. I presume it is an identifying number, but just in what connection I do not know.

Senator SMITH of Michigan (reading):

Pay to the order of Rojas, Niese & Co. (Inc.), two thousand five hundred dollars. \$2,500. Samuel M. Jarvis.

What is that letter in the red stamp? It is a clearing-house stamp evidently.

Mr. PATTERSON. Yes; but just what that means is too much for me, Senator. It is a clearing-house stamp, but it is not sufficiently legible for me to make it out.

Senator SMITH of Michigan. It must be "accepted," is it not?

Mr. PATTERSON. "Accepted"; I guess that is right—accepted; payable through the clearing house. Those letters are indistinct, but I guess that is correct.

Senator SMITH of Michigan. It must be "Accepted; payable"—

Mr. PATTERSON. Through the clearing house.

Senator SMITH of Michigan. There is something else there—payable through the clearing house only, October 3, 1913. Hanover

National Bank. Empire Trust Co. Somebody, teller. I can not make out the name of the teller. On the back is the entry:

Pay to the order of the National Nassau Bank of New York. Rojas, Niese & Co. (Inc.). Special. Received payment October 3, 1913. Indorsement guaranteed. The National Nassau Bank of New York. A. W. Gilbert, cashier.

Received payment through New York clearing house October 3, 1913. The National Nassau Bank of New York. A. W. Gilbert, cashier, third teller.

Upon the face of these checks it appears that one was paid, according to the indorsement, September 16 and the the other October 3. Have you any means of knowing whether the checks were presented at that time for payment, and for the first time?

Mr. PATTERSON. I have no personal knowledge except what I find from the records and from my investigation or examination with the bookkeeper.

Senator SMITH of Michigan. Have you the check drawn by yourself, payable to Rojas, Niese & Co., September 19 for \$500, marked "Nicaragua account"?

Mr. PATTERSON. No; I think not. I think that was not called for.

Senator SMITH of Michigan. I do not think it was. I was just wondering whether you had it.

Mr. PATTERSON. No; I had the clerk get out for me just what the memorandum called for. You are perfectly welcome to it.

Senator SMITH of Michigan. I understand that. I understood you to say that check was cashed the day it was drawn and the money turned over to the person for whom it was intended.

Mr. PATTERSON. Yes, sir; in my previous statement I stated that it was my recollection that the \$500 check was turned in and the money drawn from Rojas, Niese & Co. and paid over to Mr. Moffat. I find, however, upon later investigation that a portion of the money—as I recollect it, \$200—was drawn and paid to Mr. Moffat in cash and two sight drafts issued by Rojas, Niese & Co. to Mr. Moffat, which he took with him and later cashed.

Senator SMITH of Michigan. In place of the \$500?

Mr. PATTERSON. Exactly; making the full \$500 which he drew.

Senator SMITH of Michigan. Have you anything to show what further disposition was made of the avails of those two checks for \$2,500 each than they show upon their face?

Mr. PATTERSON. Yes, sir.

Senator SMITH of Michigan. What?

Mr. PATTERSON. Those checks as cashed, or the proceeds of the checks as cashed, were deposited with Rojas, Niese & Co. and checked out for current expenses on account of Mr. Jarvis's matters, as shown by the checks on Rojas, Niese & Co.

Senator SMITH of Michigan. This is the Rojas, Niese & Co.'s check book?

Mr. PATTERSON. Rojas, Niese & Co. (Inc.); yes; sir—Mr. Jarvis's check book, showing the accounts.

Senator SMITH of Michigan. With Rojas, Niese & Co.?

Mr. PATTERSON. With Rojas, Niese & Co.; that is right.

Senator SMITH of Michigan. And the checks that were drawn from this book were drawn on that firm and not upon any bank?

Mr. PATTERSON. Not upon any bank; that is right. The moneys were first drawn from the Empire Trust Co., with which Mr. Jarvis carried an account, deposited with Rojas, Niese & Co., and checks

then drawn for small items, various items, upon that account. That was the authority given to his secretary by Mr. Jarvis before his departure, and I find that he did not have authority to draw on the Empire Trust Co.'s accounts. His authority was confined to Rojas, Niese & Co.'s accounts, and that was for expenses.

Senator SMITH of Michigan. I find in the checks book of Samuel M. Jarvis, which you say contains the checks drawn by him on Rojas, Niese & Co., that all of the checks, numbered 1 to 33, inclusive, were drawn between September 2 and September 9, 1913, while check No. 37 was drawn on September 15, check No. 40 on September 17, check No. 43 on September 19, check No. 46 on September 19, and check No. 49 on September 20, all of those checks, with the exception of the last four mentioned, being drawn before the \$2,500 check, No. 1817, was cashed, while all of the checks in this book which you have shown me were drawn some time before check 1818 was cashed. Can you account for that?

Mr. PATTERSON. I presume that Mr. Jarvis had to his credit with Rojas, Niese & Co. some amount before the first draft of \$2,500 was cashed on September 16.

Senator SMITH of Michigan. Have you any actual knowledge of that, or is it just a supposition on your part?

Mr. PATTERSON. I have a personal knowledge that Mr. Jarvis carried an account right along with Rojas, Niese & Co.; the exact figures, of course, I do not remember.

Senator SMITH of Michigan. I also notice that on the deposit slip of this book, the account with Rojas, Niese & Co., a deposit is entered September 2, \$2,500. That was evidently an entry made the day Mr. Jarvis left for Europe. You do not claim that it was either of those checks that you hold in your hand—1817 or 1818?

Mr. PATTERSON. I have no personal knowledge of the fact, but I should say it might be the check No. 1817, because the entry on that check book indicates the date on which the check was deposited with Rojas, Niese & Co., and not a final payment to Rojas, Niese & Co., or to any other bank.

Senator SMITH of Michigan. But if one of the two checks to which you have referred was passed directly to the account of Mr. Jarvis on the 2d of September for \$2,500, the check must have been held by Rojas, Niese & Co. and not presented to the bank, according to the face of the check.

Mr. PATTERSON. It would seem that it must have been held by somebody, either Rojas, Niese & Co. or somebody else, and presented later.

Senator SMITH of Michigan. I notice on the back of the stub, No. 37, an entry—"9th month, 13th day—13, \$2,500." They could not have actually used those two checks for the moneys checked against at that time, they not having been presented for payment to the Empire Trust Co. until some days later.

Mr. PATTERSON. It would be impossible for me to say that the checks, as shown by this check book—

Senator SMITH of Michigan. Of Rojas, Niese & Co.?

Mr. PATTERSON. Yes; of Rojas, Niese & Co., covered the exact money represented by the deposits of the two \$2,500 checks, because those checks do not show, nor do I have at this time the amount

of the deposits which Mr. Jarvis may have had with the bank, outside of the two checks of \$2,500 each.

Senator SMITH of Michigan. Have you footed up the total amount of the checks contained in Mr. Jarvis's check book on Rojas, Niese & Co., which you have exhibited, to ascertain what the total amounts paid out by checks of Jarvis upon that firm aggregated?

Mr. PATTERSON. I have not.

Senator SMITH of Michigan. Will you do so?

Mr. PATTERSON. I can do so, but the amounts shown by these two check books would not necessarily correspond with the amount of the two checks for \$2,500 each, deposited, for the reason that those checks were issued not only against the two checks of \$2,500 each, but against any other amounts which Mr. Jarvis may have had on deposit with Rojas, Niese & Co.

Senator SMITH of Michigan. Glancing through that book of Mr. Jarvis's—

Mr. PATTERSON. There are two of them, you will bear in mind, Senator—two of those check books.

Senator SMITH of Michigan. Yes; the total of the checks drawn against Rojas, Niese & Co. fall very far short of the amounts specified in the two checks referred to in the month of September.

Mr. PATTERSON. That may be, but it would indicate simply, in my judgment, that any amount not represented by check remained to his credit on deposit with Rojas, Niese & Co. without having at hand the amount of that balance at any given period.

Senator SMITH of Michigan. Prior to either of these checks being cashed he seems to have had the balance of \$947.66, as entered on the back of check No. 50 of September 20, which balance was maintained throughout that month without crediting these two checks against it in its favor. There seems to be a small overdraft of this account noted on the back of check No. 62, October 10.

Mr. PATTERSON. It may be; I have not looked at those at all.

Senator SMITH of Michigan. The balance is brought forward October 3, but no deposit.

Mr. PATTERSON. The second of those checks was apparently cashed on October 3.

Senator SMITH of Michigan. There is another overdraft noted on the back of check No. 82 and on the back of check No. 85 and on the back of check No. 88. The only point I desire to ascertain is as to the entries on the checks drawn—who signed those checks in Jarvis's absence?

Mr. PATTERSON. Mr. A. Stanley Jones.

Senator SMITH of Michigan. His secretary?

Mr. PATTERSON. Yes.

Senator SMITH of Michigan. Drawn by Jones on Rojas, Niese & Co., in the main antedating the cashing of the two \$2,500 checks by either the clearing house or the bank at Nassau, and that would indicate one of two things; either that the checks were carried by Rojas, Niese & Co. and treated as a credit but not formally credited, or that there was a balance to the credit of Jarvis without using these two checks. Can you say anything more to the committee with respect to that?

Mr. PATTERSON. I can only say that Mr. Jarvis carries an account with Rojas, Niese & Co. What it was at that particular date, it is impossible for me to say at this time. But the fact that the aggregate of the checks do not correspond in amount with the aggregate of the two \$2,500 checks for deposit is not, in my mind, significant, for we could only estimate accurately the amount of expenditures if we knew the amount of the balance in his favor when these checks were deposited.

Senator SMITH of Michigan. But the overdraft notations, one of which precedes the date of the cashing of the \$2,500 check in the bank, would indicate that the balance to his credit was not large—that is, with Rojas, Niese & Co.

Mr. PATTERSON. I think if the committee desires the full information, the only way in which it can be obtained would be to take a full statement of Mr. Jarvis's account with Rojas, Niese & Co. in connection with the checks between any two periods desired by the committee.

Senator SMITH of Michigan. And that you stand ready to furnish if the committee desires?

Mr. PATTERSON. At any time it may request it.

Senator SMITH of Michigan. I think I would like to see the book entries.

Mr. PATTERSON. Between what dates, Senator?

Senator SMITH of Michigan. Between the 2d day of September, or in the month of September, 1913, and inasmuch as one of the checks was not used until the 3d of October, the entries up to and including the 3d of October.

Mr. PATTERSON. There is no objection to giving you that.

Senator SMITH of Michigan. Did I ask you for some correspondence?

Mr. PATTERSON. I have made an examination regarding the correspondence requested in the previous examination, and I find no correspondence, either by letter or by telegram, between Mr. Jarvis or his office and the State Department relating to the Nicaraguan affair.

Senator SMITH of Michigan. Nor the railroad?

Mr. PATTERSON. Nor the railroad; no sir.

Senator SMITH of Michigan. You do not know whether they had any telephone communication or not?

Mr. PATTERSON. That I could not say. Of course there is no way for me to tell.

Senator SMITH of Michigan. Your telephone bills for that month would show.

Mr. PATTERSON. No; they might show telephone communications with various points—for instance, they might show them to Washington, but would not indicate in what connection, because we have various other matters here in connection with the Insular Department and Santo Domingo matters all the time, and with the bank.

Senator SMITH of Michigan. What were you going to say about this other entry?

Mr. PATTERSON. Oh, yes. At a previous hearing I was interrogated about certain memoranda entered by the bookkeeper on the back of the stub of check No. 1820 on the Empire Trust Co. of New York,

I have investigated that matter and find that one set of figures show the condition of the books as kept by the bookkeeper, and the other the account as shown by the bank, and the discrepancies which appear, or the difference between the two amounts are shown by certain checks and noted on this memorandum, which has been issued but not cashed at that time, and with those added in, the account between the bookkeeper and the bank is the same.

Senator SMITH of Michigan. The Empire Trust Co.?

Mr. PATTERSON. The Empire Trust Co.; yes, sir.

Senator SMITH of Michigan. And as to the correspondence, you say there is none?

Mr. PATTERSON. No, sir.

(Mr. Patterson was thereupon excused and the committee adjourned.)



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CONFIDENTIAL

HEARING

BEFORE THE

**COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

SIXTY-THIRD CONGRESS
SECOND SESSION

ON

**CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA**

PART 12

Printed for the use of the Committee on Foreign Relations



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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

MONDAY, JULY 13, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

After recess, at 3 p. m., the committee resumed the hearing.

Present: Senators Stone (chairman), Hitchcock, Williams, Swanson, Smith of Michigan, and McCumber.

TESTIMONY OF MR. SAM D. SPELLMAN, 17 WEST FORTY-SECOND STREET, NEW YORK, N. Y.

(The witness was first duly sworn by the chairman.)

Senator SMITH of Michigan. Where do you reside?

Mr. SPELLMAN. Indianapolis is my home; New York is my place of business at present.

Senator SMITH of Michigan. Where in New York?

Mr. SPELLMAN. Seventeen West Forty-second Street.

Senator SMITH of Michigan. What is your business?

Mr. SPELLMAN. Mahogany. I am president of the George D. Emery Co.

Senator SMITH of Michigan. Importers of mahogany?

Mr. SPELLMAN. Yes, sir; mahogany and Spanish cedar only.

Senator SMITH of Michigan. How long have you been connected with that company?

Mr. SPELLMAN. I have been connected with that company 28 years.

Senator SMITH of Michigan. Are you familiar with what is known as the Emery claim?

Mr. SPELLMAN. Yes, sir.

Senator SMITH of Michigan. Growing out of affairs in Nicaragua?

Mr. SPELLMAN. I was in charge of our work down there when it occurred. Until recently I have been located in those countries. I spent 23 years in Nicaragua.

Senator SMITH of Michigan. When did you leave there?

Mr. SPELLMAN. I left there, you might say permanently, four years ago, and I have only been back once since.

Senator SMITH of Michigan. When was that?

Mr. SPELLMAN. Last November and December.

Senator SMITH of Michigan. Of 1913?

Mr. SPELLMAN. Of 1913.

The CHAIRMAN. Where were you located there?

Mr. SPELLMAN. Bluefields was my headquarters, and we had business up and down the coast of different places. We worked four rivers on that coast.

Senator WILLIAMS. Whom did you represent?

Mr. SPELLMAN. The George D. Emery Co. I was at that time their foreign manager.

Senator WILLIAMS. What was the nature of their claim?

Mr. SPELLMAN. It originated in 1906, a dispute between the Emery Co. and the Nicaraguan Government, and it went to arbitration in 1906, and the arbitrators decided that the Nicaraguan Government had no right to ask for the cancellation of our concession until three years had passed.

Senator WILLIAM. What was the nature of your concession?

Mr. SPELLMAN. We had a concession for mahogany and cedar and other valuable woods.

Senator WILLIAMS. Have you a copy of the contract between you and the Nicaraguan Government?

Mr. SPELLMAN. I do not have it here with me.

Senator WILLIAMS. Can you send it to this committee?

Mr. SPELLMAN. Yes, sir.

Senator SMITH of Michigan. I think it is in the State Department, is it not?

Mr. SPELLMAN. The State Department has got a copy of it, because the State Department settled the claim and has all the papers.

Senator SMITH of Michigan. It is in the State Department, and we can get it from there or Mr. Spellman can send it.

Mr. SPELLMAN. I can get one copy before I leave Washington and turn it over to you. I think our attorney has a copy of it.

Senator WILLIAMS. Go ahead. The dispute between you and the Nicaraguan Government about this contract, and they decreed that it was—

Mr. SPELLMAN. The arbitrators decided that the Nicaraguan Government had no right to ask—

Senator WILLIAMS. Before that, what had the Government of Nicaragua done?

Mr. SPELLMAN. Oh, the arbitration came up through a dispute over different matters. The planting of trees that we have to plant was one thing.

Senator WILLIAMS. Had you planted the trees the contract called on you to plant?

Mr. SPELLMAN. We claimed we had. We had done so.

Senator WILLIAMS. Had you, as a matter of fact?

Mr. SPELLMAN. Yes, sir; as a matter of fact, we had planted a great many more, Senator, than our contract called for.

Senator WILLIAMS. Was that the sole ground upon which the Government of Nicaragua set aside the contract?

Mr. SPELLMAN. It was not set aside at that time at all.

Senator WILLIAMS. I understand the Government of Nicaragua set it aside, and afterwards it was referred to arbitration. I am talking about what the Government of Nicaragua did. Now, the Government of Nicaragua, in decreeing that your contract was at an end, which I understand it did, based it upon what ground? First was about not planting trees. What was the other?

Mr. SPELLMAN. Planting trees, and they accused us of the smuggling of goods.

Senator WILLIAMS. Had you smuggled in goods?

Mr. SPELLMAN. No, sir; never 5 cents' worth. It did turn out that one of our employees had smuggled a small amount unbeknown to us.

Senator WILLIAMS. How was he employed by you?

Mr. SPELLMAN. He was in charge of the commissary—one of our commissaries.

Senator WILLIAMS. That is the thing that imports the goods for you?

Mr. SPELLMAN. No; that is where we kept our goods—a storehouse, as you might say.

Senator WILLIAMS. Was he your man to import?

Mr. SPELLMAN. No, sir; he was simply a clerk. Our concession allowed us to import goods free of charge—all necessities. We had no occasion to smuggle anything.

Senator WILLIAMS. What was the nature of the difference between you and the Nicaraguan Government about necessities? What did they charge you with having imported, according to their ideas, that you had no right to import?

Mr. SPELLMAN. No; they charged our store with smuggling and also of selling the goods that we had imported free.

Senator WILLIAMS. Selling what goods? What was the character of the goods?

Mr. SPELLMAN. There was no specific case stated. When the arbitration was going on—

Senator WILLIAMS. Let us not get to the arbitration. Let us see what the quarrel between you and the Nicaraguan Government was. They accused you of smuggling. Of smuggling what? They had to accuse you of smuggling something.

Mr. SPELLMAN. They did not state what it was. We asked them to show what it was, to present the charge and give us a chance to answer them, but they just made a general charge of smuggling.

Senator WILLIAMS. Made against your employee?

Mr. SPELLMAN. They made it against the company.

Senator WILLIAMS. The man that had done it, if it was done, was an employee?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. What had he smuggled?

Mr. SPELLMAN. He had not smuggled anything.

Senator WILLIAMS. Oh, the employee was innocent?

Mr. SPELLMAN. He was innocent.

Senator WILLIAMS. You are not now hiding behind the fact the employee smuggled at all? You are denying the allegation entirely?

Mr. SPELLMAN. We deny it entirely.

Senator SMITH of Michigan. It was found, as a matter of fact, that he was not doing it?

Mr. SPELLMAN. He was not doing it.

Senator SMITH of Michigan. That was so found, was it not?

Mr. SPELLMAN. Yes, sir; the only thing they did find against him was in one trifling case. He sold a piece of pork to a man that came down the river in a canoe, and we were not allowed to sell pork, because that came in free. But that was the only case.

Senator SMITH of Michigan. We should like to get away from that if we can.

Senator WILLIAMS. After you got into this quarrel with the Nicaraguan Government you went to arbitration?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. Who were the arbitrators?

Mr. SPELLMAN. Two merchants, one picked by the Government and one picked by ourself, and they were to pick the third man, if necessary. Mr. Weil—

Senator WILLIAMS. Who picked the Government's man?

Mr. SPELLMAN. The Government picked Mr. Weil, of Bluefields.

Senator WILLIAMS. Who was then the Government?

Mr. SPELLMAN. Zelaya.

Senator WILLIAMS. And he picked Mr. Weil?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. He was a German citizen there?

Mr. SPELLMAN. No; he was an American citizen.

Senator WILLIAMS. And so he was picked by the Nicaraguan Government to represent the Nicaraguan Government?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. He was an American citizen?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. Then you picked the other one. Who was he?

Mr. SPELLMAN. Mr. Ballinger, a merchant of Bluefields.

Senator WILLIAMS. What was his nationality?

Mr. SPELLMAN. English.

Senator WILLIAMS. So, you chose one Englishman and one American citizen to sit in judgment upon a Nicaraguan claim?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. And they were entitled to select a third man if they wanted to?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. They never did?

Mr. SPELLMAN. They never did.

Senator WILLIAMS. They agreed amongst themselves?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. All right, now go ahead.

Senator SMITH of Michigan. Now, Mr. Spellman, is your contract with Nicaragua contained in those articles or not [presenting paper to witness]?

Senator WILLIAMS. Is that the contract?

Mr. SPELLMAN. No; this a protocol of agreement drawn up between the Nicaraguan Government and the United States Government showing upon what ground, on what points the differences should be settled.

Senator SMITH of Michigan. I think I have not got the agreement. We can get that from the State Department, or you can furnish it.

The CHAIRMAN. What agreement?

Mr. SPELLMAN. The concession, he means, that we held with the Government. If you want that you can have it.

Senator SMITH of Michigan. The claim of Emery Co. originally against Nicaragua for the canceling of these concessions amounted to how much?

Mr. SPELLMAN. Our original claim?

Senator SMITH of Michigan. Yes.

Mr. SPELLMAN. Well, if it had gone to arbitration we would have presented a claim of about \$2,000,000.

Senator WILLIAMS. How much had you paid for that claim?

Mr. SPELLMAN. How much did we pay for the claim?

Senator WILLIAMS. Yes; how much did you pay for that concession?

Mr. SPELLMAN. Oh, for the concession, that is a different matter. We paid Nicaragua so much for the concession, I think we paid \$30,000 down, then we paid \$10,000 a year, and then we paid for a while on timber by the thousand feet, and later on so much a log. It amounted to \$40,000 a year on the concession.

Senator WILLIAMS. Did the original agreement involve anything by the thousand feet or anything by the log, or was that a change of the agreement?

Mr. SPELLMAN. It was finally changed to do away with disputes about the measurement. They could simply count the logs or trees; first by the tree, the first concession.

Senator WILLIAMS. You paid \$30,000, and you paid how much a year?

Mr. SPELLMAN. Ten thousand dollars a year.

Senator WILLIAMS. And that grew into a claim for \$2,000,000?

Mr. SPELLMAN. Oh, no.

Senator WILLIAMS. How did it occur?

Mr. SPELLMAN. What our claim was?

Senator WILLIAMS. Yes; tell us how it grew up?

Mr. SPELLMAN. For seizing our business.

Senator WILLIAMS. How much had you paid for the business is what I am asking.

Mr. SPELLMAN. We had paid what we put in there.

Senator WILLIAMS. How much was that?

Mr. SPELLMAN. We had an inventory of over \$400,000 of actual live assets, and then we had—

Senator WILLIAMS. That is the money put into your business, was it?

Mr. SPELLMAN. That was the money invested in the country.

Senator WILLIAMS. In the plant?

Mr. SPELLMAN. There, besides our mills in this country.

Senator WILLIAMS. How much had you paid to Nicaragua for that, this claim that afterwards grew into \$2,000,000; how much had you ever paid to the Government of Nicaragua to secure it?

Mr. SPELLMAN. Well, we worked there for 20 years. I do not know how much we paid them in all those years. We paid so much for the timber and took it out and this represented our investment, our camps, our railroads, our steamers, and the things we had in our plant.

Senator WILLIAMS. Can you give us a succinct list of all those investments?

Mr. SPELLMAN. Yes; we could. You mean of what we had at the time the claim was made?

Senator WILLIAMS. Yes.

Mr. SPELLMAN. It was about \$400,000.

Senator WILLIAMS. And you claimed \$2,000,000. You had invested \$400,000, besides that you paid Nicaragua \$30,000, besides that you

paid her \$10,000 a year, and you claimed \$2,000,000. Now, how did you arrive at the \$2,000,000?

MR. SPELLMAN. We had one concession that we got until this year. It would not have expired until the present year, and we showed by a statement drawn up by the New York Audit Co. that the Nicaragua business had made this company an average of about \$186,000 a year for the past eight years, based on the value of our concession, what we might make, what we had invested in the company, and also taking into consideration some losses in this country.

Senator WILLIAMS. Do you know where your original \$30,000 went, to whom it went, and for what purpose, and how it was expended?

MR. SPELLMAN. It simply went into the treasury of Nicaragua.

Senator WILLIAMS. To help what Government?

MR. SPELLMAN. The Zelaya. That is away back 20 years ago.

Senator WILLIAMS. Do you know what became of the money—what Zelaya did with it?

MR. SPELLMAN. Not at that time; no, sir; I do not know.

Senator WILLIAMS. You paid \$30,000 to Zelaya and then you paid \$10,000 a year for an indefinite period, to terminate this year at some time, for a concession. Was that all the concession cost you? I am not talking about your plant. Is that all the concession cost you?

MR. SPELLMAN. No; we paid \$1 a log for every log we cut, to the Government

Senator WILLIAMS. What sort of logs; mahogany?

MR. SPELLMAN. Mahogany logs; for each log we cut we paid \$1.

Senator WILLIAMS. How much did you pay for the cedar logs?

MR. SPELLMAN. We paid \$1.

Senator WILLIAMS. One dollar for each?

MR. SPELLMAN. Yes.

Senator WILLIAMS. So that you paid \$30,000; then you paid \$10,000 a year; then you paid \$1 a log?

MR. SPELLMAN. Yes, sir.

Senator WILLIAMS. Is that all that your concession cost you?

MR. SPELLMAN. Oh, we had to pay some import duties. We did not get everything in free, by any means.

Senator WILLIAMS. What did your concession say you should get in free?

MR. SPELLMAN. It gave a list of what were termed necessities for feeding laborers, and logging tools, and machinery.

Senator WILLIAMS. Have you got that?

MR. SPELLMAN. That would show in the concession; that is specified in the concession.

Senator WILLIAMS. That is specified in the concession?

MR. SPELLMAN. Yes, sir.

Senator WILLIAMS. That was not something you paid; that was something that was given to you?

MR. SPELLMAN. Yes, sir.

Senator WILLIAMS. So that all you paid for the concession was \$30,000, plus \$10,000 a year, plus \$1 a log?

MR. SPELLMAN. That is all the concession called for. Of course, it cost something to get it.

Senator WILLIAMS. I am trying to get all the facts. Now, that is all you paid for the concession, and you came up how many years after that demanding \$2,000,000?

Mr. SPELLMAN. We never demanded \$2,000,000. I said if it had gone to arbitration we would have presented a claim for nearly that amount, but it was settled outside of arbitration for a much less sum.

Senator WILLIAMS. Do you mind giving the stenographer the items out of which you would have made the \$2,000,000?

Mr. SPELLMAN. I can only do it roughly, offhand.

Senator WILLIAMS. Well, do it roughly, offhand.

Mr. SPELLMAN. Well, we had an investment in the country of about \$450,000.

Senator WILLIAMS. You are not charging that to the Nicaraguan Government, are you?

Mr. SPELLMAN. Yes; our plant, our farms, our railroads—we had 26 miles of standard-gauge railroads and tram roads, and things of that kind.

Senator WILLIAMS. You are charging the plant to the Nicaraguan Government?

Mr. SPELLMAN. We are charging that.

Senator WILLIAMS. The Nicaraguan Government gave you the concession, charged you so much for it, and you went in and spent your money to make the concession pay, and now you are charging the plant to the Nicaraguan Government?

Mr. SPELLMAN. We are going to ask them to pay us for the plant, because they took it away from us—they confiscated it.

Senator WILLIAMS. Now go ahead and state it roughly and do it the best you can.

Mr. SPELLMAN. We had about that much invested——

Senator WILLIAMS. \$400,000?

Mr. SPELLMAN. Then we would have shown that our concession was good for so many years, and it should be worth about so and so, based on an average of the last eight years.

Senator WILLIAMS. I understood you to say \$160,000 a year. Is that correct?

Mr. SPELLMAN. I said \$180,000 a year.

Senator WILLIAMS. That was how much you were making out of Nicaragua on an original concession that cost you \$30,000 plus \$10,000 a year.

Mr. SPELLMAN. We would make \$175,000 or \$180,000 a year. We were not making it on that investment, because we had practically half a million dollars invested in the plant in the country. At times we had more than that.

Senator WILLIAMS. Did you at times have less than that?

Mr. SPELLMAN. Some years we did more business than in others. Some years we worked 700 or 800 men. We had as high as 1,500 men. Of course we would have a larger amount of supplies, tools, and machinery and things of that kind.

Senator WILLIAMS. The real truth—let me understand it, because I want to get the facts——

Mr. SPELLMAN. I want to give you the absolute facts.

Senator WILLIAMS. I know you do perfectly well. I can see that. Really what you are charging Nicaragua in your \$2,000,000 was very largely problematical profits?

Mr. SPELLMAN. Yes, sir. Then our contract had about eight years to run. Then we figured so much loss on that. Then we had a large

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investment in this country—we had a big sawmill that was kept up by the product of those countries. We figured that.

The CHAIRMAN. You figured that in?

Mr. SPELLMAN. The loss on property and the mill, and that kind of thing.

Senator WILLIAMS. That was in the United States?

Mr. SPELLMAN. That was in the United States. When I speak of this \$2,000,000, that sum was never presented, because we never went to arbitration. Nicaragua came to the United States Government and offered a settlement and they settled with the United States Government.

Senator WILLIAMS. For how much?

Mr. SPELLMAN. \$600,000. Although we agreed to the settlement we did not take the money.

Senator WILLIAMS. What became of the money?

Mr. SPELLMAN. It had never been paid. They made the first payment of \$50,000, but the balance has never been paid.

The CHAIRMAN. Is not that all set forth in the documents of the State Department?

Mr. SPELLMAN. Yes, sir. There is a complete record of that case in the State Department.

Senator SMITH of Michigan. It will not take me but a moment, if you are through, Senator Williams.

Senator WILLIAMS. I do not know whether I am or not, but you may go ahead.

Mr. SPELLMAN. I would like to make this statement in connection with my testimony, that I personally have never received any benefit directly or indirectly from that award—not one dollar.

Senator WILLIAMS. How are you connected with the institution?

Mr. SPELLMAN. I am president of the company and am on a salary. This is not the company—the present company—that had that claim.

Senator WILLIAMS. What is your stock in this company?

Mr. SPELLMAN. My personal stock? One share.

Senator WILLIAMS. How much does that amount to?

Mr. SPELLMAN. \$100. It is just so that I could—

Senator WILLIAMS. By whom were you elected president?

Mr. SPELLMAN. I was elected president by the directors. I was vice-president of the old company.

Senator WILLIAMS. Who elected the directors?

Mr. SPELLMAN. They bought the stock and elected themselves.

Senator WILLIAMS. And then afterwards they elected you?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. As president you got only one share?

Mr. SPELLMAN. Yes, sir; just enough so that I can qualify as a holder. Mind you, when this old claim was granted to the company which has been sold the new company never took over the claim. So this company that I am connected with never received that claim, or had anything to do with it.

Senator WILLIAMS. What has the new company got to do with the old company?

Senator SMITH of Michigan. Now you have got to the point to which I would like to direct the attention of the witness.

Senator WILLIAMS. What has the new company got to do with the old company's business?

Mr. SPELLMAN. The old Emery Co. was sold to a concern that only wanted the active working assets of the company. They did not take over the Emery claim, and they did not take over what was known as the Chelsea property where the mill used to be in Boston.

Senator WILLIAMS. Who owns the old claim now?

Mr. SPELLMAN. The old claim, so far as I know, is owned by Brown Bros.

Senator WILLIAMS. These same bankers?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. How much do those old claims amount to?

Mr. SPELLMAN. \$600,000 was the original claim.

Senator WILLIAMS. And the commission has decided that Nicaragua owes that?

Mr. SPELLMAN. Well, it was settled by protocol between the American Government and the Nicaraguan Government. Nicaragua agreed to pay that amount in a signed protocol of settlement.

Senator WILLIAMS. And that was transferred to Brown Bros.?

Mr. SPELLMAN. Well, there was one payment made on it, which the old Emery Co. got.

Senator WILLIAMS. And the other \$550,000 is still due to Brown Bros.?

Mr. SPELLMAN. It is not all due to Brown Bros. The attorneys got a contingent fee out of it. Their part is due to them.

Senator WILLIAMS. Of course, but it is due Brown Bros. It would be paid to them.

Mr. SPELLMAN. No; it is due direct. It has been assigned in the department here.

Senator WILLIAMS. Who are the attorneys?

Mr. SPELLMAN. Mr. Penfield is the principal one. There is another one in Boston by the name of Noyce.

Senator WILLIAMS. What is their contingent fee—50, 40, or 30 per cent?

Mr. SPELLMAN. No; I think it would have amounted to about 16 per cent; that is, Penfield's. Noyce's is very small. I think his is 5 or 7—something like that. I would not like to give the exact figures.

Senator WILLIAMS. So, that when Nicaragua gets through paying she will pay something like 21 per cent of the contingent fee to the lawyers who have been suing her?

Mr. SPELLMAN. In that neighborhood; yes, sir.

Senator WILLIAMS. And Brown Bros. will get the balance, \$550,000—\$50,000 having been paid the Emery Co.?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. And your company had no interest in the original Emery claim?

Mr. SPELLMAN. Not 1 cent.

The CHAIRMAN. Is that all for this witness?

Senator SMITH of Michigan. No; I have not begun. I would like to have the opportunity to ask a few more questions.

The CHAIRMAN. You may proceed.

Senator SMITH of Michigan. Mr. Spellman, Senator Williams has gone over this Emery matter with you, and that makes it necessary for me to go over some of the ground again. Your company, how-

ever, did not own the Emery claim, and does not now own the Emery claim?

Mr. SPELLMAN. No, sir; it never did. We did not take it over originally.

Senator SMITH of Michigan. That is owned by Brown Bros. What did Brown Bros. pay for this Emery claim?

Mr. SPELLMAN. I can not tell you exactly what they did pay for it.

Senator SMITH of Michigan. Give us such information as you have.

Mr. SPELLMAN. I will explain how the transfer was made, and then you will see why I can not tell you exactly just what they paid for it. I have heard something said about it, but of my own knowledge I do not know.

Senator SMITH of Michigan. Well, you have said something about it yourself?

Mr. SPELLMAN. The assets of the original company were all turned over to Brown Bros., including the Chelsea property.

Senator SMITH of Michigan. Which was worth how much?

Mr. SPELLMAN. About \$215,000.

Senator WILLIAMS. Wait a moment, right there. It was turned over to you?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. What did the new Emery Co. buy?

Mr. SPELLMAN. I will explain that—

The CHAIRMAN (interposing). Senator Williams, I suggest that you allow Senator Smith to conclude and then you may interrogate the witness.

Mr. SPELLMAN. Brown Bros. acted as the underwriters of this company.

Senator SMITH of Michigan. For the Emery claim?

Mr. SPELLMAN. No; for the whole Emery Co. The original Emery Co. still owned the claim to the Chelsea property. They wanted to sell it. Brown Bros. found them a customer in J. T. Williams & Co., of New York, who were in a similar line of business. In making the transfer the Emery Co. transferred everything to Brown Bros. Then Brown Bros. transferred back to the new Emery Co. the active assets, retaining the Emery claim and the Chelsea property.

Senator SMITH of Michigan. The Emery claim against the Nicaraguan Government?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. What was the Chelsea property?

Mr. SPELLMAN. That was where the mill stood in Chelsea.

Senator WILLIAMS. Where is Chelsea?

Mr. SPELLMAN. It is a suburb of Boston—just across the bridge.

Senator SMITH of Michigan. Now, go ahead. Brown Bros. retained—

Mr. SPELLMAN (interposing). They transferred back to the new Emery Co. only the active assets of the company, because the new people would not have anything to do with the Emery Co., and did not want the Chelsea property because they wanted to be in New York where they had already moved on account of the fire.

Senator SMITH of Michigan. Then, if I understand it, they did not transfer the Chelsea property, and did not transfer the claim against the Government of Nicaragua?

Mr. SPELLMAN. Yes, sir.

Senator SMITH of Michigan. What were the assets worth when they transferred, outside of the claim?

Mr. SPELLMAN. The whole thing, including the Chelsea property? The original assets transferred to Brown Bros., as near as I can recollect it, were about \$1,700,000—a few odd hundred dollars one way or the other.

Senator SMITH of Michigan. What did they pay for it, do you know?

Mr. SPELLMAN. The new company took back the active assets, as to which I think the inventory called for \$1,085,000, or within a few dollars of it.

Senator SMITH of Michigan. Was that paid?

Mr. SPELLMAN. That was paid in cash to the old Emery Co. or the men representing the old Emery Co.

Senator SMITH of Michigan. That was for the active assets?

Mr. SPELLMAN. Yes, sir.

Senator SMITH of Michigan. Exclusive of the Chelsea property and the Government claim?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. Was that \$1,800,000?

Mr. SPELLMAN. A million and about eighty-five thousand dollars. That is what the new company paid for it—the company I am now representing.

Senator SMITH of Michigan. Did Brown Bros. get that money?

Mr. SPELLMAN. No, sir.

Senator SMITH of Michigan. Where did that go?

Mr. SPELLMAN. That went to the stockholders of the old Emery Co.

Senator SMITH of Michigan. Exactly. Did that liquidate the old company?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. Was that paid in cash?

Mr. SPELLMAN. Spot cash.

Senator SMITH of Michigan. That liquidated the old company?

Mr. SPELLMAN. Yes, sir. The old company was then out of existence, with those two things on their hands.

Senator SMITH of Michigan. What was the Chelsea property worth?

Mr. SPELLMAN. The Chelsea property was carried on the books at \$250,000 for several years and never changed from that value.

Senator SMITH of Michigan. That was a book value, or actual value?

Mr. SPELLMAN. That was what they regarded it at. In fact, I believe we paid taxes on a little bit more than that the last two years. I heard that when the property was sold they did not get that much money for it.

Senator SMITH of Michigan. But it has been sold?

Mr. SPELLMAN. Yes, sir.

Senator SMITH of Michigan. Now, what did Brown Bros. pay for the Emery claim, from all the information you have?

Mr. SPELLMAN. From all the information I have—I have no actual information.

Senator SMITH of Michigan. But you have been keeping a pretty close tab on it.

Mr. SPELLMAN. The man who has the old Emery Co. business in Chelsea told me just a few days before——

Senator WILLIAMS. Who was that man?

Mr. SPELLMAN. A man by the name of Segar, representing the Emery interests.

Senator WILLIAMS. What are his initials?

Mr. SPELLMAN. His name is Samuel. He said to me, "I will never take less than 75 cents on the dollar for the claim, and I am going to get more."

Senator SMITH of Michigan. What did he pay for it? What did Brown Bros. pay for it?

Mr. SPELLMAN. I do not know exactly. It was in their hands and was a transaction between Brown Bros. and the man representing the old Emery Co.

Senator SMITH of Michigan. Do you not know what it has cost Brown Bros. to get this claim?

Mr. SPELLMAN. I will swear that I could not tell you exactly what it cost.

Senator SMITH of Michigan. It is much less than the figure you have heard.

Mr. SPELLMAN. They bought it at a discount, of course, or they would not have bought it.

Senator SMITH of Michigan. Have you not heard from any source how much they paid?

Mr. SPELLMAN. I have not. Our attorney who acted for us does not know to-day what Brown Bros. got for theirs. He would like to know, because he would like to know what his was worth.

Senator SMITH of Michigan. You do not know what Brown Bros. got for their interest in it?

Mr. SPELLMAN. I do not know what Brown Bros. paid for their interest in it. They have not collected it as yet, as I understand.

Senator SMITH of Michigan. But they have this claim?

Mr. SPELLMAN. Yes, sir.

Senator SMITH of Michigan. And Brown Bros. now own it?

Mr. SPELLMAN. Yes, sir; so far as I know.

Senator SMITH of Michigan. But what they paid for it you do not know?

Mr. SPELLMAN. I do not know. I have no way of knowing.

Senator SMITH of Michigan. I have understood that you made the statement that they had paid less than \$100,000 for it.

Mr. SPELLMAN. I never made any such statement.

Senator SMITH of Michigan. Have you anything to base any such statement upon?

Mr. SPELLMAN. Nothing in the world. I never made any such statement, because I do not know.

Senator SMITH of Michigan. Do you know Mrs. Douglass, the daughter of Mrs. Emery?

Mr. SPELLMAN. Her name is Mrs. Dudley. Yes, sir; I know her.

Senator SMITH of Michigan. Who lives at Paterson, N. J.?

Mr. SPELLMAN. I understand she is in this country. I have not seen her. She has been living in England for two or three years.

Senator SMITH of Michigan. You know her, do you?

Mr. SPELLMAN. Yes, sir; I have known her from the time she was born.

Senator SMITH of Michigan. Did you ever hear her make any complaints about the amount that was paid for this claim?

Mr. SPELLMAN. No; sir; I have never seen her to talk to her on the subject since the transfer was made. I have only seen her once in that length of time, and that subject was not mentioned.

Senator SMITH of Michigan. Have you any contingent interest or otherwise in the Emery claim yourself?

Mr. SPELLMAN. Not one cent. I never did receive anything from it; and I, of course, can not now in any way. I have no interest in it whatsoever. Even the company I represent does not receive any interest in it.

Senator SMITH of Michigan. Mr. Penfield, who was here this morning, has some interest in it?

Mr. SPELLMAN. Yes, sir; he has some interest in it which he holds for the fee, mostly of his father. His father was our attorney during the case—Judge Penfield.

Senator SMITH of Michigan. What was that fee?

Mr. SPELLMAN. As I say, I think it amounted to about 16 per cent of the whole amount.

Senator SMITH of Michigan. About \$50,000, was it?

Mr. SPELLMAN. It would be more than that. It would be \$90,000, at that rate.

Senator SMITH of Michigan. But you are unable to tell the committee what Brown Bros. paid for that claim, or for the Chelsea property?

Mr. SPELLMAN. Yes, sir; I am unable to say. I can not do so. I have no way of knowing. Frankly, I have tried to find out, out of curiosity as much as anything else, but I have never found out.

Senator SMITH of Michigan. Mr. Segar, to whom you refer, was he one of the parties to this sale of the Emery claim?

Mr. SPELLMAN. Yes, sir; he practically owned the Emery Co., the old Emery Co., at the time it was sold.

Senator SMITH of Michigan. At the time the live assets were sold to the new company?

Mr. SPELLMAN. Yes, sir; at the time it was turned over to Brown Bros.

Senator SMITH of Michigan. And the Emery claim and the Chelsea property were turned over to Brown Bros.?

Mr. SPELLMAN. Yes, sir; in fact, he sold it through Brown Bros. They acted for him. He was their client.

Senator SMITH of Michigan. If I am unable to obtain any definite information from you as to what Brown Bros. paid for this claim, or what they have already realized out of the claim, I do not think I will pursue the matter any further.

Mr. SPELLMAN. To my knowledge, so far as I know, they have not collected anything further. Nicaragua only made the original payment, so far as I know.

Senator SMITH of Michigan. But they now own it?

Mr. SPELLMAN. Yes, sir. If they have collected anything, I do not know, and I do not think they have, because our attorney has never received his portion of it.

Senator SMITH of Michigan. In the schedule of liabilities of Nicaragua, filed here by the financial agent of that country, this claim is entered at \$500,000.

Mr. SPELLMAN. To my knowledge, I should think it ought to be \$550,000—as far as I know.

Senator SMITH of Michigan. Not knowing whether any other payments have been made or not?

Mr. SPELLMAN. Yes, sir.

Senator WILLIAMS. Just one word there, simply as a mere matter of idle curiosity. Was the value of the property at Chelsea, near Boston, included in this claim against the Nicaraguan Government?

Mr. SPELLMAN. Oh, no, sir.

Senator SMITH of Michigan. That is a separate asset, but it had a tangible value at the time it was acquired.

Senator WILLIAMS. It had no tangible value as a claim against Nicaragua. The thing was in America and was burned up in America.

Mr. SPELLMAN. Yes, sir; but the question was never raised.

Senator WILLIAMS. And so far as you know, nobody ever made that a claim against the Government of Nicaragua?

Mr. SPELLMAN. No, sir; I know they did not.

Senator WILLIAMS. And Nicaragua ought to be thankful.

The CHAIRMAN. Mr. Spellman, you were for 23 years in Nicaragua?

Mr. SPELLMAN. Yes, sir. I went there in 1888.

The CHAIRMAN. Were you over the country to any large extent?

Mr. SPELLMAN. Quite a bit; especially on the east coast. I know the east coast probably better than any white man living, and I used to go to the capital on business with the Government, and I have been on the west coast. I used to do business personally with Yelaya when we had Government business.

The CHAIRMAN. Were you in all the principal towns?

Mr. SPELLMAN. Yes, sir; I think I have been in all the principal towns in Nicaragua—Managua, Granada, and the principal towns in the interior, and Bluefields, on the coast, which is the most important place.

The CHAIRMAN. Are you familiar with the people in the larger towns?

Mr. SPELLMAN. I used to know some of the leading merchants and other people.

The CHAIRMAN. Were you sufficiently observant to notice the general character of the people in the towns?

Mr. SPELLMAN. Well, yes; I know something of them. A man naturally acquires some knowledge in 20 years associations with them.

The CHAIRMAN. Is that true of the people in the country also, so far as your observation went?

Mr. SPELLMAN. Yes, sir; the common people. We worked a good many of them in our own works, and I had them directly under my charge by the hundreds.

The CHAIRMAN. What is the general character of the Nicaraguan people as you have estimated it?

Mr. SPELLMAN. Well, I do not know that I know just what you want to know about them.

The CHAIRMAN. Are they mostly an ignorant and slovenly people?

Mr. SPELLMAN. Well, a great many of them are ignorant. Illiteracy is very common, and the list of births published show generally about 75 per cent illegitimate.

The CHAIRMAN. Illegitimate or illiterate?

Mr. SPELLMAN. They are illegitimate according to the list of births. The common people are quiet and orderly when left alone. They are always excited to revolution by leaders who either lead them or drive them into it. The common people do not care for those things.

The CHAIRMAN. Are the people in the towns more intelligent?

Mr. SPELLMAN. Yes, sir; naturally, because they are merchants and people who have money. They send their children to school. Some of them send their children abroad. Some of them are men of education.

The CHAIRMAN. We are speaking now of the higher class of people in the towns.

Mr. SPELLMAN. Yes, sir.

The CHAIRMAN. Taken generally, are they more intelligent and more disposed to engage in business or labor?

Mr. SPELLMAN. In the cities?

The CHAIRMAN. In the city rather than in the country.

Mr. SPELLMAN. Yes, sir; naturally that attracts the young men who are clerks, and people of that kind, who have a little education and are of a higher order of intelligence than the ordinary peon of the country. The largest class of the inhabitants are Indians in Nicaragua and they are practically all ignorant. Very few of them can read or write.

Senator WILLIAMS. Is it or not true that about 25 per cent of those people who compose the political class, who fight for the Government, revolutionize against the Government and the other 75 per cent go about their business and do not pay any attention to it?

Mr. SPELLMAN. If they were let alone, they would go about their business—I would say less than 75 per cent.

Senator WILLIAMS. Do they close all shops during the revolution longer than one day?

Mr. SPELLMAN. Well, they close up maybe while the town is being raided.

Senator WILLIAMS. While the crowds are coming in like a set of cowboys, they close up the shops, and the next day they do not care a cent who has got the Government?

Mr. SPELLMAN. No, sir; as long as they let them alone. Maybe they have to pay a little more board, and the new Government will collect double the duties.

Senator SMITH of Michigan. Did you know Adolfo Diaz?

Mr. SPELLMAN. Yes, sir; I have known Adolfo Diaz for quite a number of years. I knew him in Bluefields when he was a clerk.

Senator SMITH of Michigan. Who did he clerk for?

Mr. SPELLMAN. He was a clerk for a mining company—the La Luz Mining Co. He was Estrada's right-hand man in the revolution.

Senator SMITH of Michigan. You have not been down there in late years?

Mr. SPELLMAN. No, sir; in four years. I left there at that time. That was after Estrada went in. I was down there last year on a flying trip.

Senator SMITH of Michigan. Where did you go?

Mr. SPELLMAN. To Bluefields only, on the east coast. I went to Cape Gracias, and down the coast to Bluefields.

Senator WILLIAMS. How is that population divided politically, according to your judgment, between the Diaz party and the other party? Just make a rough guess at it.

Mr. SPELLMAN. Well, I should say the intelligent people of the country are fairly divided into two parties, what are known as Liberals and Conservatives. Of course, when one side is in power you do not hear much of the other side. The other fellow does not tell what he is.

The CHAIRMAN. Is that all?

Senator SMITH of Michigan. I had only one or two questions to ask, and I hoped to get some information from you, but I have been unable to do so.

Mr. SPELLMAN. I am sorry, Senator, that I have not been able to give it to you.

Senator SMITH of Michigan. I did not ask you, but is the La Luz Mining Co. a gold-mining company?

Mr. SPELLMAN. Yes, sir.

Senator SMITH of Michigan. Is it an American corporation?

Mr. SPELLMAN. No, sir; it was really practically owned by a man by the name of Arambrau, who is a Spaniard, not a Nicaraguan.

Senator SMITH of Michigan. It has since been reorganized into the Nicaraguan-United States.

Mr. SPELLMAN. Yes, sir; it has been reorganized.

Senator SMITH of Michigan. And is owned by a concern in Pittsburgh?

Mr. SPELLMAN. Yes, sir.

(Mr. Spellman was thereupon excused, and the committee, at 5 o'clock p. m., adjourned until to-morrow, Wednesday, July 14, 1914, at 10 o'clock a. m.)



CONFIDENTIAL

Case

HEARING

BEFORE THE

**COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

SIXTY-THIRD CONGRESS

SECOND SESSION

ON

**CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA**

PART 13

Printed for the use of the Committee on Foreign Relations



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1914

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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

TUESDAY, JULY 14, 1914.

COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE,
Washington, D. C.

The committee met at 10 o'clock a. m.

Present: Senators Stone (chairman), Swanson, Smith of Arizona, Saulsbury, Smith of Michigan, and Mr. Root.

The CHAIRMAN. The committee will come to order. We will now hear Mr. Cole. Senator Smith, do you desire to interrogate the witness?

Senator SMITH of Michigan. Yes.

TESTIMONY OF WALTER BUNDY COLE, 265 WEST EIGHTY-FIRST STREET, NEW YORK, MANAGER OF THE TOWN TAXI CO.

(Walter Bundy Cole, having been first duly sworn, testified as follows:)

Senator SMITH of Michigan. Mr. Cole, you were sent to Nicaragua some time ago in the interest of certain New York bankers; were you not?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. Who sent you, and what was your purpose in going?

Mr. COLE. I was engaged by Messrs. Brown Bros. & Co. and J. & W. Seligman, and I was sent as manager of the National Bank of Nicaragua with the idea of founding the national bank and its branches, and also attending to the carrying out of the conversion scheme.

Senator SMITH of Michigan. What year was that?

Mr. COLE. I was retained at the beginning of 1912 and remained in the New York offices of Messrs. Brown Bros. & Co. until June, when I left for Nicaragua.

Senator SMITH of Michigan. The same year?

Mr. COLE. The same year.

Senator SMITH of Michigan. What experience had you had in financial affairs when you went down there?

Mr. COLE. My banking experience began in 1905, when I was accountant of the Banco Internacional of Guatemala. I had also been manager of the Santiago branch of the North American Trust Co., which afterwards merged into the National Bank of Cuba. I had also been assistant to the president of the International Banking

Corporation in Mexico, and was afterwards appointed the manager of their business in Panama and Colon on the Canal Zone. My residence in Latin America began in 1888 and has only just terminated. Twenty-five years' experience.

Senator SMITH of Michigan. When you were sent to Nicaragua by Brown Bros., were there any contracts existing between Brown Bros. and the Government of Nicaragua in reference to their finances?

Mr. COLE. Yes, sir; there was the first one, known as the treasury-bills agreement, which provided for a loan of \$1,500,000, which was a loan at par at 6 per cent interest, and there was a supplementary contract providing for a further loan of \$500,000, and I think there was included in that contract an additional advance of \$255,000, which was to be expended by the Government of Nicaragua on its immediate current expenses.

Senator SMITH of Michigan. Had you been preceded to Nicaragua by Mr. Wands?

Mr. COLE. Oh, Mr. Wands had been in Nicaragua before I came into connection with the business at all.

Senator SMITH of Michigan. And Conant and Harrison?

Mr. COLE. When I first came into the business Messrs. Harrison and Conant were in Nicaragua. Mr. Harrison arrived in New York, I think, in 1912, and I worked with him in the New York office for two or three weeks; that is to say, we were in the same office together exchanging views. Mr. Conant arrived later.

Senator SMITH of Michigan. When you arrived in Nicaragua, the so-called fictitious issue of the circulating medium, amounting to somewhere around \$20,000,000, had been made, had it not?

Mr. COLE. It had all been disposed of.

Senator SMITH of Michigan. That had all been issued and put out?

Mr. COLE. Oh, yes.

Senator SMITH of Michigan. Do you know anyone who got any of that money?

Mr. COLE. I can not say anything about it positively.

Senator SMITH of Michigan. What is your impression?

Mr. COLE. I have heard lots of rumors. I think that Gen. Mena got a fair proportion.

Senator SMITH of Michigan. Who else?

Mr. COLE. And I have heard it said that Adolfo Diaz got ₡750,000, in order to reimburse himself for the out-of-pocket expenses that he had incurred during the revolution in Bluefields.

Senator SMITH of Michigan. Who else?

Mr. COLE. I do not know whether I could mention the names, but I think it was divided up, according to what I have heard, amongst what is known as the conservative element of Granada.

Senator SMITH of Michigan. Who did that include—what prominent characters?

Mr. COLE. The La Cayos and the people affiliated with them. The La Cayos in Granada is a name something like Smith in the United States. They have been intermarrying for years and years. The progeny is very numerous.

Senator SMITH of Michigan. Where was Chamorro from?

Mr. COLE. He was from Granada.

Senator SMITH of Michigan. Was he included in this?

Mr. COLE. I have never heard that Emiliano Chamorro, the present representative here, ever received any money. I have never heard that.

Senator SMITH of Michigan. How about his father?

Mr. COLE. The father, I do not know if he got any part of that issue, but I do know that during the bank's administration of the internal revenues he was paid a small sum of money.

Senator SMITH of Michigan. What experience did your bank have with Adolfo Diaz with reference to that \$750,000.

Mr. COLE. He was always endeavoring to secure money from the bank. He said this was necessary in order to reimburse him for the payments which he was continually making on behalf of the Government. The largest operation the bank ever had with Adolfo Diaz—I am only speaking from memory—was that he begged for a loan before the exchange reached its then rock point.

Senator SMITH of Michigan. That is 12.50?

Mr. COLE. Twelve fifty. He wished to have a loan in gold against a deposit of ₡750,000.

Senator SMITH of Michigan. When was that?

Mr. COLE. I will have to try to recall the date. It must have been in September or October of 1912.

Senator SMITH of Michigan. What was the rate of exchange at that time between Nicaraguan money and gold?

Mr. COLE. I think it was either 14 or 14.50.

Senator SMITH of Michigan. To 1? But the executive decree had made it 12.50 to 1.

Mr. COLE. That decree had not been issued at that time, nor did we know positively the rate that was going to be fixed.

Senator SMITH of Michigan. You knew?

Mr. COLE. Naturally I knew, but I did not tell anybody. One day he asked me would I tell the President what I told him, and I would not. ✓

Senator SMITH of Michigan. Brown Bros. knew?

Mr. COLE. Yes, sir; they knew.

Senator SMITH of Michigan. And he wanted this money against this ₡750,000 before the actual exchange basis went into effect?

Mr. COLE. Undoubtedly.

Senator SMITH of Michigan. Did you make him the loan?

Mr. COLE. Oh, yes.

Senator SMITH of Michigan. What did you take as security?

Mr. COLE. I consulted New York on the proposition by cable and the loan was authorized, and he then deposited ₡750,000 with the bank as a time deposit for three months, and in exchange he received the usual document extended by the bank in all such time deposits.

Senator SMITH of Michigan. From your dealings with Mr. Diaz would you say that he was frequently driven to make loans?

Mr. COLE. He was continually asking for money, but he did not succeed in making many loans.

Senator SMITH of Michigan. Why? Did he not have the collateral?

Mr. COLE. He did not have the collateral, and we were not making loans without collateral.

Senator SMITH of Michigan. This was after he became president and while he was president?

Mr. COLE. Yes, sir; while he was president.

Senator SMITH of Michigan. Before the rate of exchange was definitely fixed at 12.50 to 1 there was considerable opportunity to make money, was there not?

Mr. COLE. Undoubtedly.

Senator SMITH of Michigan. Between the currency floating without the definite rate of exchange and gold value?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. Do you know of any one who made any money out of that situation?

Mr. COLE. Adolfo Diaz made money out of the \$750,000.

Senator SMITH of Michigan. Who else made any money?

Mr. COLE. The names of the others are not known because I think the bulk of the operations were carried out through what is known as Martin's Bank.

Senator SMITH of Michigan. What kind of bank was that?

Mr. COLE. It is an English institution, controlled by a man named Martin who has been for many years in the country; a Frenchman whose name I can not recall just at the moment, and another foreigner, Polaccio.

Senator SMITH of Michigan. Through this institution the exchange was bought and sold?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. In large quantities?

Mr. COLE. Oh, yes.

Senator SMITH of Michigan. And large sums of money were undoubtedly made. From the time that you went down there, how widely did the exchange vary between Nicaragua money and gold?

Mr. COLE. Let me explain from the beginning. Before I had got down there the first rate had been fixed at 16 for 1 by the currency experts—

Senator SMITH of Michigan. Who were they?

Mr. COLE. Messrs. Harrison and Conant—after consultation with New York, and it was arranged that certain banks, or certain financial institutions, principally Martin's Bank, should at that figure redeem 8,000,000 of the native bills.

Senator SMITH of Michigan. That is the native currency?

Mr. COLE. The native currency. That was put through, and when I reached Nicaragua the rate was then 15.50.

Senator SMITH of Michigan. To 1?

Mr. COLE. 15.50 to 1.

Senator SMITH of Michigan. And circulation was quite general in the exchange at that time?

Mr. COLE. Oh, yes; naturally.

Senator SMITH of Michigan. Among officials and private citizens and business men?

Mr. COLE. I do not think the officials had very much, most of them, with which to speculate, but all those who had any money were speculating. On August 28 the exchange was reduced to 15 by me—

Senator SMITH of Michigan. Who reduced that—who fixed that arbitrarily?

Mr. COLE. I suggested it to New York and it was approved. This was during the worst stage of the revolution.

Senator SMITH of Michigan. That is, the Mena revolution?

Mr. COLE. The Mena revolution.

Senator SMITH of Michigan. Against Diaz?

Mr. COLE. It was reduced to 15 on October 14. It was reduced to 14.50 by the same process.

Senator SMITH of Michigan. The same year?

Mr. COLE. The same year.

Senator SMITH of Michigan. Now, this was done always by the bankers arbitrarily, through your suggestion?

Mr. COLE. Through my suggestion, and I disclosed the information to nobody. The rates were fixed in the bank every day on a sheet of paper, and when these changes were made I went down myself with one of my assistants, and I wrote out the rates and they were posted on the wall and everybody could see them when the bank opened the next morning.

Senator SMITH of Michigan. Of course, they all understood that gradually the rate of disparity was narrowing?

Mr. COLE. Yes, sir; naturally.

Senator SMITH of Michigan. They could all see that the currency was appreciating.

Mr. COLE. They could all see the handwriting on the wall. I do not remember the other exact dates of the different changes, but I know that on January 13 the rate was finally fixed at 12.50.

Senator SMITH of Michigan. How long did it remain at 12.50?

Mr. COLE. It is 12.50 to-day. It has never changed.

Senator SMITH of Michigan. So that between the time you arrived there and the time you left there the rate of exchange of Nicaraguan money for American money in gold varied from 18—

Mr. COLE. From 15.50 from the time I arrived.

Senator SMITH of Michigan. No; 16.

Mr. COLE. From the time I arrived, 15.50. When I arrived it was 15.50.

Senator SMITH of Michigan. From 15.50 to 12.50.

Mr. COLE. Exactly so.

Senator SMITH of Michigan. Who handled the customs in your bank? They were brought there for deposit, were they not?

Mr. COLE. Oh, yes, sir; the bank handled them simply as an ordinary deposit account.

Senator SMITH of Michigan. Then what was done with them?

Mr. COLE. For a certain portion of the time, according to the treasury bills agreement, there was always an amount to be remitted sufficient to satisfy the payment of interest on the Ethelburga loan and provide for the sinking fund.

Senator SMITH of Michigan. That remained in Nicaragua?

Mr. COLE. No; that was always remitted to the bankers. That was a first charge on the customs, and then the balance for a considerable portion of the time was remitted to the bankers, always leaving a credit naturally in the hands of the officials of Nicaragua, the custom-house officials.

Senator SMITH of Michigan. As a matter of fact, you did not carry much money in the Nicaragua Bank?

Mr. COLE. No; we did not.

Senator SMITH of Michigan. You remitted to New York?

Mr. COLE. We remitted to New York.

Senator SMITH of Michigan. When you remitted to New York the same relative rates of exchange prevailed as prevailed in other transactions?

Mr. COLE. Exactly. They bought exchange just the same as anybody else.

Senator SMITH of Michigan. Can you recall the volume of the customs receipts generally?

Mr. COLE. The total customs receipts, so far as I remember, were anywhere from \$120,000 to \$135,000 a month.

Senator SMITH of Michigan. They gradually rose to about \$250,000 a month, did they not?

Mr. COLE. Not while I was there.

Senator SMITH of Michigan. Not while you were there?

Mr. COLE. No, sir.

Senator SMITH of Michigan. And when did you say you left there?

Mr. COLE. I left there last December.

Senator SMITH of Michigan. Have you kept track of the matter since to see?

Mr. COLE. No; I have not.

Senator SMITH of Michigan. So you are unable to say what the customs receipts have been since you left?

Mr. COLE. I absolutely know nothing about it.

Senator SMITH of Michigan. The customs receipts gradually found their way to Brown Bros.' bank, or to Brown Bros., in New York?

Mr. COLE. For some portion of the time, but under the new arrangement—

Senator SMITH of Michigan. Which new arrangement; the supplementary one?

Mr. COLE. Under the terms of the new loan, the loan that was made in August or September of last year, the customs receipts, after providing for this Ethelburga charge, were turned over to the minister of finance and he disposed of the same in payment of the Government expenses.

Senator SMITH of Michigan. You had a veto on that?

Mr. COLE. No, sir; we had no veto.

Senator SMITH of Michigan. Were there not times when they could not get money for the salaries of their assemblymen or the president?

Mr. COLE. The funds were not there.

Senator SMITH of Michigan. Where were they?

Mr. COLE. They had no funds. Nobody had. They were all expended.

Senator SMITH of Michigan. But whatever funds there were had been parceled out to these various debts and held by the bankers in New York, as I understand it. Am I correct?

Mr. COLE. No. Under the treasury-bills agreement these fixed charges had to be paid and the balance was remitted to the bankers in partial payment of the advances made; but under the new arrangement, under the last loan—I think the last loan was for \$1,000,000, if I remember correctly—last September or August—

Senator SMITH of Michigan. Do you mean the loan against the railroad?

Mr. COLE. The whole loan, I think, is \$1,000,000. I think Nicaragua was to receive \$2,000,000, which was \$1,000,000 for the rail-

road (for the 51 per cent of the railroad), and \$1,000,000 as a loan, if I remember.

Senator SMITH of Michigan. A loan secured by the 49 per cent?

Mr. COLE. Yes, sir; of the bank and of the railroad, secured also by the customs. It was only secured by the customs. That does not mean that the customs are to be remitted in settlement of that loan unless Nicaragua fails to pay the million at the date of maturity.

Senator SMITH of Michigan. Now, you are talking about the later arrangement, but under the former arrangement all those customs went directly to the New York bankers?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. And you transmitted them?

Mr. COLE. I transmitted them. I sold the drafts to Col. Ham, and he transmitted the drafts.

Senator SMITH of Michigan. How much money altogether did Brown Bros. and Seligman loan to Nicaragua?

Mr. COLE. There was one million and a half under the Treasury bills agreement; the supplementary loan, \$500,000; and then \$255,000.

Senator SMITH of Michigan. Now, that represents the entire amount?

Mr. COLE. No, sir; then there was a further amount.

Senator SMITH of Michigan. What was the supplementary loan?

Mr. COLE. \$500,000 and \$255,000, and later on, after the collapse of the Mena revolution, they advanced either \$400,000 or \$500,000.

Senator SMITH of Michigan. These last advances had been held as part of the redemption fund, had they not, and were surrendered after that?

Mr. COLE. The last \$400,000?

Senator SMITH of Michigan. Yes.

Mr. COLE. They were remitted to Nicaragua and expended.

Senator SMITH of Michigan. Then altogether—

Mr. COLE. I was going to add, Senator, that in addition the bank on one occasion advanced \$100,000 to the Government—the bank itself, not Brown Bros. or Seligman—but the bank advanced \$100,000 against a security of aguardiente.

Senator SMITH of Michigan. According to these figures there was advanced \$2,255,000 prior to this \$400,000 or \$500,000 of which you speak?

Mr. COLE. Yes; that is so.

Senator SMITH of Michigan. Does that represent all the advances made?

Mr. COLE. So far as I know; yes, sir. I can not recall any more.

Senator SMITH of Michigan. You were their manager down there?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. Now, as I understand it, the bankers received back for these advances 51 per cent of the railroad, to which a million was credited?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. That was a sale. Now, that portion of the bank stock, 51 per cent, how much did that cost?

Mr. COLE. Fifty-one thousand.

Senator SMITH of Michigan. That was returned; that is, in this new form that was returned?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. So that would make \$1,051,000 that was returned?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. Had anything else been returned to them in property?

Mr. COLE. They had been receiving the customs.

Senator SMITH of Michigan. For how long a time?

Mr. COLE. I do not know how much that amounted to.

Senator SMITH of Michigan. For how long a time?

Mr. COLE. It started before I went down there.

Senator SMITH of Michigan. It started in December, 1911?

Mr. COLE. Yes, sir; before I went down there.

Senator SMITH of Michigan. You were there how long?

Mr. COLE. I was there from July, 1912, until December, 1913, with an interregnum in the United States.

Senator SMITH of Michigan. Well, if they were taking the customs receipts from December, 1911, to December, 1913, how long a period would that be—that is two years?

Mr. COLE. No; they were not taking them up to December, 1913, because at a certain period they sacrificed their right to receive the customs receipts and turned them over to the Government of Nicaragua.

Senator SMITH of Michigan. That is, after they got the railroad?

Mr. COLE. No; I think that was before they bought the railroad, before the last deal was consummated.

Senator SMITH of Michigan. After they got their option on the railroad?

Mr. COLE. They had their option at the very beginning, before they went into it.

Senator SMITH of Michigan. How long did they take the customs?

Mr. COLE. I do not remember exactly, but I should think they took them for 18 months.

Senator SMITH of Michigan. Eighteen months, with an average of \$120,000 a month?

Mr. COLE. I would not say that was the average. Of course, there would have to be the Ethelburga charge deducted.

Senator SMITH of Michigan. I understand that.

Mr. COLE. I doubt if they would average \$120,000 from the beginning.

Senator SMITH of Michigan. What would they average, in your judgment?

Mr. COLE. I should think about \$100,000 a month, on the average.

Senator SMITH of Michigan. That would be \$1,800,000 in customs?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. Which was received. Now, out of these customs they were paying \$31,000 a month on the amortization, and interest on the Ethelburga loan?

Mr. COLE. Yes; \$31,000.

Senator SMITH of Michigan. \$31,000 a month?

Mr. COLE. And in addition they were paying the expenses of the Mixed Claims Commission, the salaries of the three judges, and other expenses.

Senator SMITH of Michigan. The salaries of the Mixed Claims Commission—

Mr. COLE. About \$3,500 a month. They were also paying the salary—

Senator SMITH of Arizona. What do you mean by dollars?

Mr. COLE. Dollars, as we know dollars.

Senator SMITH of Michigan. Gold. They were paying the salaries of the Mixed Claims Commission amounting to how much?

Mr. COLE. About \$3,500 salaries and expenses.

Senator SMITH of Michigan. A month?

Mr. COLE. They were also paying the salaries and expenses of Salvador Castrillo, who used to be the representative of Nicaragua in Washington.

Senator SMITH of Michigan. How much were they paying him?

Mr. COLE. About \$1,000 a month.

Senator SMITH of Michigan. What was that for?

Mr. COLE. Salary as minister; and then for a certain part of the time—I think from about May, 1913, to the end of July—after paying the Ethelburga charges out of the customs, 25 per cent of the balance was diverted to the exchange fund in order to strengthen that.

Senator SMITH of Michigan. That is the exchange fund—

Mr. COLE. The conversion fund.

Senator SMITH of Michigan. Which was back of the conversion of the Nicaraguan currency into the new plan?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. That was diverted to that fund from customs?

Mr. COLE. It was diverted by special decree.

Senator SMITH of Michigan. All right. What else?

Mr. COLE. That is all I can recall at the present time.

Senator SMITH of Michigan. Do you know what the debts of Nicaragua were when you arrived there?

Mr. COLE. No; I do not. I even tried to find out, but I could never find out what the debt of Nicaragua was.

Senator SMITH of Michigan. These debts were well known—the Ethelburga, \$6,250,000—

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. The railroad bonds of 1886, \$1,225,000—

Mr. COLE. I know nothing about those.

Senator SMITH of Michigan. And the so-called Wineberger bonds of 1904, \$1,000,000.

Mr. COLE. I know nothing about those. Of 1904?

Senator SMITH of Michigan. 1904.

Mr. COLE. I do not know anything about them.

Senator SMITH of Michigan. They have been converted since under this plan that you supervised, as far as they were presented. I think.

Mr. COLE. I had nothing to do with the convertibility of the bonds, or the conversion of the bonds.

Senator SMITH of Michigan. You had to do with the conversion of their currency—

Mr. COLE. Of their currency; yes.

Senator SMITH of Michigan. Into a gold standard?

Mr. COLE. Yes, sir; naturally.

Senator SMITH of Michigan. Now, is there any gold standard in force in Nicaragua?

Mr. COLE. Yes; the gold standard is enforced in Nicaragua, inasmuch as a man going to the bank with bills of the Nicaraguan currency can buy a draft at sight payable in New York.

Senator SMITH of Michigan. Exactly; and that is the only basis for the suggestion that they are upon a gold standard?

Mr. COLE. Absolutely.

Senator SMITH of Michigan. The merchants or tradesmen or laborers who deal merely locally have no occult evidence of any gold standard?

Mr. COLE. There is no gold in the country; not a coin.

Senator SMITH of Michigan. Is there any gold held anywhere in reserve to insure the parity of the Nicaraguan and American exchange?

Mr. COLE. I can not answer you in the present tense; I can only answer you in the past tense. When I left Nicaragua—if you will allow me to refresh my memory as to dates by this memorandum—I prepared a statement in accordance with instructions received from New York on the 15th—

Senator SMITH of Michigan. From the bankers?

Mr. COLE. From the bankers, on the 15th of November last, and that showed that there was a reserve fund held by Brown Bros. and J. & W. Seligman & Co. in gold, amounting to about 40 per cent of the total currency of Nicaragua; that is to say, of the new currency that had been issued by me, the Cordobas, and also of the old currency which had not at that time been redeemed, and the value of which had been estimated by the experts. I had to take their figure. There was about 40 per cent of that in gold reserve.

Senator SMITH of Michigan. Where was it held?

Mr. COLE. It was held by Brown Bros. and J. & W. Seligman, of New York.

Senator SMITH of Michigan. Where was it deposited?

Mr. COLE. With Brown Bros. & Co. and J. & W. Seligman.

Senator SMITH of Michigan. Then you do not refer to the deposit formerly held by the United States Mortgage & Trust Co.?

Mr. COLE. No; that was the first part of the agreement, and when the last agreement was made—the last loan with Nicaragua—the United States Mortgage & Trust Co. ceased to be trustee of that fund, and the money was held by Brown Bros. & Co. and J. & W. Seligman.

Senator SMITH of Michigan. Now, that was up to what time?

Mr. COLE. November 15, 1913.

Senator SMITH of Michigan. Are you conversant with that situation since that date?

Mr. COLE. Not at all. I have not kept in touch with Nicaragua at all.

Senator SMITH of Michigan. Do you know whether there is any gold reserve now held anywhere against this currency?

Mr. COLE. I do not know the first thing about it. I have made no inquiries, and I have consulted nobody before I came, and I wish to drop my connection altogether with Latin America.

Senator SMITH of Michigan. What is your information about that matter? I want your information as to whether or not the finances

of Nicaragua are upon a gold standard to-day—that is, the committee desires to know.

Mr. COLE. Well, if the bankers withdraw their support, I do not think the gold standard would amount to very much in Nicaragua, because I have always had a doubt in my mind as to whether in the reports of Messrs. Harrison and Conant, they were able to decide with any degree of accuracy the bills outstanding, and for which the gold fund is responsible. They certainly seriously erred in estimating the amount of money that would be required to carry out the conversion.

Senator SMITH of Michigan. Of the gold?

Mr. COLE. Yes, sir; inasmuch as that has had to be bolstered up from time to time.

Senator SMITH of Michigan. In what way?

Mr. COLE. The funds have been exhausted. More bills have been presented for redemption than evidently they considered was feasible.

Senator SMITH of Michigan. So that from time to time the reserve to maintain the parity—if a reserve was maintained—had to be increased?

Mr. COLE. It had to be increased—replenished. At one time during last summer, while negotiations were pending for a new loan and the liquidation of the old one, the gold fund—the gold conversion fund—of the United States Mortgage & Trust Co. was absolutely nothing; there was nothing there at all, and Brown Bros. and Seligman came across and paid the drafts that were presented.

Senator SMITH of Michigan. They paid the drafts?

Mr. COLE. They paid the drafts.

Senator SMITH of Michigan. That is, a draft made through the National Bank of Nicaragua, which is Brown Bros., and the Government's bank would be taken care of here?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. In foreign exchange?

Mr. COLE. In foreign exchange. There was a large overdraft against the bank during last summer.

Senator SMITH of Michigan. Against the Nicaragua bank?

Mr. COLE. Against the Nicaragua bank; yes, sir.

Senator SMITH of Michigan. Due to the excessive exchange?

Mr. COLE. Yes; quite so.

Senator SMITH of Michigan. Now, Mr. Brown and Mr. Seligman, I think, both said that there was no fund at the United States Mortgage Co., and that there was no fund now in their hands except about \$30,000. If that is correct—and I think I am speaking correctly, and if I am not I will take occasion to correct it—what would there be back of the so-called conversion plan?

Mr. COLE. The guaranty of the Nicaraguan Government.

Senator SMITH of Michigan. That is all?

Mr. COLE. Yes, sir.

Senator SMITH of Michigan. So it would practically place that currency upon a fiat basis—it would practically be a fiat currency?

Mr. COLE. Quite so.

Senator SMITH of Michigan. The first agreement between the Government of Nicaragua and the bankers particularly promised that the conversion plan would place gold at the disposal of Nicaragua, did it not?

Mr. COLE. I do not know that it was ever intended or ever thought that gold should circulate in Nicaragua.

Senator SMITH of Michigan. Well, there is a decree to that effect.

Mr. COLE. It simply says that the unit shall be a gold unit, and the decree also provided, if I remember right, that the money would be held in trust in New York.

Senator SMITH of Michigan. That is gold money?

Mr. COLE. That is gold.

Senator SMITH of Michigan. Do you not recall that the people down there were very much disappointed when they found that they were not going to have a metallic currency after all the talk that had been indulged in?

Mr. COLE. Quite a number of them were disappointed. Of course, they did have metallic currency—they had silver and nickel and copper in small quantities.

Senator SMITH of Michigan. But that was not gold?

Mr. COLE. That was not gold. Some of them were disappointed, but I tried myself, after many years' experience in those countries, to convince them that it would be a mistake to have gold circulated in any of those countries, as has been proved by experience in Mexico and in other countries.

Senator SMITH of Michigan. Well, in that respect were you representing the bankers?

Mr. COLE. I think I was representing their ideas on the subject.

Senator SMITH of Michigan. Well, suffice it to say there is no gold in the country.

Mr. COLE. Suffice it to say there is no gold.

Senator SMITH of Michigan. And never has been?

Mr. COLE. And never has been.

Senator SMITH of Michigan. Since this plan of Harrison and Conant and the bankers went into effect, and the only evidence of gold value is seen in the right to buy for an exchange which has been recognized by the National Bank of Nicaragua, controlled by the bankers of New York, and by their correspondents in New York?

Mr. COLE. Quite so.

Senator SMITH of Michigan. Who called the American marines to Nicaragua?

Mr. COLE. The American minister, Mr. Weitzel.

Senator SMITH of Michigan. What part did you have in it?

Mr. COLE. Fourteen or fifteen days after I arrived in Nicaragua, and had been received very attentively by Adolfo Diaz and Mena and Raphael Cuadra, who were ministers of the board of finance, respectively, a revolution started. There was a revolution by Mena, who was secretary of war, against the constituted government, of which he had formerly been a member. There was great excitement, and that same day Mr. Weitzel called me to the legation and said that he hoped to settle all the difficulties with Mena if he could get from Granada Civilian Camilo Barbareno Diaz. He claimed the man was sick in Granada; and he requested me to go with Mr. Thomas O'Connell, the manager of the railroad, to Granada, and bring him in, willy-nilly. We made up a special train, and Mr. Whitaker and Mr. Powers accompanied us, and we started out for Granada. We only got 10 miles when we were held up by armed forces and sent back to town. That accomplished nothing. Gen. Mena then left during

the night, after the electric lights had all been put out, with his followers. He did not respect the word which he had given to Mr. Weitzel that he would not stir up trouble. All communication with Granada was then interrupted; and the railroad, which was being managed by the bankers on behalf of the Government, was not in possession of its entire rolling stock, nor could it run its trains to Granada; and the steamers had been seized by Mena, and he put his rebel troops on them and bombarded a small town called San Jorge, which is the port of the Lake of Granada or Rivas, and Mr. Thomas O'Connell lodged a protest with Mr. Weitzel—

Senator SMITH of Michigan. That was the manager of the railroad?

Mr. COLE. The manager of the railroad; he lodged a protest with Mr. Weitzel. Mr. Weitzel sent for me on a Saturday—I do not remember the date, but it was Saturday morning—and showed me this protest, with which I was already familiar, and asked me to change it and frame it up in some more diplomatic language.

Senator SMITH of Michigan. Had you drafted it?

Mr. COLE. And I went to the bank and drafted it more or less in the form that Mr. Weitzel had indicated, and it was then sent down to Mr. Thomas O'Connell for his signature as manager of the railroad. The next thing I knew I was asked by Mr. Weitzel to meet a detachment of bluejackets from Managua station—

Senator SMITH of Michigan. I do not like to interrupt you, but let me ask to whom was this protest made?

Mr. COLE. To the American minister in Managua by the manager of the railroad, and special emphasis was laid on the fact that they were bombarding a defenseless town. It was on fire. That same afternoon I was requested by Mr. Weitzel to meet a detachment of bluejackets that were coming up from Corinto to protect American interests in Nicaragua. They arrived at about half-past 3 in the morning, and we escorted them to the Managua Club, which had been set off as quarters. They arrived there tired and weary and piled arms and laid down, and I think in about two seconds were fast asleep. Lieut. Campbell, in charge of the detachment, and an ensign, whose name I do not remember, asked me immediately, and Mr. Jones, who was with me—Arthur Mason Jones, who was secretary of the legation, and is now at the embassy of St. Petersburg—asked us what the military situation was in Nicaragua, and I told him I knew nothing about the military situation at all, as I was not a soldier. He then said he must know something about that as he was responsible for his men, and he did not wish them exposed to any danger. I said the only man to consult under the circumstances would be Mr. Weitzel, the American minister. It was then 5 o'clock in the morning, and he suggested that we should go around immediately and see him. I said, "Undoubtedly he will be in bed, but we will go around." We went around and waited for Mr. Weitzel. He came to the gate of his house. He just came out of bed in his bath robe or dressing gown, and he received Lieut. Campbell and this ensign.

Senator SMITH of Michigan. And yourself?

Mr. COLE. Yes; but I stopped there only a moment to introduce them, and left and went to the hotel where I was living. I had been in bed about half an hour when Mr. Jones, the secretary of the lega-

tion, came and awakened me and said I was needed at the American legation immediately. I dressed and went to the legation. Mr. Weitzel then explained to me that Lieut. Campbell had thought it advisable not to remain in Nicaragua with his men, but to take them back to the ship on which they had come—the *Annapolis*, I think, was the name of the ship, and that he would escort any Americans that wished to leave the city back to Corinto to the gunboat. I felt indignant, and possibly showed my indignation. I said I could not quit; I was not a quitter, and I left. Judge Choendrich, of the Mixed Claims Commission, was there, and I think his remarks were couched more or less in similar language, but possibly more diplomatic. I went back to the hotel and slept. I was up by noon the next day, and I then heard that the bluejackets had been moved from the Managua Club to the legation, an adjoining house which they had rented for the purpose while they were to remain in Nicaragua.

The CHAIRMAN. How many were there?

Mr. COLE. One hundred. The revolution after that grew apace. The bluejackets took no part in anything. They simply remained in the legation. They took no part or action in anything whatsoever—that is, Lieut. Campbell's bluejackets—and on one Sunday we were all alarmed by a notice sent in by a so-called Gen. Zeledon that unless the city surrendered within 12 hours, or 24 hours, he was going to bombard us. The bluejackets remained inactive and took no action whatsoever: they simply remained at the legation. True to his word, Zeledon bombarded the city.

The CHAIRMAN. He was commanding some of the revolutionary forces?

Mr. COLE. He was supposed to be commander of the Liberal forces. Evidently the Liberal forces had joined with this former Secretary of War Mena. Mena was reported to be ill in bed with rheumatism in Granada, and could not move. Zeledon was a well-known Liberal in Nicaragua. The bombardment began on Sunday, and lasted Sunday, Monday, and Tuesday. Shells fell all over the city, and quite a number of people were killed and a large number wounded.

Senator SAULSBURY. Were there any Americans?

Mr. COLE. No Americans, except one man, who, I think, was very slightly injured. It did not amount to anything.

The CHAIRMAN. Were there any foreigners killed or wounded?

Mr. COLE. No foreigners; just the natives themselves. The rebels then tried to take the city, and a very fierce engagement was fought on Tuesday and lasted over Tuesday night. It must have been about 4 miles from the center of the city, because we could hear the machine guns going all night long while we were at the hotel. The rebels broke through the Government lines and were repulsed by a machette charge led by a general from Honduras.

The CHAIRMAN. The machette is a form of sword, is it not?

Mr. COLE. It is an agricultural implement that they use for cutting down brush. They handle them beautifully. They have them very sharp, and they are experts. The rebels retired. The next day I was up at No. 1—they call the President's office No. 1—and President Diaz and Gen. Chamorro showed me where the shells had fallen down, and they told me that they had no more ammunition and they would have to surrender. They were very nervous and excited, all

except Diaz, who, although a civilian, showed more nerve than anybody, and on Thursday, much to our relief, Maj. Butler arrived from Panama with 412 marines. ✓

Senator SMITH of Michigan. You got word just before?

Mr. COLE. Yes, sir; I had cabled to New York to know, naturally, what protection was going to be afforded us, and I had a cable that certain vessels were coming on their way and that everything was being done possible to protect our interests. ✕ ✕

Senator SMITH of Michigan. Who was that from?

Mr. COLE. I forgot to mention that. On the Sunday when this bombardment commenced, although I had gone through 16 revolutions, I was a little bit scared, and I sent a cable to Mr. James Brown's private residence in Park Avenue, New York, requesting to know if anything was being done in behalf of our interests—not only my own interests but the interests of other Americans down there—and I had a reply stating that everything possible was being done and that it was expected that Maj. Butler would arrive there shortly from Panama, and that other vessels were rushing—the *Colorado*, the *California*, and other vessels, were rushing to our assistance. That came from the bankers, Brown Bros. & Co. themselves, and I think, if I remember right, the cablegram began: "State Department advises us" so and so.

On this Thursday morning the marines arrived and they immediately took possession of Managua, and there was no more fighting and no more trouble in Managua. Half of the marines were quartered at the bank with their guns—

Senator SMITH of Michigan. At your bank?

Mr. COLE. At the Bank of Nicaragua, which was a large, new, healthy building, and the other half was quartered at the house of Judge Schoendrich, known as the offices of the Mixed Claims Commission. They only remained there until the camp could be fixed. This was afterwards known as Camp Weitzel, and the bank, the former presidential palace, was in a good, healthy place.

A long period of inaction followed. Fresh bluejackets and more marines arrived; large numbers arrived in the country. Finally Col. Pendleton came upon the scene, and later Admiral Sutherland. A long period of inaction followed. The railroad was not doing any business, and if it started to carry goods to Leon, which was a Liberal stronghold, the goods would be seized.

The CHAIRMAN. Seized by whom?

Mr. COLE. By the Liberals who were then in control at Leon, and the same thing would happen at Rivas, because that was held by rebels. Nothing was doing on the railroad, except the military trains were allowed to pass, and on one Saturday morning I had a consultation with Adolfo Diaz, and Carlos Cuadra Pasos, a brother of the member of the Mixed Claims Commission, and Gen. Chamorro, and Raphael Cuadra, the financial envoy, and I prepared a cable to the bankers, suggesting—I do not remember the exact wording of the cable, it was a long cable—but telling exactly what had been done and the present condition, and I sent this cable in the name of the President, as he requested me so to do, and in which he said that unless conditions were altered and the revolution cleaned up, he would leave the country without further delay.

Senator SAULSBURY. When you speak of military trains being allowed to pass, what military trains were they—American military, bluejackets and marines.

Mr. COLE. Bluejackets and marines.

Senator SMITH of Michigan. In that message you did not say: "The President desires me to say"?

Mr. COLE. "The President requests me to cable you as follows."

Senator SMITH of Michigan. Had you signed the message?

Mr. COLE. I signed the message. The President asked me not to put his name to it, but to put it in that form: "The President requests me to cable you as follows."

Senator SMITH of Michigan. The cable was to whom?

Mr. COLE. To Brown Bros. & Seligman, the bankers.

Senator SMITH of Michigan. What did it say?

Mr. COLE. It summarized the situation, and there was an implied criticism of Mr. Weitzel for having accepted Gen. Mena's word that he would not create any disturbance and not having allowed the Nicaraguan Government to arrest him when they wished to.

Senator SMITH of Michigan. Who sent that?

Mr. COLE. It was a part of the same message. It recited the other facts, that the railroad was not in a position to work; that the country would only be in a condition of anarchy, and that the rebel stronghold in Rivas was still held by the rebels, and no train could get through to Managua. It mentioned that the military authorities or naval authorities had arranged that when there was a train to go through Rivas—it is through a sort of narrow defile of the railroad—that the rebels would fly the American flag, showing that it was all clear and that they could go through, and we understood that the American flag had been given them for that purpose, and the final part, I think, of the message, was to the effect that unless the situation was cleared up, President Adolfo Diaz would leave the country without further notice.

Senator SMITH of Michigan. Have you understood that President Diaz disavowed that telegram?

Mr. COLE. I heard afterwards, and it did not surprise me, that he disavowed certain parts of the telegram which reflected on Mr. Weitzel, through his friend Salvador Calderon. As it is such a common practice among Latin Americans, it did not surprise me at all. But in order to make no mistake—although President Diaz claims to know no English, he understands a great deal of English—I was very careful to translate this telegram from English into liberal Spanish, and they all discussed it, and there was no misunderstanding about any word, even as to a comma or even a full stop in the whole telegram.

Senator SMITH of Michigan. Have you a copy of that telegram?

Mr. COLE. The bankers have it.

Senator SMITH of Michigan. They have it?

Mr. COLE. Yes; I have not anything in connection with it. I left everything with the bank. I received a reply from the bankers stating, if I remember right, that they were proceeding to Washington to lay this telegram before the proper authorities. I received no further reply, but inside of about 48 hours the revolution was all over, because the United States forces took action. They took action

and dislodged the rebels and brought them to Granada and took Mena prisoner.

Senator SMITH of Arizona. What year was this?

Mr. COLE. July and August of 1913. ¹⁹¹²

Senator SMITH of Michigan. Have you any knowledge of the instructions given by the State Department or the Navy Department to our marines and bluejackets?

Mr. COLE. None whatsoever.

The CHAIRMAN. Did you say it was last year?

Mr. COLE. Last year, 1913. ¹⁹¹²

Senator SMITH of Michigan. Let me call your attention to this language. This is a report of Col. Pendleton stating the third period in their occupation of Nicaragua: "At 10.20 p. m., September-25, special train arrived from Managua with orders to again send Company E there." Do you know anything about that?

Mr. COLE. No; I only drew deductions.

Senator SMITH of Michigan. From what occurred?

Mr. COLE. From what occurred.

Senator SMITH of Michigan. That they had had new instructions?

Mr. COLE. Yes, sir. It is as clear as that the night follows the day.

Senator SMITH of Michigan. Did you hear anything from the bankers about the new instructions?

Mr. COLE. Not a bit.

Senator SMITH of Michigan. All you heard was that they were to go to Washington and take the matter up and endeavor to arrange it? ✓

Mr. COLE. That is all.

The CHAIRMAN. You read from a paper which you have before you, which you say is the report of Col. Pendleton to the Navy Department?

Senator SMITH of Michigan. Yes.

The CHAIRMAN. Is that an original paper that you have there?

Senator SMITH of Michigan. No, sir; it is a copy.

The CHAIRMAN. It came from the Navy Department?

Senator SMITH of Michigan. I do not know where it came from, Senator. I only know it was placed in my hands and purports to be a copy of the entire report of Col. Long to Col. Pendleton on the operations of his marines and bluejackets in Nicaragua.

The CHAIRMAN. It may be all right; I do not know; but I was going to ask if you had ever examined the original?

Senator SMITH of Michigan. No; I have not. I am very hopeful that you will ask for it and that we will get it from the Navy Department, in which event it can be readily referred to.

Senator SAULSBURY. You refer to some date in November. Was that in 1913?

Senator SMITH of Michigan. September 25. I think this is 1912.

Mr. COLE. 1912; yes.

Senator SMITH of Michigan. Wherever you have said 1913 you want it to be 1912?

Mr. COLE. Yes; 1912.

Senator SMITH of Michigan. There are other quotations here. I do not want to put them in if you are going to ask for the report. I would prefer to have the report. But I have referred once before

to this, and I think it is in the record that Col. Long's report to the Navy Department says:

The Liberals constitute three-fourths of the country. The present Government is not in power by the will of the people. Elections in the House of Congress were mostly fraudulent. President not thought to be a strong man.

I would like, if you are through with the part that the bankers took and that you took in getting troops and ships of war to Nicaragua, to divert your attention to this; but if you are not through, I want you to go ahead, because it is very pointed and very interesting.

Mr. COLE. That is all. That was the end of the revolution. As to these fresh elections, the continuation is that fresh elections were called. There is one little point that I have omitted, and I think it is well worth mentioning, and that is that a representative, an officer of the Marine Corps, soon after Maj. Butler arrived in Managua—Lieut. Conger—was sent to interview Gen. Mena or Gen. Zeledon and demand the return of the railroad and the railroad rolling stock and property to the Government of Nicaragua, and Gen. Mena's reply was that he only had what belonged to the people; he only had 49 per cent of the rolling stock of the railroad and that the Nicaraguans had the other 51 per cent.

The CHAIRMAN. The Nicaraguans had 51 per cent?

Mr. COLE. The Nicaraguans, under the management of the bankers.

The elections were called some time after by Adolfo Diaz. I did not pay any attention to them because I looked upon the result as a foregone conclusion, and I believed that part of the country was under martial law when the elections were held. As I say, I did not pay any attention to the elections. I did not see any sign of election. I was told that one was going on, but I had been so used to that thing in Latin-America that it did not occur to me as being anything extraordinary.

Senator SMITH of Arizona. Let me ask you a question there. You are speaking of elections in Nicaragua. Do you know anything about the people of Mexico? What is the difference in their knowledge of citizenship and of its obligations and the voting principals of the Government? What does the general mass of the Nicaraguans know about it?

Mr. COLE. I think the general mass of Nicaraguans are much more intelligent than the general mass of the Mexicans. Every Nicaraguan that I have met, with very few exceptions, can read, and does read, a newspaper; but in Mexico the peon is absolutely uneducated and can neither read nor write.

Senator SMITH of Arizona. Do you consider the Nicaraguans, as a people, capable of self-government, as we know it, under a republic?

Mr. COLE. That is a broad question, Senator; but the only thing I can say is that I do not think any Indian or any negro is capable of self-government. I can not help saying that, whether my views accord with anybody else's or not. But those are my views.

Senator SMITH of Arizona. And those are my views.

Mr. COLE. And they are all Indians in Mexico, and they are all Indians in Nicaragua. If we go on the principle of calling an Indian an Indian, the same as we do in calling a nigger a nigger—that is, where a man has one drop of Indian blood in his veins—in my opinion he is an Indian.

Senator SMITH of Michigan. What proportion of the people of Nicaragua belong to the so-called liberal party?

Mr. COLE. That is very hard to say. I have never seen a fair election there. You can not judge without a fair election whether the people vote according to their ideas or according to what their leaders tell them.

Senator SMITH of Michigan. Could the present Government down there be maintained at all without the aid or presence of the American marines?

Mr. COLE. I think the present Government would last until the last coach of marines left Managua station, and I think President Diaz would be on that last coach.

Senator SMITH of Michigan. And no longer?

Mr. COLE. Not one bit.

Senator SMITH of Arizona. How long will the next one last?

Mr. COLE. It would be quite impossible to tell you.

Senator SMITH of Michigan. I would like to ask you if you had anything to do with the sale of the 51 per cent of the Nicaragua National Railroad to Brown Bros.?

Mr. COLE. No, sir.

Senator SMITH of Michigan. Do you know of any negotiations by anyone else for the purchase of that railroad other than Brown Bros. and Seligman?

Mr. COLE. I was told on one occasion by a Mr. Minor C. Keith, who is a very warm friend of mine, that he, as president of the International Railroad Co. of Central America, which is an English corporation, wanted to buy the railroad. The Browns asked a million and a half for it, and he thought it was altogether too much. He was only willing to pay possibly \$1,250,000. That is all I have ever heard.

The CHAIRMAN. Do you mean for the 51 per cent?

Mr. COLE. For 51 per cent.

Senator SMITH of Michigan. You know nothing about its earning capacity before it went into the hands of Brown Bros.?

Mr. COLE. Nothing at all.

Senator SMITH of Michigan. Do you know anything about its earning capacity since?

Mr. COLE. I know that during its administration by the bankers it earned a fairly large surplus, but all of that had to be expended in improvements, acquiring new rolling stock, and repairing stations, because the railroad had been all shot to pieces, and if the American bankers, or some moneyed organization, had not taken hold of that railroad, I doubt very much whether there would be a train running to-day in Nicaragua. It was in a hopeless condition.

Senator SMITH of Michigan. It has piled up a comfortable surplus.

Mr. COLE. I imagine it has, because labor is very cheap in Nicaragua.

Senator SMITH of Michigan. Have you any information or knowledge or experience which would enable you to tell the committee how much, in your judgment, that railroad is worth, based upon present earnings?

Mr. COLE. There is a large "if" in that. I have always considered the railroad proposition a very valuable deal if it has attached

to it the option to build the railroad from the Pacific coast to the Atlantic, but without that option I should imagine the value of the railroad is between two and a half to three million dollars.

Senator SMITH of Michigan. But you are unable to give the committee any information as to just what it earns?

Mr. COLE. I can not tell you that. I do not know.

Senator SMITH of Michigan. When you speak of two and a half to three million dollars, you speak of it as a whole?

Mr. COLE. As a whole.

Senator SMITH of Michigan. That is, 33,000 shares of stock?

Mr. COLE. Yes, sir; the whole railroad.

Senator SMITH of Michigan. Not the 51 per cent, but the 49 per cent. Which would be the most valuable holding, the 51 per cent or the 49 per cent?

Mr. COLE. The 51 per cent, because it gives control.

The CHAIRMAN. You spoke of the value of the railroad, which you appraise at—

Mr. COLE. Between two and a half and three millions.

The CHAIRMAN. Two and a half and three millions is the value at this time or when the bankers took over the 51 per cent.

Mr. COLE. When the bankers took it over. Possibly it is worth a good deal more now, because the profits, I understand, have been expended in improvements.

Senator SMITH of Michigan. You are the financial manager of Brown Bros. in Nicaragua?

Mr. COLE. I was their representative as well as the manager of the bank. When I first went down there a Mr. J. A. Whitaker was the representative of their interests. After the revolution he came up to New York and was appointed director and secretary of the bank, resident in New York, and I then, in addition to my duties as bank manager, took over the duties of the representative of the bankers, for which I received no extra remuneration.

Senator SMITH of Michigan. I think that is all I care to ask, Mr. Chairman.

Senator SMITH of Arizona. Do you know Mr. Thomas C. Dawson?

Mr. COLE. I know him by name only.

Senator SMITH of Arizona. Were you at Managua when he was there?

Mr. COLE. No, sir.

Senator SMITH of Arizona. You do not know about the commission that was arranged through him, by which this debt was floating, or the effort made to establish the gold basis?

Mr. COLE. That was prior to my time.

Senator SMITH of Arizona. That was in 1911 that I speak of.

Mr. COLE. Yes; but I did not come into the deal at all until the early part of 1912.

Senator SMITH of Arizona. Had this debt been arranged by the Dawson commission before you took the management or control?

Mr. COLE. I do not know what the Dawson commission was, Senator. The only thing I know is that Mr. Wands had been sent down by the State Department as a financial adviser to Nicaragua.

The CHAIRMAN. You said just as I came in the room, as I understood you, that there was no actual gold in Nicaragua.

Mr. COLE. No, sir.

The CHAIRMAN. Their financial system, as we have been informed, is now on a gold basis. Do you know whether there is gold in New York to the credit of the Nicaraguan Government?

Mr. COLE. I could only say that when I left the service of the bank—

The CHAIRMAN. When was that?

Mr. COLE. December 31 last—that I prepared a statement of the preceding November 15, in which there was a gold reserve in New York amounting to about 40 per cent of the estimated issue in Nicaragua. What there is to-day I know nothing except what Senator Smith of Michigan has said.

Senator SMITH of Michigan. I called his attention, Senator, to the fact that Brown Bros. and Seligman both said that there was no fund now in their hands, except about \$30,000, which was a conversion fund. If I am in error about that, I will correct it, but that is my recollection.

The CHAIRMAN. Of course, what they said is in the record.

Mr. COLE. That is the extent of my connection with the whole matter. These [indicating] are the letters I received from the bank, from Seligman, when I left.

Senator SALISBURY. What business are you engaged in now?

Mr. COLE. I am managing a taxicab business in New York.

Senator SAULSBURY. Have you been engaged in that business since you left the employ of the banks?

Mr. COLE. I left the bank in order to take up that business and in order to quit Latin America, I hope, forever. Twenty-five years—a quarter of a century—is a long time to spend in those countries.

Senator SMITH of Michigan. Would you like to have these letters appear in your testimony?

Mr. COLE. I have not the slightest objection.

Senator SMITH of Michigan. Here are two testimonials signed by J. & W. Seligman and Brown Bros., testifying to the care, thoroughness, and honesty with which Mr. Cole managed their affairs.

The CHAIRMAN. I do not think we care for that.

Senator SMITH of Michigan. I will state that each of them is dated New York, December 30, 1913.

The CHAIRMAN. You had no trouble with the banks down there, had you?

Mr. COLE. Not any.

Senator SMITH of Michigan. You referred to a report that you made in November. Have you that report?

Mr. COLE. This was supposed to be my instructions to my successor, or rather, not instructions—that is an extreme word to use. It was a résumé of the bank as I left it.

Senator SMITH of Michigan. Do you care to have that go into the record?

Mr. COLE. Well, I do not know. It deals with individuals in rather a free and easy manner. I do not think it would be quite fair. My relations are very friendly with the bankers. I have not seen them recently and have had nothing to do with them.

Senator SMITH of Michigan. I would like very much to have this go into the record.

Mr. COLE. There are certain parts that I think could be omitted.

Senator SMITH of Michigan. You say here:

I have suggested, after a consultation with the president, that on and after March 23, next, the national bills should be received at a discount of 25 per cent and that ample notice of this regulation should be given to the public prior to the order going into effect. This suggestion, of course, awaits the approval of the bankers; it is, however, the only way in which it can be determined whether the figures submitted by the experts with regard to the "billetes" in circulation are correct or otherwise.

Has that gone into effect?

Mr. COLE. That I do not know.

Senator SAULSBURY. You refer to the old currency?

Mr. COLE. Yes; otherwise it would be drifting for years.

Senator SAULSBURY. As long as it could be redeemed at \$12.50 the people were satisfied to take it at that rate, I suppose?

Mr. COLE. Quite so.

The CHAIRMAN. Let me ask you this: What is this paper that you are now examining, and about which you have just been speaking to Senator Smith?

Mr. COLE. This is a letter that I left to Mr. Whitaker, who came down to relieve me when I came finally to New York. I did not meet him. We crossed each other on the ocean. So I left him this letter containing the condition of the bank at the time I left it.

Senator SMITH of Michigan. The personal parts of it may be left out.

The CHAIRMAN. Yes; that will be left out, and the rest of the letter may be inserted in the record.

(The extract from the letter referred to is as follows:)

GENERAL BANKING BUSINESS.

One of the most important matters in connection with the bank is the question of administration, and I imagine the directors in New York will be anxious to hear your views as to the merits or otherwise of certain parties here. It has been a very difficult proposition for me, as the two parties most particularly interested, Messrs. Castel and Wittram, have been for many years and are to-day intimate friends of mine. I have not, however, allowed this to influence my judgment in any way, shape, or form. I now have the idea that if a trained banker were procured as manager no assistant manager would be needed and the accountant could act when the manager is absent.

With regard to Mr. Castel, I have not sufficient confidence in his judgment to recommend that he be left in sole charge of the bank's business. So far as I can find out his conduct is all that it should be, but he seems to lack a little of the balance necessary for a successful bank manager; possibly if he had worked at my side longer in Managua he would have imbibed more of the ideas which should govern his official conduct, and it may be that after a year or so more as assistant manager he would be thoroughly competent to take charge. At the present time he is, in my mind, a very able and conscientious second man.

With regard to Mr. Wittram, you will recall that before he went to Bluefields I requested him to stay here as assistant manager, but he was under the impression that he could save \$10 or \$20 more a year by going to Bluefields, and therefore gave up future chances for an immediate benefit of an insignificant character. If he had accepted my proposition when he first came to Nicaragua he would have acquired a useful and practical knowledge of the business of the bank with the Government, and he then might have been thoroughly equipped for the management. To-day I do not consider him big enough for the job, and his violent likes and dislikes are apt at any time to prejudice the business of any undertaking. He had some dispute with Wilson, deputy collector of customs in Bluefields, and whenever he hears Wilson's name mentioned to-day everything is "red," figuratively speaking. I have as little personal

regard for Wilson in a private capacity as he, but I never allow this to interfere with those relations which affect business interests, and I am on good terms with Wilson and all others. Further and above this, Wittram, as you know, married a Panama lady, who, unfortunately, is a consistent retailer of gossip and scandal, and I am quite sure that she would soon cause trouble in the foreign colony in Managua, more especially as Wittram confides in her all his business troubles. Among her own people and race (and you know I have no use for any of them) she may be popular and she may be appreciated, as scandal and gossip is always their chief diet, but among a small crowd of foreigners, in a place where there is no division between business and private life, she would be bound to cause trouble and promote dissension. Wittram told me yesterday that if he were not appointed my successor he would resign, but I do not imagine that he means this in all seriousness. Both Wittram and his wife promise to be successes in Leon, where there are no Americans. If, however, he should find out that his wish to be manager is not to be realized, and it might be a very unfortunate thing for the bank if it were, he may resign in the near future, and it would then be quite safe for you to appoint Mr. Osorio as submanager in Leon and bring Saenz back from Leon to Managua as accountant.

There is another point which has caused some difference of opinion and not friction between Mr. Wittram and myself with regard to the management of Leon: He resents any interference, but I have made it very plain to him that no credit business must be transacted in Leon without consulting this office, inasmuch as the people in Leon do business in Managua and Granada, the people in Granada also do business in Managua and Leon, and the people in Managua do business in Leon and Granada, and a liability obligation account, as affecting the three offices, is kept in Managua.

Mr. Bush, in Granada, is doing excellent work and carries out his instructions most faithfully, and I look upon him as a very valued employee of the bank, although he has not had sufficient experience yet to hold any higher position than that of submanager.

It is hard to judge of Bluefields at this distance, as Managua is really farther from Bluefields than Bluefields is from New York, but Mr. Codling seems to be working along satisfactory lines, and he came to us very highly recommended.

You will find full correspondence about the staffs of the different branches and the head office in correspondence which will be handed you.

With regard to local boards, the old board is still in existence in Managua, a reformed board is working in Granada, and new boards have been formed in Bluefields and Leon. The changes which have been effected and new appointments which have been proposed are all subject to the approval of the New York office. (See correspondence.)

With regard to the capital of the bank and branches, the head office has been communicated with and its approval is needed in order to carry into effect the following division of capital:

| | |
|-----------------|-----------|
| Managua----- | \$100,000 |
| Granada----- | 75,000 |
| Leon----- | 75,000 |
| Bluefields----- | 50,000 |

I have been exercising my usual care with regard to loans, and there is not one that appears on our books about which there need be the slightest doubt. In my opinion they are gilt-edged. You will find it very difficult to loan any considerable amount of money here unless the head office changes its ideas with regard to the acceptances of mortgages as guaranty, as this is really the best and most satisfactory collateral in the country, even though it may lead to a lockup of funds for two or three months.

The loans which are due and not paid are mentioned in correspondence, and these are all matters now in the hands of the lawyers, and there is no doubt that each and every one is thoroughly well guaranteed.

With regard to the loan of the Nicaragua Ice Co., I understand this property will be put up at auction within a few days, and Mr. O'Connell wishes to buy same in order to provide living quarters for some of the railroad employees and secure a right of way which will be of benefit to the railway.

Referring to the loan of Fernando Solorzano, it has been proposed to extend this mortgage for three months, with the addition security of the signature of

Adolfo Diaz, and inasmuch as the original security is an absolutely good one I accepted this proposition on the understanding that all overdue interest and charges incurred up to the present time should be paid in cash at once.

With regard to Ortiz, Dr. Zepeda can give you full information with regard to what is being done in this matter. Ortiz, however, is doing everything in his power to settle up this loan.

With regard to the loan covered by a mortgage, guaranteed by the railroad, for \$10,000, made by the Compañia Agricola Santa Ana, I have notified Messrs. Weist and Manchester and the railroad, that this loan must be paid by the 31st of December next or proceedings for foreclosure will be immediately instituted. As the railroad guarantees the whole operation, the bank has only an academic interest in the whole matter.

Mr. O'Connell and I had decided to invest some of our few spare, hard-earned dollars in the development of this proposition, but when we discovered that our associations with Weist and Manchester was intended to be used as a club, whereby Manchester and Weist could secure unearned favors from the railroad, we immediately called off the whole deal and cut our losses.

A very important matter in connection with credit operations of the bank is the preparation of commercial reports. Quite a number of these have been prepared and sent to New York, and whenever any drafts are purchased or loans made or operations involving credit undertaken it is desirable, in my opinion, that a detailed report of the firms involved should be prepared and forwarded to the head office. Copies of these reports are also retained here and other copies sent to Leon and Granada. In the reports prepared by Leon and Granada and sent here local Managua people are consulted and their comments added to the original report before being dispatched to the head office. I have found Mr. Ulvert the most reliable man for giving information here, and I generally consult Dr. Zepeda with regard to Leon parties.

You will also find that arrangements have been made for keeping tract of all liability obligations in proper form and provision is also made for rendering copies of these reports to New York at the end of each and every month. Mr. Osorio can give you all the necessary information. Bluefields has been instructed to keep a similar record and send copies to the head office direct, as Bluefields is so far away that it must be worked as an independent branch.

It would be very desirable that the local board at the head office in Managua, and at each branch, should check up the loans at the end of each and every six months and certify that same are in order.

I have been at great pains to get the accounting system into perfect shape and have provided for daily reports from Granada and Leon and for monthly reports of a detailed character for use in this office and for forwarding to the National Bank of Nicaragua and Messrs. J. & W. Seligman & Co., of New York. Details of these accounting forms and the system will be furnished you by Mr. Osorio. Bluefields, in this case also, will send this information independent of this office, and weekly and monthly returns will be made by it to Managua and monthly returns only to the head office.

I have arranged a special cable code in order that our New York correspondents shall transmit the necessary rates prevailing in New York. The rates fixed by you in the strength of the quotations which you will receive from New York should always provide for a reasonable profit, and this remark applies as much to buying rates as to selling. Leon and Granada are bound by our rates both buying and selling. Bluefields is telegraphed copy of rates as received from New York, in special code. In so far as collections are concerned, arrangements are now being made at Managua, Granada, Leon, and Bluefields, for the appointment of correspondents in those places where the bank has no office, and just as soon as these arrangements are completed the different rates should be sent to New York so that a circular can be prepared, published, and circulated by the New York office. (See correspondence.)

A collection register has been designed by me and copies of same should be sent to Bluefields, Leon, and Granada.

With regard to shortages in cash, which happen from time to time, I have found it absolutely necessary to make the parties responsible make same good as if you display any policy of consideration, carelessness is the result.

It may interest you to know that one of our safes is at the railroad for repair, as the combination of the banker's chest was lost. The railroad undertook to put same in thoroughly satisfactory repair for \$50. The railroad is

also repairing the door on the inside of the "big" safe, which had never been opened. No charge has been arranged for this.

Duplicate combinations and keys of all safes should always be kept in a sealed envelope and in a secure place, so that in the event of accidents the bank's work need never be held up. Any such envelopes should only be opened in presence of witnesses.

Specimen signatures of all officers and employees authorized to sign and countersign have been sent to New York with request that same be lithographed and circulated. (See Correspondence.)

It has also been suggested that instead of drawing on European correspondents for account of New York correspondents that the bank should draw on them direct. This suggestion awaits approval of New York. (See Correspondence.)

In so far as vacations due employees is concerned, my recommendations will be found in the general correspondence submitted to you.

I have endeavored to make permanent arrangements with regard to premises for the bank, inasmuch as some of our leases expire within practically a short time. Copy of a letter which I have written to the head office on this subject will be handed you, and will explain exactly how the matter stands.

I to-day signed the decree book, providing for the bank guaranteeing foreign money orders made by the Government for amounts up to \$100,000, secured by drafts drawn on and accepted by the customhouse. The above procedure will be fully explained in the correspondence given you.

As you are already aware I have received instructions that our correspondents will no longer discount any long-time paper, and, as a result of this decision, the bank has practically stopped buying all such paper, inasmuch as it is more profitable to lock up its funds in time loans at 1 per cent a month than to buy long-time paper, which does not give such a favorable rate of interest, owing to competition. New York has advised that they are writing on this subject, and their letter will be received by you, inasmuch as it has not arrived up to the present.

I have been declining for some time past to buy any drafts from Martin's bank, as there have been several rumors that the bank is not in too safe a condition. If this rumor should be unfounded Martin can easily remedy the situation by giving you an exact statement as to the condition of his institution, or he can transfer funds by cable, in which, of course, there is no risk involved, or he can furnish satisfactory collateral.

In regard to this question of 60 and 90 day paper, it has occurred to me, although I have written nothing to New York, that it might be desirable to buy good paper of this description freely for account of the conversion fund, which can much better afford to hold it than the bank itself can. This, however, is a recommendation that may be contained in the correspondence expected from New York. I simply throw it out as a possible solution of present difficulties.

The item of installation expenses, which appears on our accounts, should be written off at all the branches during the terms of the original lease of the premises.

With regard to the furniture, inasmuch as this was brought in without the payment of any duties and most of it was bought at very cheap rates, I would not advise that any depreciation be written off until June 30 next, when it should be done at the rate of 10 per cent per half year.

Some mining properties have been transferred to the bank for account of the Banque Centrale Francaise and the documents are in the possession of the Leon branch. The French bank in question forwarded the bank a power of attorney, but Dr. Zepeda advises me that this is not complete, and New York has been written for further instructions. You will find correspondence on the subject.

Mr. Escoffery, a most trusted employee, has been very ill for some considerable time past and was only able to sit up in bed for a few hours last Sunday. I provided him with a nurse and medical assistance for account of the bank, which, of course, is the usual practice in these countries with regard to foreign employees. I would suggest that when he is able to get around he should take a short trip to San Jossede, Costa Rica, in order to get back his strength, and that he should then be placed in the spare cage in the central cash office, and, in addition to his general routine duties, should be instructed to keep an eye on the work of that office and on the employees that transact

business therein; in other words, he should be put in control of the central cash office, without handling the cash.

You will find it necessary to order a supply of stationery from New York, and this work should be delegated to somebody who will be held responsible for same, as my experience in this office has been the same as in all others: Stationery is only discovered to be short when you are entirely out of same.

I think I have handled every point of interest, and in conclusion would refer you to a careful perusal of the correspondence which will be handed you by Mr. Castel in a specially prepared package, and wishing you every success, believe me,

Yours, very sincerely,

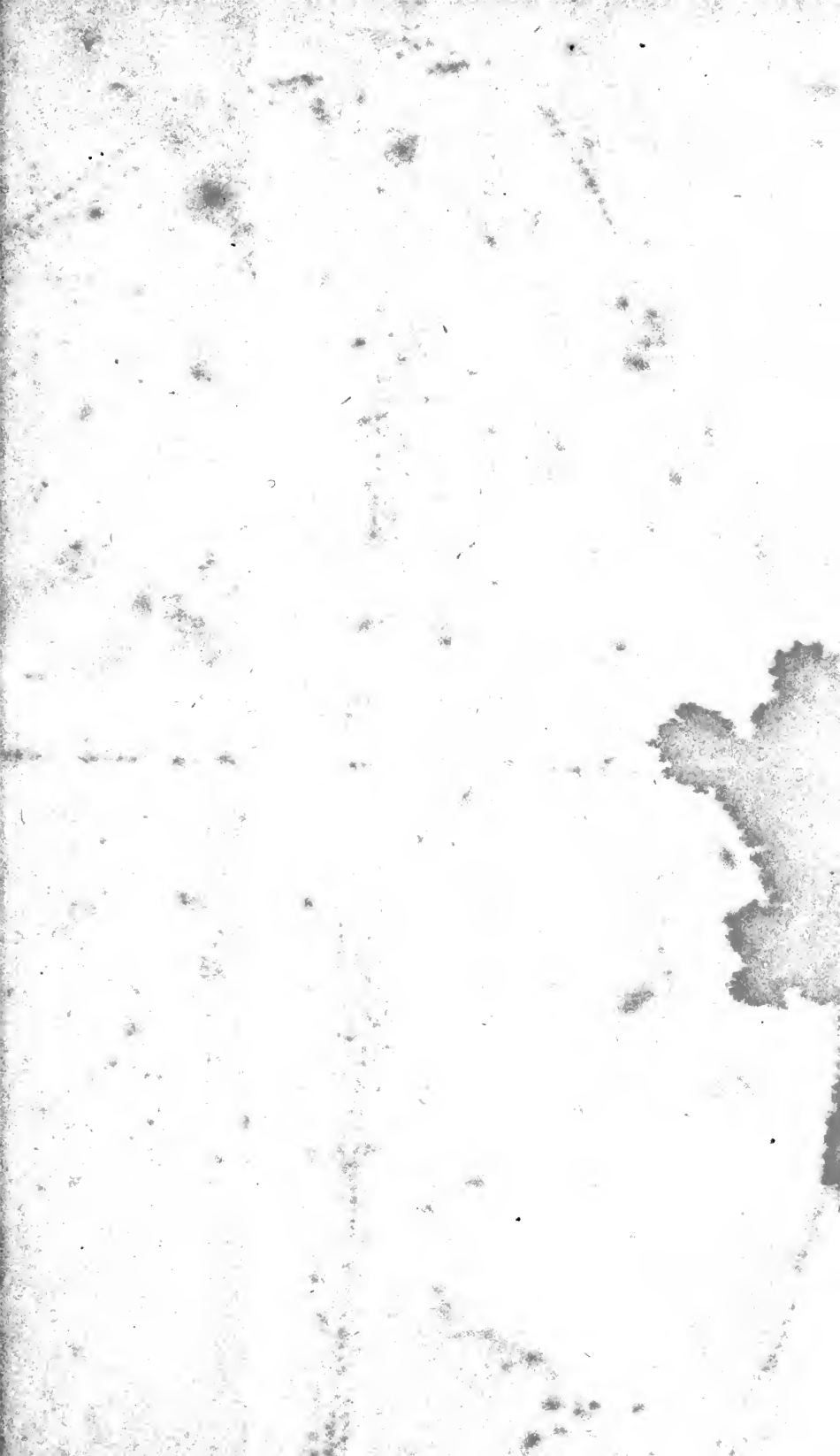
Mr. JAMES BROWN.

Mr. ALBERT STRAUSS.

(The committee thereupon adjourned to meet on call of the chairman.)







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Electrician's document 110

CONFIDENTIAL

HEARING

BEFORE THE

**COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

SIXTY-THIRD CONGRESS
SECOND SESSION

ON

**CONVENTION BETWEEN THE UNITED STATES
AND NICARAGUA**

APPENDIX

Printed for the use of the Committee on Foreign Relations



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1914

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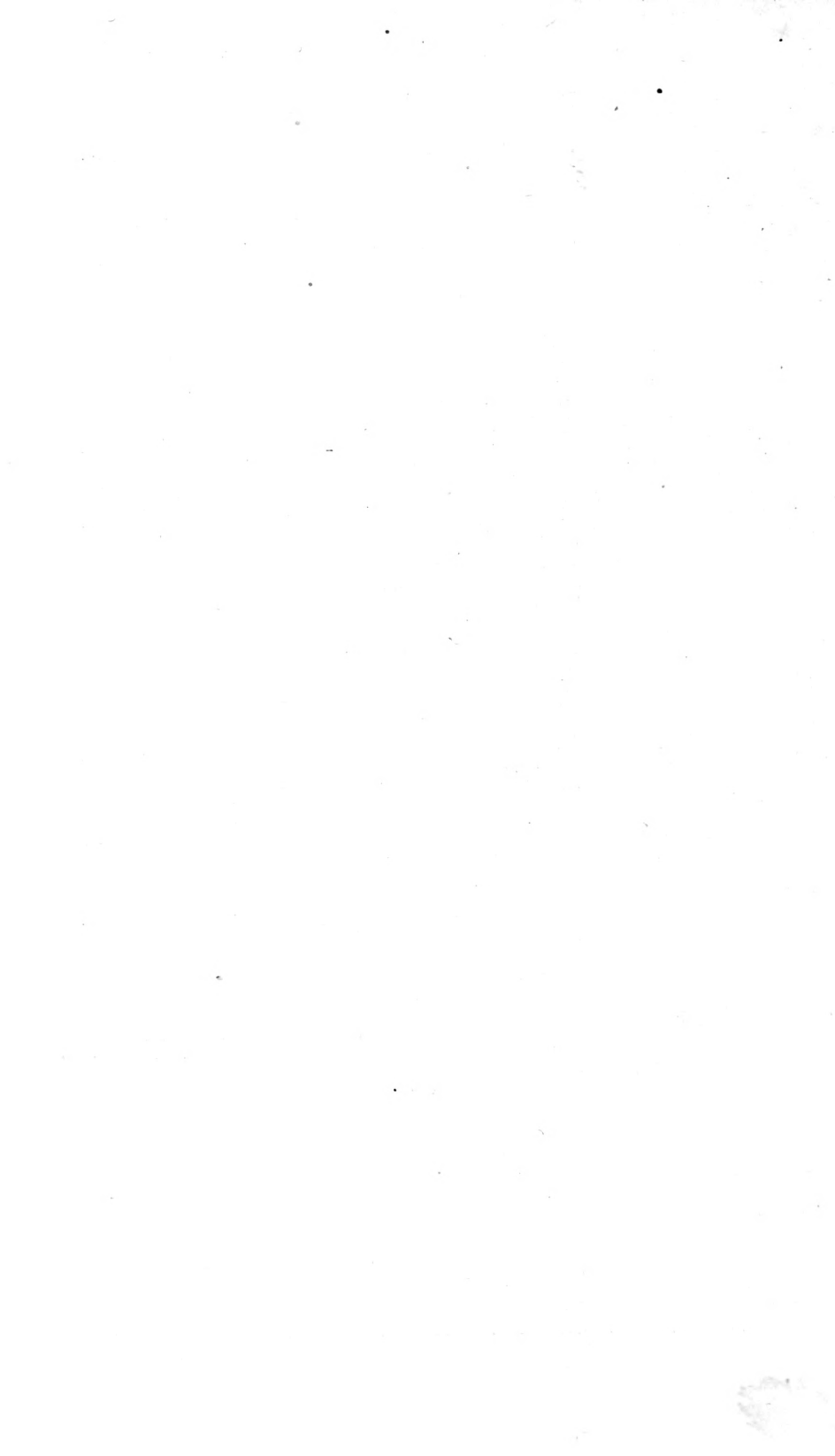
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CONVENTION BETWEEN THE UNITED STATES AND NICARAGUA.

APPENDIX 1.

DEPARTMENT OF STATE,
Washington, June 24, 1914.

The CHAIRMAN OF THE COMMITTEE ON FOREIGN RELATIONS,

United States Senate.

SIR: In response to telephonic request from the clerk of your committee, I have the honor to transmit herewith a copy of a translation of the constitution of the Republic of Nicaragua.

I have the honor to be, sir, your obedient servant,

W. J. BRYAN.

[Translation.

CONSTITUTION OF THE REPUBLIC OF NICARAGUA.

(DECEMBER 21, 1911.)

In the presence of God, we, the representatives of the Nicaraguan people, in constituent assembly, hereby decree and sanction the following constitution:

TITLE I.

THE NATION.

ARTICLE 1. Nicaragua is a free, sovereign, and independent nation. Its territory, which also comprises the adjacent islands, is situated between the Atlantic and Pacific Oceans and the Republics of Honduras and Costa Rica.

ART. 2. The sovereignty is one, inalienable and imprescriptible, and resides essentially in the people, from whom the officials provided for by the constitution and laws derive their powers. Consequently, no compacts or treaties shall be concluded which are contrary to the independence and integrity of the nation, or which in any wise affect its sovereignty, except such as may look toward union with one or more Republics of Central America.

ART. 3. Public officials shall have no other powers than those expressly conferred on them by law. All acts performed by them outside the law shall be void.

TITLE II.

FORM OF GOVERNMENT.

ART. 4. The Government of Nicaragua is republican, democratic, representative, and centralized. It consists of three independent branches, viz, the legislative, the executive, and the judicial.

TITLE III.

RELIGION.

ART. 5. The majority of Nicaraguans profess the Apostolic Roman Catholic religion. The Government guarantees the free exercise of this form of worship, as well as of all others provided they are not contrary to Christian morals and public order, the enactment of laws favoring or restricting certain creeds being prohibited.

TITLE IV.

EDUCATION.

ART. 6. The teaching of any lawful industry, trade, or profession shall be free. Primary instruction shall be compulsory and that financed by the Government shall also be gratuitous. As regards professional instruction, the law shall determine what professions require a previous diploma for their exercise and the formalities for obtaining it.

TITLE V.

NICARAGUANS.

ART. 7. Nicaraguans are native or naturalized.

ART. 8. The following are native:

1. Persons born in Nicaragua of parents who are Nicaraguans or domiciled foreigners.
2. Children who are born abroad and whose father or mother is a Nicaraguan, provided they choose Nicaraguan nationality.

ART. 9. The following are naturalized:

1. Natives of other Central American Republics who reside in Nicaragua and declare their desire to be Nicaraguans before the proper authority.
2. Foreign women who marry Nicaraguans.
3. Spanish-Americans who have resided one year in the country, and other foreigners who have resided there two years, provided they declare their desire to become naturalized before the proper authority.
4. Persons who secure naturalization papers according to law.

ART. 10. The following persons shall forfeit their Nicaraguan citizenship:

1. Those who, while not residing in Nicaragua, voluntarily secure naturalization in a foreign country not situated in Central America. However, they shall recover their Nicaraguan citizenship by reestablishing their domicile in Nicaragua, at whatever time this occur.
2. Nicaraguan women who marry foreigners, provided they acquire the citizenship of their husbands according to the law of the nation of the latter, but they shall recover Nicaraguan citizenship upon becoming widows if they lose the citizenship of their husbands owing to this cause.

ART. 11. The provisions of this title may be modified by treaty on condition of reciprocity.

TITLE VI.

FOREIGNERS.

ART. 12. The Republic of Nicaragua shall be a safe asylum for any person seeking refuge in its territory.

ART. 13. Foreigners in Nicaragua shall enjoy all the civil rights of Nicaraguans; they shall be obliged to respect the authorities and obey the laws, and in regard to property acquired by them in the country they shall be subject to all ordinary or extraordinary taxes levied against Nicaraguans.

ART. 14. Foreigners shall not be allowed to lay claims against or demand any indemnity of the nation except in the cases and in the manner in which Nicaraguans may do so.

ART. 15. Foreigners may resort to diplomatic channels only in case of a denial of justice. The fact that an executory judgment is unfavorable to the claimant shall not be considered as such denial. If, in contravention of this provision, they fail to amicably terminate the claims which they raise, they shall forfeit the right to dwell in the country.

ART. 16. Extradition for political crimes is prohibited, even though a common-law crime arises therefrom.

Treaties and the law shall specify the cases in which extradition may take place for grave common-law crimes.

ART. 17. The manner and cases in which foreigners may be refused admission to the country or be expelled shall be prescribed by law.

TITLE VII.

CITIZENS.

ART. 18. All Nicaraguans who have reached 21 years of age shall be citizens, as well as all those who have reached the age of eighteen or are able to read and write.

ART. 19. The following shall be the rights of citizens:

1. Suffrage.
2. Holding public office.
3. Having and bearing arms, all in accordance with the law.

ART. 20. The rights of a citizen shall be suspended:

1. By virtue of a warrant of arrest or declaratio that prosecution may be begun.
2. By virtue of a sentence involving the disfranchisement with respect to the exercise of political rights, during the term of the sentence.

3. By virtue of a sentence imposing a severer than "correctional" penalty, pending rehabilitation.

4. Owing to mental incapacity.

5. For being a fraudulent debtor.

6. For notoriously vicious conduct.

7. For ingratitude toward one's parents or unrighteous abandonment of wife or minor legitimate children.

(A previous legal declaratory decree shall be necessary in case of the grounds set forth under 4, 5, 6, and 7.)

8. For acting in Nicaragua in the employ of foreign (not Central American) nations without permission from the legislature.

ART. 21. The right to vote is individual, and can not be delegated.

ART. 22. Suffrage shall be direct and public. Elections shall be held at the time and in the manner prescribed by the law.

TITLE VIII.

RIGHTS AND GUARANTEES.

ART. 23. The inhabitants of the Republic, whether Nicaraguans or foreigners, shall be guaranteed individual safety, liberty, equality, and property rights.

ART. 24. The death penalty shall be inflicted solely for the crime of treason committed in a foreign war in the face of the enemy, and for the atrocious crimes of assassination, parricide, and incendiarism or robbery resulting in death and under grave circumstances specified by law.

ART. 25. The constitution recognizes the right of habeas corpus. Consequently, every inhabitant of Nicaragua shall be entitled to demand the exhibition of a prisoner ("of the person").

ART. 26. A warrant of arrest not issued by a competent authority or in accordance with the legal formalities shall be unlawful.

ART. 27. Detention pending inquiry into common law offenses shall not exceed 8 days, plus the time required to cover distance, for the purpose of placing the accused at the disposal of the proper judge.

ART. 28. A criminal caught in the act may be arrested by any person in order to be delivered up immediately to the authority having power to arrest.

ART. 29. A warrant of arrest shall not be issued unless there is ample evidence that a punishable act deserving a severer than "correctional" penalty has been committed, and unless there is at least a strong suspicion as to who is the perpetrator.

ART. 30. Imprisonment or arrest as a penalty or coercive measure (to enforce judicial orders) shall be permissible in the cases and for the period prescribed by law.

ART. 31. No person shall be tried by special commissions or by other judges than those designated by the law prior to the commission of the deed giving rise to the action.

ART. 32. No public authority shall be permitted to remove to another tribunal causes pending before the proper authority, or to (re) open proceedings which have terminated.

In criminal matters an appeal may be allowed for revision of finished cases in which severer than correctional penalties have been inflicted. The law shall regulate the exercise of this right.

ART. 33. In criminal matters the placing of a person under oath in regard to his own deeds shall be prohibited.

ART. 34. No person may be deprived of the right of defense. Trials shall always be public.

ART. 35. The infliction of perpetual or infamous punishments, whipping, and all kinds of torture are prohibited.

ART. 36. Persons under arrest or imprisoned shall not be deprived of the right of communication except by virtue of a separate ("another") written order from the proper authority, and then for a period not to exceed three days and only for grave crimes.

ART. 37. Nobody shall be kept prisoner or detained in any other place than the public ones intended for the purpose, unless the law so permits and the guilty or detained party expressly consents thereto.

ART. 38. The dwelling of every person shall constitute a safe and inviolable asylum, to be entered only by the authorities in the following cases:

1. In the actual pursuit of a criminal or in order to take out a criminal caught in the act.

2. On demand from inside the house, because a crime is committed therein, or because of scandalous disorder requiring prompt remedy.

3. In case of conflagrations, earthquakes, floods, epidemics, or analogous events.

4. In order to take out things sought in a trial, there being at least fairly ample evidence of the existence of such things (in the house), or in order to execute a legally issued order (of the court).

5. In order to liberate a person who is being unlawfully "sequestered."

6. In order to apprehend a criminal against who a warrant for arrest or imprisonment for a crime has been issued, there being at least fairly ample evidence that he is hiding in the house to be entered.

In the last three cases the entrance shall not be made without a written order from a competent authority.

ART. 39. When the house to be entered is not the residence of the criminal being pursued, the permission of the owner or occupant shall first be requested.

ART. 40. In cases in which a written order from the authority is required, houses shall not be entered between 7 p. m. and 6 a. m. without the consent of the owner or occupant.

ART. 41. Epistolary correspondence shall be inviolable. That which is purloined from post offices or any other place shall not be admissible as evidence against any one.

ART. 42. Private papers may be seized only by virtue of an order from a competent judge, in the criminal or civil cases determined by the law, and they shall be examined in the presence of the owner, or, in his absence, of two witnesses, those which do not relate to the matter under investigation being returned.

ART. 43. No one shall be molested or persecuted on account of his opinions. Private acts which do not disturb public order, are not contrary to morals, and do not cause injury to third parties shall always be beyond the pale of the law.

ART. 44. All persons shall be allowed to communicate their thoughts freely by word of mouth or in writing without previous censorship, being liable according to law for any abuse of this freedom.

ART. 45. The enactment of proscriptive, confiscatory, or retroactive laws, or of laws imposing infamous punishment shall be prohibited.

ART. 46. The right to reclaim confiscated property shall be imprescriptible.

ART. 47. Imprisonment for debt shall be prohibited.

ART. 48. The freedom of unarmed assemblage and of association for any lawful purpose is granted.

ART. 49. Entails are prohibited.

ART. 50. Every person shall have a right to address petitions to the legally constituted authority and to have them decided upon and be informed of the decision reached in regard to them.

ART. 51. Every person shall have a right to enter and leave the Republic and to remain in and pass through its territory, in strict obedience to the laws.

ART. 52. Every service which ought not to be rendered gratuitously according to law shall be fairly remunerated.

ART. 53. The law does not recognize personal privileges.

ART. 54. Every legally capacitated person shall be free to dispose of his property under any legal title, but in no case shall entails be established.

In testamentary successions there shall be compulsory assignments only in behalf of the descendants, ascendants, and consorts, with the preferences and limitations prescribed by law.

ART. 55. Congress only may authorize loans and levy direct or indirect taxes, and all authorities are prohibited from negotiating the former or levying the latter without its permission, save the exceptions provided in the constitution.

ART. 56. Direct taxes shall be levied proportionately.

ART. 57. No one shall be deprived of his property except by virtue of a judgment rendered by a competent authority, or by reason of public utility. The condemnation in the latter case must be specifically prescribed by the law or by a judgment based on the latter, and shall not be carried out without previous indemnity.

In case of domestic or foreign war it is not necessary for the indemnity to be previous.

ART. 58. No person enjoying the free right of administration of his property shall be deprived of the right to terminate his civil lawsuits by compromise or arbitration.

ART. 59. Every author, inventor, or owner of a trade-mark shall enjoy the exclusive ownership of his work, discovery, or mark in the manner and during the time prescribed by law.

ART. 60. No severer than correctional penalty shall be inflicted for common-law crimes without a verdict first being rendered by a jury as to the guilt of the accused party.

ART. 61. Monopolies in the interest of private individuals shall be prohibited.

ART. 62. The declaration of a state of siege may temporarily suspend the guarantees mentioned, except:

1. The establishing the inviolability of human life, with its exceptions.
2. That prohibiting trial by judges not designated by the law.
3. That prohibiting the infliction of infamous or perpetual punishments, whipping, and any kind of torture.
4. That prohibiting the enactment of retroactive or confiscatory laws.
5. Those embodied in arts. 55 and 56.
6. The legal immunities of officials.

ART. 63. The laws regulating the exercise of the (right to enjoy the) constitutional guarantees shall be void in so far as they may diminish, restrict, or impair them.

ART. 64. An official who unauthorizedly restricts any of the guarantees contained in this title shall be liable to damages commensurate with the injury caused, without prejudice to other legal liabilities.

TITLE IX.

LEGISLATIVE BRANCH.

ART. 65. The legislative power shall be vested in a congress composed of two houses—the senate and house of representatives.

ART. 66. Congress shall convene at the capital of the Republic on December 15 of each year without the necessity of a call. It shall hold 45 regular sessions, subject to extension to 15 more.

ART. 67. It shall also hold extra sessions when convoked by the Executive, and in this event it shall deal only with matters submitted to it by the latter.

ART. 68. Congress may also convene and continue its sessions in any other town of the Republic without a call by the Executive, but in no case shall the legal quorum be supplied by uninstalled substitutes.

ART. 69. The election of representatives shall be by popular suffrage, direct and public. The “departments” of the Republic shall be divided for this purpose into as many electoral districts as they contain multiples of 15,000 inhabitants, a district being added for fractions over 8,000. Each district shall elect one regular and one substitute representative.

The regions of Cape Gracias á Dios and San Juan del Norte shall each (?) be considered as an electoral district.

ART. 70. Each “department” shall be entitled to elect one regular and one substitute senator for every two representatives. If the number of representatives is an odd one, another regular and substitute senator shall be elected.

ART. 71. The law shall make the necessary demarcations for the elections.

ART. 72. Five days before the date set for Congress to convene, the senators and representatives shall meet and hold their respective preliminary conferences; and in the presence of at least five members of each house they shall draw up rules and take the necessary measures for bringing their numbers together and solemnly convening Congress.

ART. 73. One-half plus one of the senators and representatives shall be sufficient in each house in order to legally convene.

ART. 74. The representatives shall serve four years in their office, one-half being renewed every two years.

ART. 75. The term of office of the senators shall be six years, one-third being renewed every two years.

ART. 76. In order to be a representative it shall be necessary to be a citizen in the exercise of one's rights, belong to the laity, and have reached the age of 25 years.

ART. 77. In order to be a senator it shall be necessary to be a citizen in the exercise of one's rights, belong to the laity, and have reached the age of 40 years.

ART. 78. The following shall not be eligible as members of the legislative branch:

1. Persons who have held office by appointment of the executive within two months preceding the election.
2. The magistrates of courts of justice and the officials under them.
3. Relatives of the President of the Republic, within the second degree of consanguinity or affinity.
4. Persons who, having administered or collected public funds, are not yet solvent in this regard.

ART. 79. Senators and representatives shall enjoy the following prerogatives from the date of their election:

1. Personal immunity from indictment or trial for official or common law crimes, unless Congress first declares them subject to prosecution.

2. They shall not be subject to civil suit from thirty days before the opening of the regular sessions of Congress, or from the date of a decree calling an extra session, to fifteen days after the termination of either.

If the suits or actions are already pending, the proceedings shall be suspended during the sessions.

3. They shall not be called into military service without their consent.

4. They shall not be banished from the Republic, confined, or deprived of their liberty on any ground, even during a state of siege, unless Congress declares them amenable to prosecution.

ART. 80. Members of Congress may accept offices from the executive during recess, but during sessions they may only accept the offices of head of department, diplomatic officer, or professor. In either case they shall forfeit their capacity as representative by the acceptance of any office except the last two mentioned.

ART. 81. The executive shall give an account to the houses of Congress, when convened, of all appointments he has made in order that they may supply the vacancies produced. During a recess of Congress it shall be the duty of the executive to have the vacancies filled.

ART. 82. The houses shall open and close their sessions at the same time, and neither of them shall suspend or extend them for more than three days without the concurrence of the other.

TITLE X.

RIGHTS COMMON TO THE HOUSES.

ART. 83. Each house shall have a right, without the interference of the other:

1. To regulate the order of its sessions and everything relating to its internal rules.
2. To pass upon the election and credentials of its members.
3. To compel their attendance.
4. To accept by a two-thirds vote the resignations of its members founded on duly verified legal grounds.
5. To order reelections in case of missing, deceased, resigning, or incapacitated members.
6. To ask the executive for a statement of the receipts and expenditures on all or any of the accounts, as well as for reports on any branch of the administration.
7. To invite the other house to a joint conference.

TITLE XI.

RIGHTS AND DUTIES OF CONGRESS WHEN CONVENEED IN JOINT SESSION.

ART. 84. It shall be the duty of Congress:

1. To regulate the order of its sessions.
2. To regulate the votes and judge and declare the election of President and Vice President of the Republic, and to elect these officers in the cases provided by the constitution.

The President shall be that duly qualified citizen who receives the majority of votes of all qualified voters. If no person receives such a majority, Congress shall select the President between the two persons who have received the largest number of votes, even though this number should be equal in case of both. The same rule shall be observed in electing a Vice President. Ties occurring in the popular election or in that made by Congress shall be settled by lot whenever this measure is necessary in order to apply the rules of the present article.

3. To select each year two emergency candidates to act in their order as President of the Republic when there is an absolute or temporary lack of a President and Vice President.

The persons selected as emergency candidates must be members of the National Legislature who fulfill the requirements for being President of the Republic.

4. To select the judges of the supreme court and court of appeals.
5. To act on resignations of the President and Vice President of the Republic and of judges of courts.
6. To declare, by a two-thirds vote, when it is proper to institute proceedings against the President, Vice President, senators, representatives, judges, heads of departments, and diplomatic officers of the Republic.
7. To extend for the executive the period within which laws and other provisions are to be published.
8. To administer the constitutional oath to officials whom it selects or declares elected.

9. To declare the preference when the same person is elected as a member of different branches of the Government, in the following order:

1. President of the Republic.
2. Vice President of the Republic.
3. Senator.
4. Representative.

TITLE XII.

RIGHTS AND DUTIES OF CONGRESS WHEN CONVENED IN SEPARATE SESSION.

ART. 85. It shall be the duty of Congress when convened in separate session:

1. To enact, construe, revise, and repeal laws.
 2. To create and abolish offices, establish pensions, confer honors, and grant amnesties.
 3. To take all suitable measures for the safety and defense of the Republic.
 4. To change the place of residence of the supreme governmental authorities.
 5. To appropriate prizes and grant temporary privileges to authors or inventors of things of general utility and to persons who have introduced new or improved existing industries.
 6. To grant subsidies or premiums on objects of public utility which contribute toward establishing new industries or promoting agriculture.
 7. To improve or disapprove the conduct of the executive.
 8. To approve, amend, or abrogate treaties concluded with foreign nations.
 9. To regulate maritime and land commerce.
 10. To approve or disapprove the accounts of public expenditures.
 11. To fix the estimates each year.
 12. To determine the duties of the officials of the Republic and designate the territorial jurisdictions within which they are to act.
 13. To levy taxes.
 14. To order the alienation or lease of national property and the devotion thereof to public uses, or to authorize the executive to do so on conditions suitable to the Republic. The public revenues or taxes shall not be alienated or leased out.
 15. To authorize loans and regulate the payment of the national debt or determine the conditions on which the executive shall do so.
 16. To open up ports; create, transfer, or abolish customhouses; or lay down rules in accordance with which the executive may do so.
 17. To fix the weight, standard, value, type, and denominations of the national money and regulate the system of weights and measures.
 18. To declare war and make peace or authorize the President for this purpose.
 19. To fix the strength of the land and naval forces at each regular session.
 20. To permit or refuse to permit the troops of another country to cross through the territory of the Republic, and to authorize the departure of national troops from Nicaragua. During a state of war the executive shall have these powers.
 21. To declare martial law ("state of siege") and even to suspend the constitutional order of things throughout the Republic or in a part thereof when public peace is threatened or in case of foreign aggression. Such a declaration or suspension shall last sixty days at most, according to circumstances, a new declaration by Congress being necessary in order to prolong it.
 22. To confer the grades of general of brigade and division.
 23. To grant pardons or commutations of sentences, at the instance of the Executive, after receiving a report from the supreme court.
 24. To grant premiums or rewards for eminent services.
 25. To approve or disapprove contracts concluded by the executive with individuals or companies regarding loans, colonization, navigation, and other works of general utility, provided they are permitted by the constitution and involve temporary privileges or affect the property of the nation or when money not appropriated in the estimates is availed of therein.
 26. To permit the establishment of pawnshops and banks of issue.
 27. To determine the coat of arms and flag of the Republic.
 28. To grant or refuse permission to Nicaraguans to accept offices in foreign countries when the duties thereof are to be discharged in Nicaragua.
- ART. 86. The legislative branch can not supply or declare the civil status of persons, or confer academic or literary degrees.

ART. 87. The powers of the legislative branch can not be delegated, except the authority to legislate in the departments of fomento, police, charity, and public instruction, which may be delegated to the executive during a recess of Congress;

and the powers relating to the administration of the constitutional oath to officials whom it elects or declares elected.

ART. 88. In the measures and laws enacted by Congress the following phraseology shall be used: "The Senate and House of Representatives of the Republic of Nicaragua decree, resolve, and declare: (here follows that which is decreed or resolved). Given in the session hall of Congress (when in joint session) or of the chamber in which the measure originated (when in separate session), place, and date." Then follow the signatures of the President (Speaker) and secretaries of the Congress or chamber, as the case may be. Upon the measure being approved in the other chamber, the latter shall say: "To the executive, senate, or house of representatives" (as the case may be), setting down the proper place and date and the signatures of the presiding officer and secretaries concerned.

ART. 89. All measures of the legislature shall be enacted in the form of a law or resolution.

ART. 90. Any bill or resolution may originate in either chamber, only measures relating to taxes being reserved to the house.

ART. 91. Only representatives and senators in their respective chambers, secretaries of departments on behalf of the executive, and the supreme court, in matters pertaining to their branch, shall have a right to recommend such bills, resolutions, or declarations as they deem suitable.

ART. 92. When a bill is passed in one chamber it shall go as an original measure to the other, which shall take it under consideration and may pass it or not, or revise it. In this latter case the bill shall be regarded as originating in the chamber which revises it.

ART. 93. No bill shall be finally passed until subjected to two deliberations on different days, except in case of urgency as determined by a two-thirds vote taken after a single discussion.

ART. 94. Every bill, upon being passed by Congress in separate session, shall be transmitted to the executive within three days at the latest after passage, in order that he may give it his sanction and have it promulgated as a law within ten days.

ART. 95. If the President, with the advice and consent of his cabinet, should find objections to sanctioning the bill, he shall return it to Congress within five days, setting forth the grounds on which he bases his dissension. If he does not object to it within the period mentioned, it shall be considered as being sanctioned, and shall be published as a law. When the executive returns the bill, Congress shall subject it to a further deliberation in joint session, and if it should be ratified by a two-thirds vote, it shall be retransmitted to the executive accompanied by the words "Ratified constitutionally," whereupon the executive shall have it published without delay.

ART. 96. When Congress passes a bill during the last five days of its session and the Executive deems it inexpedient to sanction it, he shall immediately give notice to Congress in order that it may remain in session for ten days from the date on which the autograph was transmitted to it; if he fails to do this, the law shall be considered sanctioned.

ART. 97. When a bill has been rejected it can not be brought forward again until the next Legislature.

ART. 98. The sanction of the executive shall not be necessary in the following decrees and resolutions:

1. In elections made or declared by Congress, and in resignations accepted or declined.
2. In regulations issued by Congress or the chambers for their internal government.
3. In resolutions for convening, for transferring its seat elsewhere, and for suspending or extending its sessions.
4. In the law on the estimates.
5. In decrees relating to the conduct of the executive.
6. In articles of impeachment (declarations that there is ground for instituting proceedings.)

ART. 99. Whenever the purpose of a bill not originating in the supreme court is to revise or repeal provisions of the civil or criminal code, code of commerce, mining code, or code of procedure, it shall not be discussed without hearing the opinion of said court, which shall give its opinion either during the same session or that of the next year, according to the extent, importance, or urgency of the bill.

ART. 100. The wording to be used in publishing laws shall be as follows: "The President of the Republic to the inhabitants of the latter, know ye that the Congress has ordained as follows: (Here the text and signature.) Therefore let it be enforced."

TITLE XIII.

EXECUTIVE BRANCH.

ART. 101. The office of chief executive shall be held by a citizen called President of the Republic, in his absence by the Vice President, and failing the latter by one of the emergency candidates according to their order.

ART. 102. The President of the Republic, the Vice President, and the emergency candidates must be citizens in the exercise of their rights, have reached the age of 30 years, belong to the laity, and be natives of Nicaragua.

ART. 103. The election of President and Vice President of the Republic shall be by popular vote, direct and public.

ART. 104. The term of office of the President and Vice President shall be four years, beginning on January 1. No citizen who holds the office of President, either as the duly elected incumbent or accidentally, shall be eligible to the office of President or Vice President for the next term.

ART. 105. No person shall be elected President or Vice President who is related by blood or marriage in a direct line, or up to the fourth degree, inclusive, in a collateral line, with the President of the Republic or with the person holding the office of President during the last six months prior to the election.

ART. 106. In case of the absolute or temporary lack of the President of the Republic, the office of chief executive shall devolve on the Vice President, and in default of the latter, in one of the emergency candidates in the order of their election. In the latter case, if the Congress is in session, it shall be its duty to authorize the entrustment of the office to the representative whom it may designate, who must fulfill the requirements for President of the Republic.

ART. 107. Until the person designated by law receives the office of President, it shall be discharged by the secretary of the interior, who shall give up possession to the new official if Congress is not in session.

ART. 108. The President shall not leave the country during the term of his office without permission from Congress, nor shall he do so at the end of his term if there are proceedings pending against him for official or common law-offenses.

TITLE XIV.

DUTIES AND POWERS OF THE EXECUTIVE.

ART. 109. The President of the Republic is the chief magistrate of the nation and commander in chief of the land and naval forces. He has charge of the general administration of the country, which he shall carry on through secretaries of department and their assistant secretaries.

ART. 110. The law shall determine the number of secretaries of departments and the distribution of duties among them.

ART. 111. The duties of the executive shall be as follows:

1. To defend the independence and honor of the nation and the integrity of its territory.

2. To enforce and have enforced the constitution and laws, issuing the necessary decrees and orders for the purpose, without altering the spirit of the former.

3. To appoint secretaries and assistant secretaries of departments and other executive officers.

4. To preserve the domestic peace and security of the Republic and repel all attacks and aggressions from abroad.

5. To afford the members of the judiciary such aid and power as they may need in order to carry out his orders.

6. To remove officials freely appointed by him.

7. To recommend to Congress, when required by the public welfare, amnesties, pardons, or commutations of sentences of criminals, and to grant amnesties during recesses of Congress.

8. To call extra sessions of Congress when the interests of the nation require.

9. To present to the legislature, through the secretaries of the several departments and within fifteen days from the date on which it convenes, a detailed report on the administrative branches, an itemized account of the proceeds and expenditure of the revenues, and the estimates of expenditures for the following year, pointing out improvements of which the legislation may be susceptible.

10. To conclude treaties and any other diplomatic negotiations, submitting them to Congress for its ratification.

11. To direct foreign relations, appoint consuls and diplomatic officers or ministers of the Republic, and admit and receive those appointed by foreign nations.

12. To cause the revenues of the Republic to be collected and expended in accordance with the law.

13. To confer military grades in time of peace up to colonel, inclusive, and the higher grades up to general of division in the field; and recommend to Congress the conferring of these latter grades in time of peace.

14. To assemble the military forces, land and naval, organize them, and distribute them in accordance with the law and the needs of the Republic.

15. To grant privateering licenses and letters of reprisal.

16. To declare martial law and even suspend the constitutional order of things, during recesses of Congress, in the cases and under the conditions provided in art. 85, No. 21.

17. To grant naturalization papers.

18. To direct and encourage public instruction, to diffuse popular education, and exercise supreme supervision over private institutions of learning.

19. To sanction laws, use the veto power in appropriate cases, and promulgate without delay all legislative measures which do not require the executive sanction.

20. To order vacancies of senators and representatives filled during recesses of Congress within one month at the latest from the time they occur.

21. To publish monthly statements of the receipts and expenditures of the public revenues.

22. To watch over the legal exactness of money and to decide as may be proper regarding the admission of foreign money into circulation. To see to the uniformity of weights and measures, and in general to exercise supreme police supervision.

23. To attend to the internal security and external defense of the country.

24. To conclude contracts for the purpose of supplying the needs of administration and to submit to the ratification of Congress those which relate to loans, colonization, navigation, and other works of utility, as well as those which involve temporary privileges or affect national property, or when money not appropriated in the estimates is availed of therein.

25. To declare war with the authorization of Congress, and make peace when the convenience of the nation requires.

26. To direct the operations of war as commander in chief of the national army and navy. When he wishes to place himself at the head of the army, he shall commit the office of President to the person who is to take his place in accordance with the constitution and he shall remain invested solely with the character of commander in chief and with the powers of commanding general.

27. To see that Congress convenes on the date set by the constitution, taking the necessary measures for the purpose in due time.

28. To grant patents and copyrights, in order to guarantee for a certain period literary property and inventions applicable to new industries or to the improvement of those already existing.

29. To designate, during recesses of Congress, the place where the Government authorities shall transfer their seat when grave grounds arise for taking this step.

30. To raise the necessary force in order to repel any invasion or quell rebellions, and in these cases to levy taxes or negotiate loans and give an account to Congress at its next session.

31. To control the land and naval forces for the defense and security of the Republic, in order to maintain order and tranquility therein, and for any other purpose demanded by the public service.

32. To rehabilitate, in accordance with the law, those citizens who have been suspended in the exercise of their rights.

33. To take the necessary measures in order that the elections may be held at the time prescribed by law, and in order that the rules provided by the law may be observed.

34. To close or open ports during recesses of Congress.

35. To adopt regulations governing his duties and powers.

36. To adopt measures for taking the census of the population and other branches of the national statistics.

37. To establish special rules for the temporary government of regions which are uninhabited or inhabited by uncivilized natives.

38. To determine the rules to which the occupation or alienation of vacant public lands shall be subject, and to devote these lands to colonization and useful enterprises.

39. To suspend the execution of the death penalty whenever requested to take the initiative in commuting a sentence, being obliged to give an account to the next session of Congress.

ART. 112. When public tranquillity is threatened, the executive may issue warrants of arrest against persons presumed to be guilty, and examine them, placing them at the disposal of a competent judge within ten days; however, if it is necessary in the opinion of the executive to confine in the interior or expel from the Republic any persons suspected of conspiracy or treason, he shall decide on the proper steps to be taken at a cabinet meeting and with the votes of two regular (not substitute) senators. If public order is disturbed, the concurrence of the senators shall not be necessary.

ART. 113. The President and his ministers, and senators, as the case may be, shall be responsible for measures adopted by them against the constitution and the laws. In civil matters the responsibility shall be joint.

TITLE XV.

HEADS OF DEPARTMENTS.

ART. 114. The heads of departments must be citizens in the exercise of their rights, natives of Nicaragua, laymen, and 25 years old.

All decrees, resolutions, and orders of the President must be authorized by the heads of the departments within their respective spheres.

ART. 115. The following persons shall be barred from holding the position of head of a department:

1. Contractors for work or public services on account of the nation.
2. Persons who, as a result of their contracts, have claims in their own interest against the public treasury.
3. Debtors to the public treasury.
4. Persons administering public funds, until their accounts are finally settled.
5. Relatives of the President within the second degree of consanguinity or affinity.

ART. 116. Heads of departments may attend, without voting, the deliberations of the legislature, and they shall be obliged to attend whenever called upon, and answer any inquiry made of them by any representative (or senator) in regard to the affairs under their administration, except those relating to war and foreign affairs, when secrecy is deemed necessary, unless the chamber decides to the contrary.

TITLE XVI.

THE JUDICIARY.

ART. 117. There shall be three courts of appeals, one situated in the city of Granada, another at Leon, and the third at Bluefields. The first two shall be composed of six regular judges, three for each of the two sections—civil and criminal; the Bluefields court shall have three regular and two substitute judges. The inferior judge shall be determined by statute.

The justices of the supreme court and of the court of appeals shall be appointed by Congress in joint session, the term of office of the former lasting six and of the latter four years.

Congress may create other courts of appeals.

ART. 118. The justices must be citizens in the exercise of their rights, belong to the laity, and be lawyers and have reached the age of 30 years.

ART. 119. Persons connected by blood relationship within the fourth degree or by marriage within the second shall be barred from serving as justices or judges in the same court.

If two or more persons related within these degrees are appointed, the person receiving the largest number of votes shall be preferred, and in case of a tie, the person who has longest been a lawyer.

The appointment of the others shall be made over again.

ART. 120. The law shall regulate the organization of the judiciary and the administration of justice.

ART. 121. The right to judge and carry out judgments belongs to the (higher and lower) courts.

ART. 122. The courts and judges of the Republic shall preferably apply:

1. The constitution and constituent laws.
2. The laws and legislative decrees; and
3. Executive decrees and resolutions.

In no case shall they heed any provisions or revisions made by virtue of a dispatch (official communication).

ART. 123. The supreme court shall moreover exercise the following powers.

1. Adopting its internal rules.

2. Take original cognizance of official and common law offenses of high officers whom Congress has impeaches.

3. To authorize lawyers, scribes, and notaries who have been received within or outside the Republic to carry on their business, and to suspend and reinstate them according to law.

4. To take cognizance of appeals against decisions of the court of accounts.

5. To take cognizance of appeals for review and protection (amparo) in the cases indicated by law.

6. To try maritime prize cases and other matters referred to it by law.

7. To appoint inferior judges, legal physicians, and registrars of property, in accordance with the law.

8. To accept resignations of employees appointed by it and even to remove them before the expiration of their terms of office, with or without statement of grounds, it being necessary in the latter case that the resolution be adopted unanimously.

9. To decide protests made against ordinances issued by municipalities and other local administrative bodies when contrary to the constitution and the laws.

ART. 124. Any person injured in his rights by the application of a law in a particular case may challenge the constitutionality thereof directly before the supreme court provided the law relates to matters not tryable before the (ordinary) courts.

ART. 125. The administration of justice shall be gratuitous in the Republic.

ART. 126. Members of courts shall not hold any office filled by popular election or conferring additional jurisdiction.

ART. 127. The courts may demand the aid of the armed forces for the execution of their decisions, and if the armed forces are refused them or are unavailable, they may demand such aid from the citizens. Any official or citizen who refuses to give aid shall render himself liable.

ART. 128. In no case shall there be more than three trials (instances), and the same judges shall not officiate in more than one thereof.

ART. 129. In civil matters a jury may be called upon to pass on the facts, when so requested by the parties, and in this case the judge shall merely apply the law.

ART. 130. The magistrates of courts of justice shall enjoy the same immunities and prerogatives as representatives in Congress, except the exemption from civil suit.

ART. 131. The justices of the supreme court may, with a voice but not with a vote, attend the deliberations of either of the legislative chambers or of both in joint session whenever they relate to matters originating in or recommended by said court, or to those dealt with in art. 99 (?).

TITLE XVII.

THE ESTIMATES.

ART. 132. The estimates shall be passed by Congress in view of the recommendations of the executive and judiciary within their respective spheres.

ART. 133. The draft of the estimates shall be presented by the Secretary of the Treasury fifteen days at the latest after Congress convenes.

ART. 134. All expenditures made outside the estimates shall be unlawful, and the official ordering payment and the employee making the payment shall be jointly responsible for the amount expended, without prejudice to whatever penalties may be incurred according to law.

TITLE XVII.

ART. 135. The treasury of the nation shall comprise:

1. All its real and personal property.

2. All its outstanding debts.

3. All duties, imposts, and taxes paid into the treasury by the inhabitants of the Republic.

ART. 136. For the administration of the public revenues there shall be a general collection and disbursement office, as well as such other offices as may be necessary.

ART. 137. In order to hold the office of treasurer general it shall be necessary to be thirty years old, a citizen in the exercise of one's rights, of notoriously good conduct, and not to be a creditor or debtor of the public treasury or have accounts pending therewith.

ART. 138. For the purpose of exercising supervision over the national treasury, there shall be a court of accounts (auditor's office) to which shall be committed the examination and final settlement of all accounts kept by officers administering public interests.

The members of this court must fulfill the same requirements as the treasurer general, but all employees except the President may be as young as 25 years. Their number, organization, and powers shall be determined by law, their appointment, as well as that of treasurer general, being in the hands of the Chief Executive,

ART. 139. No public authority, official, or corporation shall be permitted to conclude contracts in which national property or funds or those of local juntas are involved for any purpose, without previously receiving bids and publishing the offers made. Cases are excepted in which, owing to the nature of the contracts, the latter must be concluded with certain individuals, or in which, owing to the small amount involved, it is not necessary to call for bids. The law shall provide regulations for this matter.

TITLE XVIII.

THE ARMY.

ART. 140. The public forces are established for the sake of insuring the rights of the Nation, enforcing the law, and maintaining public order.

ART. 141. The discipline of the army shall be regulated by military laws and orders. No armed body shall be allowed to deliberate or to exercise the right of petition.

Soldiers in actual service shall not be permitted to hold offices filled by popular election.

ART. 142. Military service shall be compulsory, but in time of peace this duty may be discharged through a substitute. Every male Nicaraguan from 18 to 45 years of age is a soldier of the army. The law shall provide for the proper organization and specify grounds for exemption from service.

Ministers of the gospel of any denomination shall render service in the army only as chaplains and in the ambulance service.

ART. 143. There shall be no fuero atractivo ("attractive jurisdiction"?), and military persons in actual service shall be subject to military jurisdiction for purely military offenses.

TITLE XIX.

DEPARTMENTAL (PROVINCIAL) GOVERNMENT.

ART. 144. For purposes of civil administration, the territory of the Republic shall be divided into "departments" (provinces), and there may be districts (comarcas), the number and boundaries of which shall be determined by law.

TITLE XX.

MUNICIPAL GOVERNMENT.

ART. 145. The local government of towns shall be in charge of municipalities (municipal governments), the officers of which shall be elected by popular, public, and direct vote of the citizens of the respective towns in accordance with the law.

ART. 146. The number of officers of municipal governments shall be determined by law, taking into account the number of inhabitants of each town.

ART. 147. The powers of municipal governments shall be purely economic and administrative. They shall be determined by law, as shall also the requirements laid down in order to be a member thereof.

ART. 148. Municipal governments may freely levy local taxes in accordance with the constitution and general laws, submitting them to the approval of the executive when they affect solely the interests of the town concerned or of the Province to which it belongs, and to the legislature when they impose burdens on one or more other Provinces, even though indirectly.

ART. 149. Municipal governments shall administer the funds of the community for the benefit of the latter, rendering an account to the superior authority established by the law; and they shall publish annually a detailed report on the receipts and expenditures of their funds.

ART. 150. In the discharge of their exclusive duties they shall be independent of the other authorities, but they must not in any case violate the general laws of the country, and they shall be responsible collectively and individually before the courts for any abuses they may commit.

ART. 151. Municipalities shall elect their own officers, and they may also appoint local police officers for purposes of order, security, hygiene, convenience, embellish-

ment, and recreation; and they may enact regulations on these subjects in accordance with the general laws.

ART. 152. The officers of municipal governments shall not be obliged to discharge any other duties, not even military service in time of war.

ART. 153. Municipal resolutions having the character of local laws shall be submitted to the approval of the executive.

TITLE XXI.

RESPONSIBILITY OF PUBLIC OFFICIALS.

ART. 154. Every public official shall, upon assuming office, take an oath to carry out and cause to be carried out the constitution and laws, and he shall be responsible for his acts.

ART. 155. The President of the Republic, senators, representatives, magistrates of courts of justice, secretaries and assistant secretaries of departments, and diplomatic ministers and officers shall be responsible before Congress for any common-law crimes they may commit and for such official offenses as they may commit during the discharge of their duties, for purposes of impeachment and placing the guilty parties at the disposal of the proper court.

ART. 156. Once a judgment has been pronounced declaring an officer guilty of an official offense, he can not be granted pardon.

ART. 157. Notwithstanding approval by Congress of the conduct of the executive branch, the President and the heads of departments may be indicted for official offenses up to five years after quitting their offices.

ART. 158. When a public official still in office is impeached and acquitted, he shall resume the discharge of his duties.

TITLE XXII.

CONSTITUENT ("CONSTITUTIVE") LAWS.

ART. 159. The following laws are "constitutive": The law on the press, martial law, and the law of *amparo*.

TITLE XXIII.

REVISION OF CONSTITUTION AND CONSTITUTIVE LAWS.

ART. 160. When a partial revision of the constitution or constitutive laws is deemed appropriate, this may be done by observing the following rules:

1. The project shall be presented by two or more members of the houses and read twice with an interval of 4 days.

2. Upon being taken up for debate it shall be turned over to a committee, which shall present its opinion within six days.

3. The opinion of the committee shall be read twice on different days.

4. When the revising law has been approved by a two-thirds vote in both houses it shall be published by the press.

5. The amendment will be without legal effect until it has received the approval of a two-thirds vote in the next legislature, after a lapse of two years and in accordance with usual procedure.

ART. 161. Amendments to articles of the constitution which prohibit the reelection of the then President of the Republic shall not be effective during the period in which such amendments are made, nor in the following one.

ART. 162. Treaties or pacts referred to in the last part of art. 2 shall be ratified by a two-thirds vote of each chamber, such action being regarded as an amendment to the constitution, notwithstanding the terms of this article.

ART. 163. An absolute constitutional reform may not be made until after a lapse of 10 years; and for this purpose the regulations of art. 160 shall be observed. A declaration to this effect having been made, a constitutional assembly shall be convoked.

ART. 164. The ordinary Congress upon declaring that the constitution should be entirely revised shall close its sessions and become dissolved in so doing.

TITLE XXIV.

GENERAL PROVISIONS.

ART. 165. The present constitution supersedes that of March 30, 1905, and the guarantee law of September 15, 1910; moreover, it declares the constitution signed on April 4 of this year by the previous constituent assembly to be null and void.

ART. 166. Until revised or repealed, other laws shall remain in force provided they are not contrary to the provisions of the constitution.

TITLE XXIV.

GENERAL PROVISIONS.

ART. 167. The present constitution shall go into force on March 1 of this next year 1912.

TITLE XXV.

TRANSITORY PROVISIONS.

ART. 168. Pending the convening of the first constitutional Congress, elected in the manner and at the time authorized by the present constituent assembly, the latter shall continue to discharge its duties and those which belong to the ordinary Congress in accordance with the constitution.

ART. 169. The renewal of representatives during the first biennial period shall be by lot, as shall also be that of senators in the first and second biennial periods.

ART. 170. The decrees of the present constituent assembly in regard to appointments of President and Vice President of the Republic and of justices of the supreme court shall remain in full force and vigor for the time which they respectively comprise.

ART. 171. The decrees of May 18, July 15, and October 14 last regarding creation, powers, and duties of the mixed commission shall likewise remain in full force notwithstanding the provisions of this constitution. The present constituent assembly shall, without any restriction, enact such revisional and supplementary laws and provisions as may be conducive to the objects stated in said decrees.

ART. 172. As soon as the constitution is promulgated, all Government officials shall take oath in legal form to strictly and faithfully observe all its provisions.

Given in the hall of sessions of the national constituent assembly at Managua on November 10, 1911.

(Signed) IGNACIO SUARES,

"Speaker," Representative from the "Department" of Jinotega (And 39 others).

Let it be published.

EXECUTIVE MANSION, Managua, December 21, 1911.

ADOLFO DIAZ.

(And signatures of secretaries of interior, etc., treasury, foreign affairs, war and navy, and public works.)

APPENDIX 2.

CONSTITUTION OF REPUBLIC OF NICARAGUA.

[March 30, 1905.]

We, the undersigned representatives of the Nicaraguan people, assembled for the purpose of enacting the fundamental law of the nation, do hereby decree and sanction the following political constitution:

TITLE I.—*The Nation.*

ARTICLE 1. Nicaragua is a free, sovereign, and independent nation; but it considers itself a segregated section of the Republic of Central America. Therefore, it recognizes as a primordial necessity the return to the union with the other sections of the dissolved Republic.

ART. 2. The sovereignty is one, inalienable, and imprescriptible, and is vested essentially in the people.

ART. 3. Public functionaries have no other powers than those expressly given them by law. Every act performed by them outside of the law is void.

TITLE II.—*Nicaraguans.*

ART. 4. Nicaraguans are either native or naturalized.

ART. 5. Native Nicaraguans are:

1. Those born in Nicaragua of Nicaraguan parents or domiciled foreigners.
2. Children of Nicaraguan fathers or mothers born in foreign countries, if they choose the Nicaraguan nationality. This provision may be changed by international conventions, if the principle of reciprocity is observed.
3. Natives of the other Republics of Central America who reside in Nicaragua and do not declare before the competent authority their desire to the contrary.

ART. 6. Naturalized Nicaraguans are:

1. Spanish-American citizens who declare before the respective authority their desire to become naturalized in the country.
2. All other aliens who have resided two years in the country and make the same declaration.
3. Those who obtain naturalization papers according to law.
4. Naturalized citizens of the other Central American States who reside in the country and declare before the competent authority their desire to be Nicaraguans.

TITLE III.—*Foreigners.*

ART. 7. Foreigners shall enjoy in Nicaragua the same civil rights as Nicaraguans.

ART. 8. Nicaragua has not in favor of foreigners any other obligations, nor does she recognize any other responsibilities, than those established by the constitution and the laws in favor of Nicaraguans.

ART. 9. Foreigners are bound from the day of their arrival in the territory of the Republic to respect its authorities and observe its laws.

ART. 10. They can acquire all kinds of property in the country; but they shall be subject to the same ordinary and extraordinary taxation as Nicaraguans.

ART. 11. Foreigners shall not resort to diplomatic interposition, except in cases of denial of justice. Those making undue claims shall lose the right to inhabit the country.

ART. 12. Extradition for political offenses is hereby forbidden, even in case that a common offense has been committed in consequence thereof.

ART. 13. The law shall establish the manner and the cases in which a foreigner can be refused admission into the territory of the Nation, or be expelled therefrom.

TITLE IV.—*Citizens.*

ART. 14. Nicaraguan citizens are all Nicaraguans over eighteen years of age.

ART. 15. Citizens shall have the following rights: 1, the right to vote; 2, the right to hold public office, and 3, the right to carry arms, all of which is subject to law.

ART. 16. The rights of citizenship are suspended:

1. By an order of arrest or a declaration that the party concerned should be subject to criminal proceedings.
2. By a sentence imposing disability for the exercise of political rights during the term of the sentence.
3. By sentences imposing penalties of graver character than the purely correctional ones.
4. By accepting employment in the service of foreign nations, excepting those of Spanish America, without permission of the legislative power, if the person referred to resides in Nicaragua.
5. For mental incapacity.

ART. 17. The right to vote can not be waived and is compulsory for all citizens.

ART. 18. Suffrage shall be direct and secret.

TITLE V.—*Rights and guarantees.*

ART. 19. Liberty, individual security, equality, and property are guaranteed to the inhabitants of the Nation, whether Nicaraguans or foreigners.

ART. 20. The penalty of death shall only be imposed for grave military offenses, designated by law.

ART. 21. The constitution recognizes the writ of *habeas corpus*. In consequence thereof every inhabitant has the right to demand that he be brought personally before the court.

ART. 22. Detention for the purposes of investigation in cases of common offenses shall not exceed eight days, except in the judicial districts where the means of com-

munication are difficult, in which case the time required on account of the distance to place the prisoner at the disposal of the competent court shall be added.

ART. 23. No order of imprisonment shall be issued without full proof that an offense, punishable with a penalty greater than a purely correctional one, has been committed, and without grave presumption, at least, that the party against whom it is issued is guilty.

ART. 24. No one shall be tried by special commissions, or by any other courts than those established by law previous to the act which gave rise to the proceedings.

ART. 25. No one shall be deprived of the right of defense. Trials shall always be public.

ART. 26. The imposition of perpetual penalties and of torture of all kinds is forbidden.

ART. 27. The dwelling place of every individual is a sacred asylum which shall not be entered except in the following cases:

1. When a criminal, surprised in *flagrante delicto*, is sheltered in it.
2. When an offense is committed in the interior, when some disturbance requiring prompt remedy has taken place therein, or at the request of the tenants.
3. In case of fire, earthquake, inundation, epidemics, or any other analogous emergency.
4. To take possession, by order of the court, of objects to be found therein, or to execute a judicial decree legally issued.
5. To release a person unlawfully sequestered.
6. To arrest parties whose imprisonment has been ordered, provided that there is sufficient proof that they are concealed in the place.

In the three cases mentioned, the dwelling place shall not be entered except upon written order of competent authority.

When the place to be entered is not the domicile of the party pursued, the authority or its agents shall previously ask the permission of the tenant.

ART. 28. The entering of a domicile in the cases referred to in clauses 4th and 6th of the preceding article shall not be made between the hours of seven p. m. and six a. m., except by permission of the owner.

ART. 29. In no case shall the Executive power or its agents have authority to take possession of epistolary or telegraphic correspondence, or open or retain it. Intercepted letters or telegrams shall not be admitted as evidence.

ART. 30. The enactment of proscription, confiscation, and *ex post facto* laws, or laws imposing penalties carrying with them infamy, is forbidden.

ART. 31. Imprisonment for debts, even if incurred in agricultural pursuits, is forbidden.

ART. 32. The State does not profess or protect any religion; but permits all kinds of worship inside the temples.

ART. 33. The expression of thought, orally or in writing, is free, and the law shall not restrict it.

ART. 34. Education shall be laical, and primary instruction compulsory. When supported by public funds it shall be gratuitous.

ART. 35. No authority shall prevent the holding of meetings for lawful purposes.

ART. 36. Convents and all kinds of monastic institutions are forbidden.

ART. 37. Every person legally capable of exercising his rights shall be free to dispose of his property by sale, donation, last will and testament, or any other legal way of conveyance.

ART. 38. The entailment of property and every endowment in favor of dead hands is forbidden.

ART. 39. No authority shall ignore the petitions addressed to it, but shall act upon them in the manner provided by law.

ART. 40. No one shall be deprived of his property except by judicial decision founded on law, or through condemnation for public use. The latter shall not be made without previous indemnification according to law. In case of war it is not indispensable for the indemnification to be previous.

ART. 41. The right to recover confiscated property shall never be barred by limitation.

ART. 42. No penalties of a graver character than the purely correctional ones shall be imposed in cases of common offenses, without proper conviction by jury.

ART. 43. Monopolies of all kinds are forbidden.

ART. 44. Everyone has the right to travel through the territory of the Republic, or remain therein, without any other restrictions than those established by law.

ART. 45. The guarantees above named, excepting those relating to confiscation, and to the inviolability of human life, may be temporarily suspended by the declaration of a state of siege.

ART. 46. Laws regulating the exercise of these guarantees shall be inefficient in everything which diminishes, restricts, or adulterates the same.

ART. 47. The functionary who, without legal authority, should restrict any of the guarantees set forth in the present title shall be bound to pay an indemnity proportional to the evil done, independently of incurring any other legal responsibilities.

TITLE VI.—*Form of government.*

ART. 48. The Government of Nicaragua is republican, democratic, and representative. It consists of three independent powers, namely, legislative, executive, and judicial.

ART. 49. The legislative power is vested in an Assembly of Deputies, which shall meet in the capital of the Republic every two years, on the 1st of December, without the necessity of previous convocation.

ART. 50. There shall be forty meetings in each ordinary session, which may be increased to sixty at the will of the Assembly.

ART. 51. The legislative power shall also meet in extra session when called to do so by the Executive, and in this case it shall only deal with the business submitted to it by the latter.

ART. 52. The Assembly, after having met in the capital, may resolve to move to some other city.

ART. 53. Five days before the meeting of the Assembly the Deputies shall hold preparatory meetings and shall, with the concurrence of at least five of its members, resolve what may be necessary for the attendance of the others and the solemn opening of the Assembly.

ART. 54. An absolute majority of the members of the Assembly shall be sufficient quorum to transact business.

ART. 55. Ten Deputies shall have power to call an extra session of the Assembly to be held at any place in the Republic, when the Executive has dissolved it or impeded its meetings.

ART. 56. Deputies shall serve for six years and shall be renewed by thirds every two years.

ART. 57. To be a Deputy, it shall be necessary to be a citizen in the full enjoyment of his rights as such, not to belong to the clergy, and be elected by the people.

ART. 58. The following can not be deputies:

1. Employees appointed by the Executive.
2. The justices of the tribunals and the district judges.
3. The relatives of the President of the Republic within the second degree of consanguinity or affinity.

4. Those who have managed or collected public funds, pending the auditing and approval of their accounts.

ART. 59. Deputies shall enjoy from the day of their election the following privileges:

1. Personal immunity against trial by the courts, if the Assembly does not previously declare that there is reason to proceed against them.

2. Not to be sued before the civil courts during a period beginning thirty days before and ending fifteen days after the sessions of the Assembly.

3. Not to be called to the military service without their consent.

4. Not to be banished from the Republic, compelled to reside in a certain place, or deprived of their liberty for any reason whatever.

ART. 60. Deputies shall not obtain positions from the Executive power during the sessions of the Assembly, excepting those of diplomatic agents, ministers of state, and professors. For the acceptance of diplomatic positions and professorships they shall not lose their seats in the Assembly, but they shall lose them by becoming ministers of state.

When the Assembly is not in session they may obtain any other office from the Executive, but by their acceptance thereof they shall also lose their seats.

The Executive shall report to the Assembly, if it is in session, the appointments he may have made, in order that a resolution be passed ordering the places to be filled. If the Assembly is not in session, this order shall be made by the Executive.

ART. 61. For the election of Deputies to the Assembly, the territory of the Republic shall be divided into electoral districts, each one containing ten thousand inhabitants or a fraction thereof consisting of not less than five thousand.

TITLE VII.—*Powers of the legislative body.*

ART. 62. The following powers are vested in the Legislative Assembly:

1. To open and close its sessions, be the judge of the election of its members, approve or disapprove their credentials, and to receive from them the promise of law.

2. To call the respective substitutes in case that the regular members can not through legitimate cause be present, and order new elections in cases of vacancy.
3. To accept the resignation of its members, if tendered upon legal causes duly established.
4. To make rules for its interior government.
5. To enact, construe, amend, and repeal the laws.
6. To create and abolish offices, grant pensions, honors, and amnesties.
7. To provide everything conducive to the security and interior defense of the Republic.
8. To count the votes for President of the Republic and proclaim the election of the citizen who has obtained absolute majority.
9. To declare elected President of the Republic, in case that there is no absolute majority, the citizen who has obtained relative majority. In case of a tie vote the Assembly shall elect the President from among the citizens having equal number of votes.
10. When the same individual has been elected for several positions the order of preference shall be as follows: First, President of the Republic; second, Deputy; third, substitute Deputy.
11. To receive the constitutional promise to the functionaries elected or declared elected by it, and to accept or refuse to accept their resignations.
12. To appoint every two years three of its members to replace the President of the Republic, when an absolute or temporary vacancy occurs. These "Designados" are not eligible for any other position, nor shall they be qualified to exercise any executive office, unless it is as professors.
13. To grant permission for the criminal prosecution of the President of the Republic, secretaries of state, Deputies, diplomatic agents, justices of the supreme court and of the courts of appeals.
14. To order for grave reasons the change of residence of the supreme powers.
15. To grant rewards and temporary privileges to authors and inventors, and to those who have introduced new industries of general usefulness or improved those in existence.
16. To grant subsidies, bounties, and rewards for purposes of public utility, and the promotion of new industries or the improvement of the existing ones.
17. To grant or refuse permission to Nicaraguans to accept offices from foreign nations, except the nations of Spanish America.
18. To approve or disapprove of the conduct of the Executive.
19. To approve, amend, or disapprove the treaties concluded with foreign nations.
20. To regulate the commerce by land and sea.
21. To approve or disapprove the accounts of the public expenses.
22. To appropriate every two years the amount required to meet the national expenses.
23. To levy taxes.
24. To order national property to be sold, leased, or applied to public uses, or authorize the Executive to do the same, in the manner most profitable to the Republic.
25. To decree foreign loans and make rules for the payment of the national debt, or establish the bases upon which the Executive power may do the same.
26. To establish ports of entry, and create, transfer, or abolish custom-houses, or make rules according to which the Executive may do the same.
27. To decree the weight, fineness, and denominations of the national coin.
28. To declare war and make peace, or authorize the Executive to do the same.
29. To fix in each ordinary session the number of troops composing the standing army.
30. To permit or refuse to permit troops from other countries to pass through the territory of the Republic, and authorize national forces to leave the Nicaraguan territory. During a state of war the Executive shall be vested with these powers.
31. To declare according to law the territory of the Republic, or a portion thereof, in a state of siege.
32. To appoint major-generals or brigadier-generals, upon nomination by the Executive.
33. To decree the coat of arms and the flag of the Republic.
34. To grant pardons or commutations of sentences upon recommendation of the Executive and previous favorable report of the judicial power.
35. To grant rewards or recompenses for eminent services rendered to the Nation.
36. To approve, or disapprove, the contracts entered into by the Executive with private individuals or companies respecting foreign loans, colonization, navigation, and works of public utility, whenever the said contracts imply the concession of temporary privileges, affect the public revenue or the property of the Nation, or involve the payment of moneys not included in the budget.

37. To delegate to the Executive the power to legislate, during its recess, on the subjects of Finances, War, Police, Promotion of Public Welfare, and the Navy, without opposing the spirit of the Constitution and the laws.

ART. 63. The legislative power shall not make any alteration of, or any declaration in regard to, the civil status of any person, nor shall it grant academic or literary titles.

TITLE VIII.—*The Enactment, Approval, and Promulgation of Laws.*

ART. 64. Exclusive power to originate legislation is vested in the Deputies, the President of the Republic through the secretaries of state, and the supreme court of justice in matters within its jurisdiction.

ART. 65. No bill shall be finally voted upon which has not been discussed in two meetings held on different days, except in case of urgency, when declared to exist by a four-fifths vote, in which case only one debate shall be permitted.

ART. 66. All bills after having been approved by the Assembly shall be sent to the Executive within three days after their passage, in order that they may be approved and promulgated.

ART. 67. If the President, upon the advice of the council of ministers, should object to a bill, he shall return it to the Assembly within ten days, with an explanation of the reasons upon which he bases his disapproval. If no objection is made to a bill during the period aforesaid, it shall be considered approved, and published as law. When the Executive returns a bill, the Assembly shall submit it to a new deliberation, and if it is ratified by a two-thirds vote it shall be sent again to the Executive with this indorsement: "Constitutionally ratified." The Executive shall then publish it without delay.

ART. 68. Bills passed by the Assembly in the last five days of the session, which the Executive does not deem it advisable to approve, shall be returned to the Assembly with the proper objections, during the first ten days of the immediate session.

ART. 69. Rejected bills shall not be reintroduced until the next session of the Assembly.

ART. 70. The following decrees and resolutions shall not require the approval of the Executive:

1. Those relating to elections made or declared by the Assembly or to acceptances or refusals to accept resignations.
2. Those granting permission for criminal prosecutions.
3. Appropriation bills.
4. Acts and resolutions relating to the conduct of the Executive.
5. Rules for the interior government of the Assembly.
6. Resolutions providing for a temporary transfer of the place of meeting of the Assembly, or for its adjournment.

ART. 71. No bill having for its object the amendment or repeal of any provision contained in the Civil, Penal, Commercial, Mining, or Procedure codes of the Republic, not originated in the Supreme Court of justice, shall be discussed without first hearing the opinion of said court, said opinion to be given according to the importance, urgency, or magnitude of the reform, either during the same session of the Assembly or in the next.

TITLE IX.—*Executive power.*

ART. 72. The Executive power is vested in a citizen to be known as the President of the Republic.

ART. 73. The President of the Republic shall be a citizen in the full exercise of his rights, not a member of the clergy, and a native of Nicaragua or of any of the other Republics of Central America.

ART. 74. The President of the Republic shall be elected by direct vote of the Nicaraguan people.

ART. 75. The Presidential term shall be six years, to begin on the first of January, in the year following the election.

ART. 76. In case of absolute or temporary vacancy of the Presidency of the Republic, the Executive power shall be entrusted to one of the "designados" chosen by lot by the council of ministers, out of the three appointed by the Assembly.

ART. 77. Until the office of President is filled by the person called by law, the Executive power shall be vested in the secretary of government, who shall give possession thereof to the corresponding "Designado" when the Assembly is not in session.

ART. 78. When the President of the Republic has to deposit the power, he shall turn it over to any one of the deputies of the legislative assembly. If the assembly is in session it shall designate the one to whom the power shall be entrusted.

ART. 79. Whenever the President of the Republic decides to put himself at the head of the army, he shall transfer the functions of supreme chief of the nation to the functionary constitutionally called to replace him, and shall remain vested only with the power of general in chief and chief commander.

TITLE X.—*Duties and powers of the executive.*

ART. 80. The President of the Republic is the supreme chief of the nation and the commander in chief of the forces of land and sea; he has in his charge the administration of the general government of the country and the following duties and powers:

1. To defend the independence and honor of the nation, and the integrity of its territory.
2. To finally ratify the treaties having for their object the union of Nicaragua to one or more States of Central America.
3. To execute and cause others to execute the laws, for which purpose he shall issue the proper orders and decrees without changing the spirit of said laws.
4. To appoint according to law the secretaries and assistant secretaries of state and all other executive officials.
5. To preserve the peace and internal safety of the Republic and repel all foreign attacks or aggressions.
6. To watch for the prompt and faithful administration of justice, render to the functionaries of the judicial powers all the assistance required for the enforcement of their decisions.
7. To remove officials whose appointment belongs solely to him.
8. To grant amnesties, when Congress is in recess, if so required by the public good, and to commute the death penalty when imposed for military offenses.
9. To call the assembly to convene in extra session.
10. To submit through the secretaries of state, within the first fifteen days after the meeting of the assembly, a report on all the branches of the administration.
11. To conclude treaties and all kinds of diplomatic arrangements, and submit them for ratification to the assembly at the next session.
12. To conduct the foreign relations, appoint diplomatic and consular agents of the Republic, and receive ministers and consuls of foreign nations.
13. To cause the revenues of the Republic to be collected, and to regulate the expenditure of the same according to law.
14. To contract, in case of invasion or revolution, if the resources of the State are insufficient, general loans, either voluntary or forced, the use of which shall be reported to the Assembly at the next session.
15. To make, in time of peace, all military appointments up to that of colonel, inclusive, and to nominate for the positions of general of division and brigadier-general, and to make the latter appointments in times of war.
16. To command the military forces, and organize and distribute them according to law and the necessities of the Republic.
17. To grant letters of mark and reprisals.
18. To declare in conformity of the law the territory of the Republic, or a portion thereof, in a state of siege, in cases of foreign aggression, or domestic rebellion, when the assembly is not in session.
19. To grant letters of naturalization.
20. To promote public instruction and diffuse popular education.
21. To approve the laws, or veto them, as the case may be, and promulgate without delay all legislative measures not requiring the approval of the executive.
22. To order during the recess of the assembly the vacant places of deputies to be filled according to law, the election to be made at the latest within one month after the vacancies occur.
23. To publish monthly a statement of the Government receipts and expenditures.
24. To watch over the legal correctness of the national coin, fix the standard of weights and measures, and exercise supreme direction of the police.
25. To attend to the internal safety of the country and its defense against foreign aggression.
26. To enter into all classes of contracts to provide for the necessities of the administration, and to submit to the legislative assembly for its ratification those entered into concerning foreign loans, colonization, navigation, and works of utility, when involving temporary privileges or affecting the public revenue and the property of the nation, or entailing the expenditure of moneys not provided for in the budget.
27. To declare war when authorized to do so by the assembly, and make peace when required for the good of the nation.
28. To conduct the operations of war as the supreme chief of the national army and navy.

29. To see that the assembly meets on the day appointed by the constitution, and to issue for that purpose the necessary orders.

30. To grant patents, guaranteeing for a certain period of time the ownership of literary productions, and of useful inventions applicable to new industrial operations or to the improvement of those now in existence.

31. To designate the place to which the powers of the State should temporarily move when justified by grave reasons.

32. To issue proper measures for the taking of the census of population and all other branches of national statistics.

33. To establish the special system under which the unpopulated regions of the country or those inhabited by uncivilized Indians shall be temporarily governed.

34. To raise the necessary forces to repel invasion or put down rebellion.

35. To use the armed forces on land and sea for the defense and safety of the Republic, to preserve the order and the peace thereof, and all other purposes which public service require.

36. To remove from citizens, according to law, the disabilities to which they may be subject through the suspension of their rights of citizenship.

37. To take measures of safety in grave and unforeseen cases of foreign aggression or domestic disturbance before the decree of a state of siege is issued, and report thereon to the legislative assembly at its next session.

38. To take all the measures necessary to cause the elections to be held at the time fixed by law and see that the rules established for such elections shall be complied with.

39. To close or open ports during the recess of the assembly.

40. To make rules for the occupation or sale of vacant lands and grant the ownership of the said lands for colonization and other useful purposes.

41. To sell or lease the national property.

ART. 81. The measures of the executive power, not taken through the proper department of the Government, are illegal. The President and his ministers shall be held responsible for everything done by them contrary to the constitution and the laws.

TITLE XI.—*The secretaries of state.*

ART. 82. The secretaries of state shall be Nicaraguans, not members of the clergy, and citizens in the exercise of their rights. Central Americans and naturalized Spanish Americans may also be secretaries of state.

ART. 83. The following can not be secretaries of state: Contractors of public works or services on account of the nation; those who in consequence of these contracts have claims in their own name; and the debtors or creditors of the treasury.

ART. 84. The secretaries of state may attend the meetings of the assembly and take part in the debates, but shall have no vote; and they shall be bound to appear before the assembly whenever summoned to answer the interpellations of any deputy on matters relating to the public administration. In this case the secretaries of state may ask to be excused from answering when the question relates to matters of war and foreign relations of confidential character. The assembly shall take into consideration such a request, but may overrule it and compel the secretary to answer.

TITLE XII.—*The judicial power.*

ART. 85. The judicial power is vested in a supreme court, in the courts of appeals, and in the judicial functionaries established by law.

ART. 86. The members of the courts shall be elected by the legislative assembly. The appointment of the other functionaries of the judicial power shall be made in accordance with the organic law of the tribunals, which shall fix the duration of their terms of office, their duties, powers, and everything else relating to the administration of justice.

ART. 87. To be a member of a court it shall be necessary to be a citizen in the exercise of his rights, not a member of the clergy, a lawyer, and over twenty-five years of age.

ART. 88. The power to give judgments and cause them to be enforced belongs exclusively to the judicial power. No other power, or agents thereof, shall assume jurisdiction in cases which have not been terminated, or stop their prosecution, or reopen cases already settled.

ART. 89. The law shall grant the remedy for reviewing decisions in grave criminal cases, when after the termination thereof proof can be given that the convicted party was innocent.

ART. 90. In civil cases the parties may have the facts passed upon by a jury. The verdict having been rendered, the judge shall limit his action to the application of the law.

ART. 91. The supreme court of justice shall make the election and appointment, according to law, of the functionaries and employees under its control, accept their resignations, and grant leaves of absence permitted by law.

ART. 92. The supreme court shall have, furthermore, the following powers:

1. To make rules for its interior government, and approve those of the courts of appeal.

2. To take cognizance of the cases of impeachment of the high functionaries when the prosecution thereof has been ordered.

3. To apply the laws in the individual cases submitted to its examination, to interpret their provisions in accordance with the spirit of the constitution, or not to apply them, on its own responsibility, when they prove to be contrary to the said constitution.

4. To grant authority to lawyers and notaries, whether citizens or foreigners, to practice their professions, and suspend or reinstate them according to law.

5. To take cognizance of all the remedies granted by law against the decisions of the tribunal of accounts.

ART. 93. The administration of justice is gratuitous in all classes of cases and in all stages of the proceedings.

ART. 94. The members of the courts shall not be qualified to exercise any other function except that of professors. They shall be exempted from military service.

ART. 95. No more than three instances shall be allowed to any case, and the same judge shall not act in more than one.

ART. 96. Judicial functionaries may demand military assistance or the assistance of private citizens to enforce their decisions.

TITLE XIII.—*The budget.*

ART. 97. The budget shall be voted upon by the assembly after examination of the estimates submitted by the executive.

ART. 98. Expenses not authorized by the budget are illegal, and the President, the secretary of the treasury, and the officer who made the payment shall be jointly responsible for the amounts of money expended in this way. They shall also be liable to punishment according to law.

ART. 99. The sums appropriated to meet the expenses of the Government shall not exceed the probable receipts as estimated by the department of the treasury.

TITLE XIV.—*The public treasure.*

ART. 100. The public treasure of the nation consists of:

1. All national property, real and personal.

2. All the debts due to the nation.

3. All duties, taxes, and contributions paid by the inhabitants of the Republic.

ART. 101. The public funds shall be administered by a general treasurer and all other necessary officers.

ART. 102. The general treasurer shall be appointed by the executive power. No one shall be general treasurer who is a creditor of the Government or has accounts pending therewith.

ART. 103. The executive power shall not enter into contracts affecting national funds without previous publication of proposals in the official newspaper inviting public competition. An exception to this rule shall take place in regard to those contracts entered into to meet necessities of war, or which, according to the nature of the business to which they refer, can only be negotiated with certain persons.

ART. 104. For the proper vigilance over the management of the national treasury there shall be a comptroller's office, or tribunal of accounts, whose functions shall be to examine, audit, and approve the accounts of all managers of public funds.

ART. 105. The members of this tribunal shall have the same qualifications as the general treasurer; their number, duties, and powers shall be determined by law.

TITLE XV.—*The army.*

ART. 106. Public force is established to protect the rights of the nation, the fulfilment of the law, and the preservation of public order.

ART. 107. The discipline of the army shall be maintained by military laws and ordinances. Armed forces shall not deliberate or exercise the right of petition.

ART. 108. Military service is compulsory. The law shall regulate it.

ART. 109. Offenses purely military, committed by members of the army in actual service, shall be tried by military courts, according to the military code.

TITLE XVI.—*The departmental government.*

ART. 110. For political purposes the territory of the Republic shall be divided into Departments, the number and boundaries of which shall be fixed by law. Each one of these Departments shall have the executive functionaries which the law shall provide.

TITLE XVII.—*The municipal government.*

ART. 111. The local government of the towns shall be administered by municipal corporations directly elected by the people.

ART. 112. The number of members of the municipal corporations shall be fixed by law, the population of the towns being taken into consideration for that purpose.

ART. 113. The powers of the municipal corporations and the rules for their organization shall be the object of special laws.

ART. 114. The powers of the municipal corporations shall be purely economical and administrative.

ART. 115. No member of a municipal corporation shall be compelled to accept another position or called to render military service.

TITLE XVIII.—*Responsibilities of public functionaries.*

ART. 116. All public functionaries shall be responsible for their acts.

ART. 117. The members of the supreme powers, justices of the courts of appeals, secretaries of state and diplomatic ministers, shall be responsible before the legislative assembly for the offenses committed by them. The assembly shall declare whether or not criminal proceedings shall be instituted against them. If the decision is affirmative the assembly shall place them at the disposal of the competent court.

ART. 118. Public functionaries who have been tried and acquitted shall be reinstated in the exercise of their functions.

TITLE XIX.—*Amendments to the constitution.*

ART. 119. All amendments to the constitution shall be ordered to be made by a resolution passed by a two-thirds vote of the assembly in ordinary session, and a constitutional convention assembled for that purpose shall give them the proper form. Absolute reform shall not be ordered except after the lapse of ten years.

ART. 120. The delegates to the constitutional convention shall be elected in the same manner and the same number as the representatives in the Legislative Assembly.

ART. 121. The constitution of the tenth of December, eighteen hundred and ninety-three, and the amendments thereto of October fifteenth, eighteen hundred and ninety-six, are hereby repealed.

ART. 122. The present constitution shall go into effect on the day of its publication.

APPENDIX 3.

THE REPUBLIC OF NICARAGUA AND BROWN BROTHERS & COMPANY AND J. & W. SELIGMAN & COMPANY—AGREEMENT FOR PURCHASE OF TREASURY BILLS.

[Dated, October 8, 1913.]

Agreement made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Brown Brothers & Company and J. & W. Seligman & Company, copartnerships doing business in the city of New York, hereinafter called the "Bankers," parties of the second part, witnesseth:

Whereas, for the purpose of liquidating certain indebtedness of the Republic, of providing further funds to insure the stability of the currency of the Republic, of increasing the capital of the National Bank of Nicaragua, Incorporated, of providing for the Republic's current expenses, and for other purposes, the Republic wishes to sell gold treasury bills about to be issued, to be known as "Republic of Nicaragua Treasury Bills of 1913," representing an aggregate principal amount of one million and sixty thousand dollars (\$1,060,000) United States gold,

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, and in consideration of the covenants and undertakings by the Republic in various other contracts executed simultaneously herewith, it is hereby agreed as follows:

ARTICLE FIRST.

The Republic shall forthwith issue its gold treasury bills to the aggregate principal amount of one million and sixty thousand dollars (\$1,060,000) United States gold, under a contract of even date herewith between the Republic and the United States Mortgage & Trust Company, as trustee, a copy of which contract, marked "Schedule No. 1," is hereto annexed and made a part hereof, and shall cause said bills to be certified by the trustee as in said contract provided.

ARTICLE SECOND.

The Republic hereby sells, assigns, and transfers to the bankers, and the bankers hereby purchase the entire issue of said treasury bills for the sum of one million dollars (\$1,000,000) United States gold, to be paid upon the delivery of said bills.

ARTICLE THIRD.

This agreement shall be deemed to be and shall be construed as a New York contract

ARTICLE FOURTH.

This contract has been submitted to the Secretary of State of the United States for his approval, and it is hereby agreed that within ten (10) days from the date hereof, the Republic shall file with the Department of State of the United States of America an original, executed counterpart of this contract.

ARTICLE FIFTH.

Upon the execution hereof the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them, one to Señor don Pedro Rafael Cuadra; three to the Bankers, and one, in accordance with article fourth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the Executive of the Republic and deposited with the National Bank of Nicaragua, Incorporated, in Managua, and the latter shall have notified the Bankers by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven (7) days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid within said seven (7) days or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be cancelled by said Curtis, Mallet-Prevost & Colt.

In witness whereof, the Republic has caused this contract to be subscribed on its behalf by Señor don Pedro Rafael Cuadra, minister of finance and financial agent of the Republic of Nicaragua, and said Brown Brothers & Company and said J. & W. Seligman & Company have hereunto set their hands and seals the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.

BROWN BROTHERS & CO. [SEAL.]
J. & W. SELIGMAN & CO. [SEAL.]

APPENDIX 4.

9084D

AUGUST 15, 1911.

HON. ERNEST H. WANDS,
Metropolitan Club, Washington, D. C.

DEAR SIR: We are sending you by messenger this evening a memorandum of the changes that have been made in the bond purchase agreement, the trust and fiscal agency agreement, the treasury bills agreement, the bond, the banking concession, and the railway concession since copies of the same were delivered to you yesterday; also two copies of each of the aforesaid documents with all additions (including the changes set forth in the memorandum) which have been made on the original galley

proofs sent to the State Department in the early part of the month marked in red ink, and the omissions indicated by carets in black ink. We also enclose suggested forms for the letters to be sent by the Republic to the Secretary of State upon the ratification of the treasury bills agreement and the response thereto prepared in accordance with the agreement arrived at by the State Department officials and the Bankers in conference on the 8th instant at the State Department in Washington.

We are sending to-night to Mr. Fleming the amendments which have been made to-day, which are principally for the purposes of reconciliation between the different agreements and to avoid leaving blanks which can not be filled at present. We understand that Mr. Fleming will communicate with us if any objections occur to him. The suggestions of Messrs. Dawson and Doyle and also of the Solicitor to the State Department have been incorporated in the papers according to the notes which were made at our last interview.

Hoping you will find these papers satisfactory and that we may be advised as early to-morrow as possible of the approval of the State Department, we are,

Very respectfully,

(Signed)

CURTIS, MALLET-PREVOST & COLT.

(ENC) Z/5.

9084D

AUGUST 19, 1911.

MATHEW C. FLEMING, Esq.,
Kennebunkport, Me.

MY DEAR MR. FLEMING: Since writing you Thursday, several changes have been made in the trust and fiscal agency agreement and in the railway concession, which were made at the request of Mr. Wands, though he has not yet seen the exact verbiage of the change.

In the proof which you have of August 14th, 1911, the changes occur in the following places: On page 35, after the word "used" in the third line of subdivision (c), the following has been inserted: "one year after the date upon which the ten million eight hundred and sixty thousand dollars (\$10,860,000) shall be paid to the trustee as set forth in section 1 of this article." In the fourth line of said subdivision (c) the words "upon the" and "day of" have been stricken out. On page 36, in the second paragraph commencing on that page, after the word "remain" in the first line of said paragraph, has been inserted "after the aforesaid adjustment and settlement authorized in the first paragraph of this Subdivision C," and the words on the first and second line of said paragraph "on the" and "day of" have been stricken out. On page 37, after the word "filing" in the seventh line has been inserted "from time to time." On the tenth line of said page the words "pro rata on the" and "day" have been stricken out. On the eleventh line and after the word "before" in the twelfth line "any" inserted. The word "of" has been stricken out. At the end of the fifteenth line on that page has been inserted the words "first exhaust the available cash, and if said available cash shall be insufficient to pay," and the sixteenth, seventeenth, eighteenth, nineteenth, twentieth, twenty-first, twenty-second, twenty-third, twenty-fourth, twenty-fifth, twenty-sixth, and twenty-seventh lines have been stricken out. On page 38, line 7, after the words "out of," has been inserted "but only to the extent of." In the eighth line, after the word "awards," has been inserted "in the order presented to the trustee," and the balance of said eighth line, together with lines 9 and 10 on said page, have been stricken out. On the same page, line 13, "on said" has been stricken out, and on line 14, "day of" has been stricken out.

These changes were made in order to fix the date in Subdivision C, and the change was to be made in Subdivision D, as Mr. Wands thought the awards should be paid in full from time to time as they are made and presented to the trustee, as he expects the fund to be created to pay said awards will be more than sufficient to cover all awards that may be made.

On page 46, paragraph numbered (2), after the word "Nicaragua," has been inserted "and for other purposes." The remainder of said paragraph numbered (2) after the words "joint order" in the fourth line thereof, has been stricken out. This last change was made by Mr. Wands so that the State Department could be repaid the amounts theretofore expended by it without specifically stating in the agreement that they were to be paid.

RAILWAY CONCESSIONS.

Page 3, in the head of article, we changed the word "constitution" to "charter." On page 6, paragraph (g), on the 6th line of said paragraph, we have changed the word "judicial" to "juridical." On page 8, last line of section 6, after the word "company," we have inserted "by the Republic." On page 11, in the paragraph commencing

"All the lands granted to the company under this contract," in the third line of said paragraph, we have changed the word "thereafter" to "theretofore." On page 13, in the first line of paragraph marked (c), after the word "departmental," we have inserted "municipal." On page 19 we struck out "but" on the last line of the page. On page 20 we struck out the first two lines. On page 25, on the last line of article 18th, we struck out the word "congressional" and after the word "approval" inserted "ratification."

TREASURY-BILLS AGREEMENT.

On page 18, lines 7 and 8, we have stricken out the words "compensation and," and after the word "expenses," in line 8, inserted "and the said trust company its compensation." This change was made because, under the agreement, the fiscal agent is to receive no compensation. As to the insertion which was made on the eighteenth page, at the end of the eighth line, we find that in going over that insertion in connection with the sentence following, commencing "Thereafter holders of said bills" and ending "as provided in the said contract, 'Schedule B,'" do not go very well together. We have reversed them, with some minor changes in the verbiage, so that the two should now read as follows:

"Thereafter holders of said bills shall look to the said United States Mortgage & Trust Company, as trustee, for the payment of the principal and interest of said bills, as provided in said contract, 'Schedule,' and the funds and other property turned over, as aforesaid, to said trustee under said contract, 'Schedule B,' together with the sum of one million five hundred thousand dollars (\$1,500,000), set apart and held by said trustee as part of the said banking and currency fund, shall be, as far as necessary, applied by the trustee to the redemption of the bills."

Mr. Whittlesay advised us, over the phone, that in talking with Mr. Wands to-day, Mr. Wands said that he did not wish your letter to be sent to the State Department until Monday.

Very truly, yours,

(Sgd.) CURTIS, MALLET-PREVOST & COLT.

P. S.—Since writing the above we notice that, on page 5 of the railway concession, in paragraph marked (c), the following changes should be made: In the second line, "traffic" should be changed to "trackage"; in line 3, the semicolon should come out and in place thereof "that" should be inserted.

9084D

NICARAGUA LOAN.

AUGUST 19, 1911.

Hon. W. T. S. DOYLE,
*Latin American Bureau, Department of State,
Washington, D. C.*

SIR: Several changes have been made in the trust and fiscal agency agreement and in the railway concession, which were made at the request of Mr. Wands, though he has not yet seen the exact verbiage of the changes.

In the proof which you have of August 14th, 1911, the changes occur in the following places: On page 35, after the word "used" in the third line, subdivision (c), the following has been inserted: "One year after the date upon which the ten million eight hundred and sixty thousand dollars (\$10,860,000) shall be paid to the trustee, as set forth in section 1 of this article." In the fourth line of said subdivision (c) the words "upon the" and "day of" have been stricken out. On page 36, in the second paragraph commencing on that page, after the word "remain," in the first line of said paragraph, has been inserted "after the aforesaid adjustment and settlement authorized in the first paragraph of this subdivision (c)," and the words on the first and second line of said paragraph "on the" and "day of" have been stricken out. On page 37, after the word "filing," in the seventh line, has been inserted "from time to time." On the tenth line of said page the words "pro rata on the" and "day" have been stricken out. On the eleventh line the word "of" has been stricken out, and after the word "before," in the twelfth line, "any" inserted. At the end of the fifteenth line on that page has been inserted the words "first exhaust the available cash, and if said available cash shall be insufficient to pay," and the sixteenth, seventeenth, nineteenth, twentieth, twenty-first, twenty-second, twenty-third, twenty-fourth, twenty-fifth, twenty-sixth, and twenty-seventh lines have been stricken out. On page 38, line 7, after the words "out of," has been inserted "but only to the extent of." In the eighth line, after the word "awards," has been

inserted "in the order presented to the trustee," and the balance of said eighth line, together with lines 9 and 10 on said page, have been stricken out. On the same page, line 13, "on said" has been stricken out, and on line 14 "day of" has been stricken out.

On page 46, paragraph numbered (2), after the word "Nicaragua" has been inserted "and for other purposes." The remainder of said paragraph numbered (2) after the words "joint order," in the fourth line thereof, has been stricken out.

RAILWAY CONCESSIONS.

Page 3. In the heading of article fourth we changed the word "constitution" to "charter." On page 5, second line of paragraph marked (c), we changed "traffic" to "trackage," and on third line struck out the "semicolon" after "railway" and inserted "that." On page 6, paragraph (g), on the sixth line of said paragraph, we have changed the word "judicial" to "juridical." On page 8, last line of section 6, after the word "company," we have inserted "by the Republic." On page 11, in the paragraph commencing "All the lands granted to the company under this contract," in the third line of said paragraph, we have changed the word "thereafter" to "therefore." On page 13, in the first line of paragraph marked (c), after the word "departmental," we have inserted "municipal." On page 19 we struck out "but" on the last line of the page. On page 20 we struck out the first two lines. On page 25, on the last line of article eighteenth, we struck out the word "congressional," and after the word "approval" inserted "and ratification."

TREASURY BILLS AGREEMENT.

On page 18, lines 7 and 8, we have stricken out the words "compensation and," and after the word "expenses" in line 8 inserted "and the said trust company its compensation." This change was made because under the agreement the fiscal agent is to receive no compensation. As to the insertion which was made on the eighteenth page, at the end of the eighth line, we find that in going over that insertion in connection with the sentence following, commencing "Thereafter holders of said bills" and ending "as provided in the said contract 'Schedule B,'" do not go very well together. We have reversed them, with some minor changes in the verbiage, so that the two should now read as follows: "Thereafter holders of said bills shall look to the United States Mortgage & Trust Company as trustee for the payment of the principal and interest of said bills, as provided in said contract 'Schedule B,' and the funds and other property turned over as aforesaid to said trustees under said contract 'Schedule B,' together with the sum of one million five hundred thousand dollars (\$1,500,000), set apart and held by said trustee as part of the said banking and currency fund, shall be so far as necessary applied by the trustee to the redemption of the bills."

Respectfully, yours,

(Sgd)

CURTIS, MALLET-PREVOST & COLT.

9084-D

AUGUST 29, 1911.

Hon. W. T. S. DOYLE.

*Latin-American Bureau, State Department,
Washington, D. C.*

SIR: We beg to inclose herewith the page proof of the documents relating to the Nicaragua loan, containing the charges which are satisfactory to the Bankers.

You will see that the changes, particularly in the treasury-bills agreement, are due to bring in parts of the bond-purchase contract and of the trust and fiscal agency contract, instead of incorporating those parts into the treasury-bills agreement by preference.

In connection with the trustee being compelled to purchase bonds for the sinking fund in the open market when the market value is less than the redemption price, it has been our experience that trust companies are unwilling to assume the obligation of being compelled to so buy. They fear that they might incur liability in the event that through some oversight they should fail to purchase bonds in the open market if any were offered at less than the redemption price. We have, therefore, instead of making it merely permissive to the trust company to purchase bonds in the open market, required it to use its best efforts to so purchase bonds.

You will notice that section 15, in regard to the Republic purchasing bonds and having the same credited to the amount payable for the sinking fund has been stricken

out. This, of course, would not prevent the Republic from purchasing bonds in the open market at any time it might desire so to do and depositing the same with the trustee for the sinking fund. The Republic can, of course, call the attention of the trustee to any bonds that may be in the market at less than the redemption price, and request that the trustee purchase them with any moneys applicable thereto in its hands.

Our Mr. W. E. Curtis requested us to say that he expects to be in the office practically all day to-morrow, and if any matters should arise in connection with the inclosures which you desire to discuss with him, we request that you telephone him, or if he is out, Mr. Worrall, of our office, is familiar with these matters. We ask this, as Mr. Wands is most anxious to leave for Nicaragua this week, and we are doing everything in our power to enable him to do so.

We beg to remain,
Respectfully,

(Sgd) CURTIS, MALLET-PREVOST & COLT.

AUGUST 11, 1911.

MESSRS. BROWN BROTHERS & COMPANY, and
MESSRS. J. & W. SELIGMAN & COMPANY,
New York.

GENTLEMEN: I now desire to acknowledge the receipt of your letter to me dated June 21, 1911, containing a proposal to purchase \$15,000,000 bonds of the Republic of Nicaragua on certain terms and conditions set forth in two proposed contracts accompanying said letter, known as the bond-purchase contract and the trust and fiscal agency agreement.

I also desire to acknowledge the receipt of Mr. James Brown's letter to me dated July 21, 1911, proposing to loan the Republic \$1,500,000 at 6 per cent per annum for one year on certain general lines therein set forth and which have since been incorporated in a certain proposed contract known as the treasury bills agreement.

I understand that the execution of the treasury bills agreement must be simultaneous with the execution of the bond-purchase contract and the trust and fiscal agency agreement, and that it is dependent thereon.

I hereby beg to advise you that I approve your proposals and the three contracts aforesaid in the amended forms agreed upon at our conference on Tuesday, and have decided to recommend their execution by the Republic of Nicaragua. When executed by you I will present them to the minister of Nicaragua near the Government of the United States for signature under the power conferred upon him therefor. Immediately after the execution I will take the contract to Nicaragua for ratification by the Congress and will advise the Republic that these proposals are the best which have been received and that it is for the true interests of the country to ratify them and do everything necessary to make them effective.

Very truly, yours,

(Signed) ERNEST H. WANDS,
Financial Adviser of Nicaragua.

APPENDIX 5.

NEW YORK, February 21, 1912.

To the honorable PHILANDER C. KNOX,
Secretary of State of the United States, Washington, D. C.

SIR: We beg to refer to our letter of November 2, 1911, informing you of our temporary loan of \$1,500,000 to the Republic of Nicaragua. The purpose of that loan was to enable the Government to withdraw from circulation its depreciated paper currency, to substitute therefor a stable currency, and to establish a Government bank. We were assured at the time that the paper currency outstanding represented a total of 32,000,000 "pesos," and the amount of the temporary loan was made upon that basis.

In accordance with the loan contract, a copy of which accompanied our letter to you of November 2nd, Messrs. F. C. Harrison and Charles A. Conant, currency experts, went to Nicaragua to study currency conditions and to prepare a plan for introducing and maintaining a stable currency system. Upon their arrival in Managua Messrs. Harrison and Conant ascertained that since the visit to that country of Mr. Ernest H.

Wands, in March of 1911, the Government had issued additional currency amounting to 16,000,000 "pesos" and that the outstanding circulation, instead of being 32,000,000 "pesos," as we supposed, was in reality 48,000,000 "pesos." It soon became apparent that the \$1,500,000 which Nicaragua had borrowed from us would be insufficient to meet the situation. Messrs. Harrison and Conant also reported to us that the Government was in immediate need of funds for its current expenses. We thus found ourselves face to face with a situation which had been forced upon us, and much against our will we took up negotiations with the Government for the purpose of helping it out of its embarrassments. As a result of such negotiations we have offered to make further temporary loans not exceeding \$755,000, to be secured by certain revenues and properties of the Government. In consideration of the loans thus to be made the Government has offered us an option for the purchase of a 51% interest in its railway and steamship lines; these lines it proposes to transfer to an American railway corporation which shall receive a concession substantially similar to the railway concession "Schedule D," annexed to the "treasury bills agreement" of September 1, 1911, a copy of which is on file in the department.

No agreement has as yet been signed for the new loans, but the terms upon which these are to be made are fully set forth in a proposed act of the Nicaraguan Constitutional Assembly, a copy of which is embodied in a cablegram to Messrs. Harrison and Conant, dated February 16th last. We inclose for your information copy of a translation of that cablegram into English.

As further bearing upon the subject, we also inclose copy of a translation of another cablegram to Messrs. Harrison and Conant, dated February 20th.

One feature of the proposed concession is in the improvement of the San Juan River and in the construction of small canals suitable for barges to connect the two great lakes of Nicaragua with each other and also to connect the San Juan River with the Atlantic Ocean. The suggestion as to these provisions emanated from the Government of Nicaragua, and the purpose of such provisions is thus explained by Messrs. Harrison and Conant, who in a cablegram addressed to us, say substantially as follows:

"Your railway (referring to the railway which it is suggested we shall help the Government to build and which it is intended shall connect Lake Nicaragua with Rama, near the Atlantic coast), ends either on the great lake or at Managua. In the first case you are at the mercy of a lake system; in the second case you are entangled in through rates. If you can control the present railways and steamers you can command the Pacific and Atlantic traffic, and until the Panama Canal is opened up you will be placed in a strong position for Pacific, Honduras, and Salvador business and can probably retain the traffic once gained. The engineer who managed the lake steamers for years was with both canal commission surveys and has estimated that the cost of connecting the lake and the River San Juan fit for seagoing barges of five-foot draft will be somewhere between two and three million dollars. If this estimate should be corroborated by a competent engineer, the highest cost would presumably be less than the Rama route."

We do not know whether the above views are sound, and we have as yet formed no opinion as to the value or desirability of such a system as is suggested. As, however, our acceptance of the security and of the option in no way commits us to take action in the premises, we have seen no objection to the inclusion in the concession of the special features referred to.

Very respectfully, yours,

BROWN BROTHERS & Co.
J. & W. SELIGMAN & Co.

APRIL 2, 1912.

Hon. PHILANDER C. KNOX,

Secretary of State of the United States, Washington, D. C.

SIR: Referring to our letter to you of February 21st, 1912, in which we advised you of the negotiations then pending between the Republic of Nicaragua and ourselves, relating to certain supplemental loans to the Republic in addition to the temporary loan of \$1,500,000 theretofore made by us, we beg to state that as a result of these negotiations we entered into an agreement with the Republic on March 26th, 1912, by which we undertook to make further temporary loans to the Republic to an amount not exceeding \$755,000. We beg to hand you herewith a copy of the agreement referred to.

Respectfully, yours,

BROWN BROTHERS & Co.
J. & W. SELIGMAN & Co.

APPENDIX 6.

SKE61]

[Translation.]

THE REPUBLIC OF NICARAGUA TO FERROCARRIL DEL PACIFICO DE NICARAGUA.
DEED OF CONVEYANCE.

[June 19, 1912.]

In the city, county and State of New York, United States of America, on the 19th day of June, 1912, at quarter past twelve o'clock in the afternoon, before me, Augustine P. Barranco, notary public for the counties of Kings and New York, and in presence of the witnesses, Hugo Kohlmann and Jesse Knight, to me known, both residents of this city, and having legal capacity, personally appeared the following persons:

(1) Acting on behalf of the Republic of Nicaragua (hereinafter called "Republic"), Dr. Salvador Castrillo, jr., of full age, married, lawyer, resident of the city of Washington, D. C., where he is envoy extraordinary and minister plenipotentiary of the said Republic of Nicaragua. He proved to me his authority to act by producing a power of attorney reading literally as follows:

"Number three—In the city of Managua, on the 15th day of April, 1912, at half past twelve o'clock in the afternoon, Before me, Benjamin Cuadra, Lawyer and Notary Public, domiciled in this city, and in presence of the witnesses Silvestre Vargas, and Gilberto Lacayo, both amanuenses, over twenty-one years of age, residents of this city, appeared Pedro Rafael Cuadra, 49 years of age, married, merchant, domiciled in the city of Granada, having a temporary residence in this city, and acting in the name and on behalf of the Government of the Republic of Nicaragua in his capacity of Secretary of Finance and Public Credit, as appears from the certified copies which I have before me, the originals of which appear respectively at pages 86 and 87 of the book 'Matriz de Gobernacion' and 38 and 39 of the book 'Toma de Posesion,' which are kept by the Presidency of the Republic, said certified copies being of the following tenor:

"The President of the Republic, in view of the resignations presented by various members of the Cabinet, Resolves: 1st. To organize it as follows: Secretary of 'Gobernacion,' Justice, Police, Charity and Grace, Miguel Cardenas; Secretary of Finance and Public Credit, Pedro Rafael Cuadra; Secretary of Foreign Relations and Public Education, Diego Manuel Chamorro; Secretary of War and Navy, Gen. Luis Mena; Secretary of 'Fomento' and Public Works, Alejandro Canton. 2d. To express highest appreciation to those who filled said positions for the important services rendered.

"Presidential Residence—Managua, October 23, 1911.

"DIAZ

"ROCHA,

"Acting Minister of Gobernacion."

"In the city of Managua, on the 27th day of October, 1911, at half past seven o'clock in the evening, I, Adolfo Diaz, President of the Republic, there being present Pedro Rafael Cuadra and Diego Manuel Chamorro, appointed by resolution of the 24th instant, Secretaries of Finance and Public Credit and of Foreign Relations and Public Education, respectively, proceeded to administer to them the legal oath of office in the following manner: Do you promise to be loyal to the Republic and to obey and enforce the Provisional Law of Guaranties, promulgated September 15th, of last year, and the other laws of the country? to which they replied, Yes, we promise to be loyal to the Republic and to obey and enforce the Provisional Law of Guaranties, promulgated September 15th of last year, and the other laws of the country—and I admonished them, 'If thus you do, may our country approve your conduct; if not, may our country condemn it and cause you to account.' Which concluded this record, which we sign before the private Secretary who authorizes.

"ADOLFO DIAZ.

"DIEGO M. CHAMORRO.

"PEDRO RAF. CUADRA.

"Before me,

"BENJ. CUADRA, *Private Secretary.*"

"I certify that the appearer is known to me, that he has legal capacity for this act, and that he declared: that by decree of the Honorable National Constitutional Assembly, promulgated March 20th of the present year, the Executive was authorized to contract with Messrs. Brown Brothers & Company and J. & W. Seligman & Company of New York, for two loans not exceeding respectively five hundred thousand and two hundred and fifty thousand pesos (sic) American gold; that clause Twelfth of the decree referred to provides that immediately after execution of the loan contract, there shall be organized under the laws of one of the States of the United States of America, a corporation to which shall be transferred all the existing railway and steamship lines, which may belong to the Republic: that the name of such Corporation or Company, the amount and character of its capital stock, the provisions of its charter, and generally all matters relating to its incorporation and organization, shall be agreed upon between the Bankers and the Executive of the Republic, the latter being authorized to name a representative for that purpose: that in the exercise of that power, the loan contracts having already been executed, he in the name and on behalf of the Executive, in his capacity as Secretary of Finance and Public Credit, confers general power of attorney upon Doctor Salvador Castrillo, junior, over twenty-one years of age, married, lawyer and residing in the city of Washington, United States of North America, in order that he may represent the Republic in the organization and incorporation of the Company, execute the necessary instrument and convey to the sociedad (juridical entity) or corporation all the rights, concessions, privileges and prerogatives stipulated in said decree of March 20th of the current year. Thus declared the appearer, whom I apprised of the purpose of this act and the general clauses which insure its validity. This instrument having been read by me, the Notary, to the appearer, in the presence of the witnesses named in the introduction, the appearer ratified and accepted it without modification, and we all sign.

"I certify.

"Benj. Cuadra.
 "Pedro Raf. Cuadra.
 "S. Vargas,
 "G. Lacayo."

"Executed before me on page 7 of my protocol Number Number eight, of the current year; and I seal this first copy consisting of three pages, at the request of Pedro Rafael Cuadra, Minister of Finance and Public Credit in the City of Managua, on the 15th day of April, 1912, at six o'clock in the afternoon.

"BENJ. CUADRA
 "(Rubric)."

Seal inscribed: "Benjamin Cuadra, Republic of Nicaragua, Lawyer and Notary Public."

"The undersigned Clerk of the Supreme Court of Justice, certifies to the authenticity of the foregoing signature reading: 'Benj. Cuadra,' which authorizes the foregoing general power of attorney executed by Pedro Rafael Cuadra, Minister of Finance and Public Credit, in favor of Dr. Salvador Castrillo, junior, in this city yesterday, at half past twelve in the afternoon.

"Managua, April 16, 1912.

"Ramon Molina R.
 "(Rubric)."

Seal inscribed: "Office of the Clerk of the Supreme Court of Justice, Republic of Nicaragua, Central America, Managua."

"The undersigned Secretary of Justice certifies that the foregoing signature of the Clerk of the Supreme Court of Justice, reading: 'Ramon Molina R.' is authentic.

"Managua, April 16, 1912.

"MIGUEL CARDENAS."

Seal inscribed: "Ministry of 'la Gobernacion,' Justice and Police, Republic of Nicaragua, Central America."

"J. Andrew Urtecho, Acting Minister of Foreign Relations, certifies: that the foregoing signature of the Secretary of Justice, reading 'Miguel Cardenas,' is authentic.
 "National Palace, Managua, April 16, 1912.

"J. A. URTECHO."

Seal inscribed: "Ministry of Foreign Relations, Republic of Nicaragua, Central America."

(2) On behalf of Ferrocarril Del Pacifico de Nicaragua (hereinafter called "company"), a corporation duly organized and existing under the laws of the State of Maine, United States of America, as appears from the certificate of incorporation, which I have had before me, filed in the Department of State of said State of Maine on the 8th day of the current month and year, its president, Frederick Strauss, of full age, unmarried, banker, resident of this city, and its secretary, Jason A. Neilson, of full age, married, banker, resident of Montclair, State of New Jersey.

I certify to have had before me the minutes of meetings of the board of directors of the company, held today, from which it appears that said Frederick Strauss and said Jason A. Neilson were duly and respectively elected president and secretary of said corporation. The authority under which said president and said secretary act appears from the resolution which was adopted at a meeting of the board of directors of the company, held today, the minutes of which meeting I certify to have seen. The Spanish translation of said resolution, which I certify to be correct, reads literally as follows:

"Whereas the Republic of Nicaragua has offered to transfer and convey to this corporation all its railway and steamship lines in Nicaragua, together with their equipment, appurtenances, extensions and improvements, and simultaneously with such transfer and conveyance, to execute a concession in favor of this Company in the form submitted at this meeting, agreeing to receive in consideration and payment therefor \$3,300,000, payable as follows: \$3,299,100 by the delivery of 32,991 shares of the capital stock of this corporation to be delivered simultaneously with the execution of said transfer and said concession and the remaining \$900 in cash within thirty (30) days thereafter; and

"Whereas it appears to the Board of Directors in their best judgment that the acquisition of said properties upon the said terms and conditions, is a necessary and desirable acquisition for this corporation to make in order to carry on the business for which it was organized: Now, therefore, be it

Resolved, That this corporation purchase and acquire from the Republic of Nicaragua all the railway and steamship lines of said Republic, together with their equipment, appurtenances, extensions and improvements and together with a concession in the form submitted at this meeting, and that the corporation pay therefor the sum of \$3,300,000 as follows \$3,299,100 by the delivery of 32,991 shares of the capital stock of this corporation simultaneously with the transfer and conveyance of said properties, and the execution of said concession, and the remaining \$900 in cash within 30 days thereafter; and further

Resolved, That in the judgment of the Board of Directors of this corporation, the properties so offered to the corporation, including the said concession, are reasonably worth the sum of \$3,300,000, being the amount of stock and cash to be paid therefor as aforesaid; and further

Resolved, That the President and Secretary of this corporation be, and they hereby are, authorized, empowered and directed, for and in behalf of this corporation, to accept the concession contract in the form submitted at this meeting, and to make, execute and deliver all deeds, contracts or other instruments deemed by them necessary and desirable for the purpose of carrying out said transaction and containing such terms and stipulations as they may deem proper for that purpose, including a full description of the properties purchased, and to do any and all other things which may to them seem necessary, convenient or desirable in order to complete said transaction, and to carry out the intent of these resolutions; and further

Resolved, That the offer of the Republic of Nicaragua mentioned in the foregoing resolutions, together with the inventory and form of concession therein referred to be spread in full upon the minutes."

As Messrs. Frederick Strauss and Jason A. Neilson are not well acquainted with the Spanish language, Joseph A. Caras, of full age, married, lawyer, resident of this city, appears as interpreter designated by them. I certify that he is known as to me; that he has the legal capacity to discharge the duties of interpreter, and was duly sworn according to law. I certify that the parties hereto are known to me; that their professions and residences are as above indicated; that they assert that they are in the full enjoyment of all their civil rights, and that as said president and said secretary of the company are not well acquainted with the Spanish language, they delivered to me an English minute signed by them in my presence and accompanied by a Spanish translation thereof, made by the same interpreter mentioned in this instrument, which minute and translation thereof are protocolized in my notarial registry; to all of which I attest. The Spanish translation of said minute is as follows.

"MINUTE.

"The Republic of Nicaragua and the Ferrocarril del Pacifico de Nicaragua" (Pacific Railway of Nicaragua) have entered into the contract contained in the following clauses:

"First. In point 'Twelfth' of the Supplemental Loan Agreement entered into by the Republic of Nicaragua with Brown Brothers & Co. and J. & W. Seligman & Co., ratified and approved by the National Constitutional Assembly of said Republic, it was stipulated that the Republic would transfer and convey to a company to be formed for that purpose, all of its railway and steamship lines, including their equipment, appurtenances, extensions and improvements, and would grant to said company a concession relative to said railway and steamship lines and their extensions and branches, said concession to be as ample as may be necessary or expedient to secure the full utilization and enjoyment of said lines of communication and their appurtenances, and to contain among other provisions those mentioned in said point 'Twelfth' of the said contract. In order to carry out said stipulations, a corporation was formed and organized in conformity with the laws of the State of Maine, called 'Ferrocarril del Pacifico de Nicaragua' (Pacific Railway of Nicaragua), with the powers and rights mentioned in the charter, among which is that of acquiring the above mentioned concession and railway and steamship lines.

"Second. The properties and rights to which the preceding clause refers are the following:

"RAILWAY LINES.

"Western division, consisting of 64.9 miles of road and El Viejo branch, consisting of 4.92 miles of road. The main line commences at Corinte, passes through Realejo, Chinandega, Chichigalpa, Posoltega, Quezalguaque, Leon, La Ceiba, La Paz, and ends at Momotombo. The branch line commences at Chinandega and ends at El Viejo.

"Central division, consisting of 38.4 miles of road. It commences at La Paz, passes through Nagarote, Mateare, Los Brasiles and ends at Managua.

"Eastern division, consisting of 35.6 miles of road. It commences at Managua, passes through Sabana Grande, El Portillo, Campuzano, Nindirí, Pasaya, San Blas, and ends at Granada.

"Southern division, consisting of 27.8 miles of road. It commences at Languna de Apoyo, passes through Catarin Niquinohomo, Masatepe, San Marcos, Jinotepe, and ends at Diriamba.

"Landa: 273 kilometers in length by 20 meters in width, and in addition lands already occupied or which may be needed later for extensions, branches, sidings, stations and other appurtenances of the enterprise.

"Buildings, stations, offices, shops, machinery, tanks, fixed and rolling stock, and everything else belonging or appurtenant to said railway lines.

"STEAMSHIP LINES.

"San Jorge' wharf and warehouse; 'San Carlos' wharf and warehouse; 'El Castillo' wharf and warehouse and 800 yards of tram-line; 'San Juan del Norte' wharf and warehouse.

"Steamships 'El Victoria,' 'El Progreso,' 'El Diamante,' 'El Norma,' 'El Holombec,' 'El Cuba' (under construction), 'El Blanca' and 'El San Jacinto.'

"Buildings, offices, shops, stores, other warehouses, implements and utensils, and everything belonging or appurtenant to said steamship lines.

"CONCESSION.

"The concession to be granted on this date by the lawful representative of the Republic of Nicaragua by virtue of the stipulation contained in point 'Twelfth' of the Supplemental Loan Agreement, and to which reference is made in clause 'First.'

"Third. The Republic sells, assigns and transfers to the Company the railway and steamship lines, the concession and all of the other properties and rights described in clause 'Second', together with their appurtenances, buildings, dependencies, improvements, easements, and everything in fact and legally appertaining thereto, and the Company accepts said sale. The consideration for said sale is the sum of three million three hundred thousand dollars (\$3,300,000), represented by thirty-two thousand nine hundred ninety-one (32,991) shares of the capital stock of the Company, which the Republic receives in this act to its entire satisfaction, and the sum of nine hundred dollars (\$900) which the Company agrees to pay to the Government in this city within thirty (30) days from to-day. The Republic will forthwith deliver to the Company

all of the properties and rights sold and warrants title and possession in conformity with the provisions of the laws now in force in Nicaragua.

"Fourth. Should the properties sold be not yet recorded in the Registry of Real Property, the Republic will take and cause to be taken immediately at its own expense all of the steps and will cause all of the documents to be prepared which may be necessary in order that such properties and rights may be recorded in the shortest possible time in favor of the Company. The expense thereby occasioned, as well as those of the present instrument and of the delivery to the Company of said properties and rights, shall be borne by the Republic.

"New York, June 19, 1912.

"REPUBLIC OF NICARAGUA,

"By (Sgd) SALVADOR CASTRILLO, Jr.,
Attorney in Fact.

"FERROCARRIL DEL PACIFICO DE NICARAGUA.

"By (Sgd) FREDERICK STRAUSS,
President.

"By (Sgd) JASON A. NEILSON,
Secretary.

The above insertion is a true reproduction of its original.

In the presence of the witnesses, through the medium of the interpreter, and at the request of the parties hereto, who expressly waived their right, of which I apprised them, to read it themselves, I read to them this instrument in its entirety, explaining to them at the same time the legal force and effect thereof; and being fully aware of its contents and of their obligation, of which I also apprised them, to present this instrument for record at the registry of real property, they accepted it without modification, and sign it with the interpreter and the witnesses aforesaid to all of which I certify.

SALVADOR CASTRILLO,
FREDERICK STRAUSS,
JASON A. NEILSON.

Interpreter:
J. A. CARAS.

Witnesses:
HUGO KOHLMANN,
JESSE KNIGHT.

Before me,
[SEAL.]

A. P. BARRANCO, *Notary Public.*

[Translation.]

BANKING CONCESSION—PEDRO RAFAEL CUADRA, MINISTER OF FINANCE, TO NATIONAL BANK OF NICARAGUA, INCORPORATED.

[Notarial instrument dated Managua, May 23, 1912.]

COPY—BANKING CONCESSION.

Number six. In the city of Managua, at 11.30 o'clock in the forenoon, the 23rd day of May, 1912. Before me, Benjamin Cuadra, attorney at law and notary public, domiciled in this city, and the witnesses, Silvestre Vargas and Gilberto Lacayo, amanuenses, both over 21 years of age, domiciled herein, known to me and having the requisite legal capacity, appeared Señor Pedro Rafael Cuadra, 50 years of age, married, engaged in business, domiciled in the city of Granada and residing in this city; and Jesse Averitt Whitaker, 42 years of age, single, an attorney at law, domiciled in the city of New York, United States of America, and residing in this city:

Senor Cuadra acts on behalf of the Government of the Republic of Nicaragua in his capacity of Secretary of State for the Departments of Finance and Public Credit; and Mr. Whitaker acts on behalf of the National Bank of Nicaragua, Incorporated, a corporation duly organized at the city of Hartford, State of Connecticut, United States of America as is shown by the documents which I have before me, those accrediting the capacity of Senor Cuadra (originals both) being found at pages 86 and 87 of the

book "Matriz de Gobernacion"¹ and at pages 38 and 39 of the book "Toma de Posesion"² kept by the President of the Republic; and the document accrediting the capacity of Mr. Whitaker consisting of a certified copy of a special power of attorney which I hereby certify to have had before me; the literal text of the documents referred to being as follows:

"The President of the Republic, in view of the resignations presented by various members of the Cabinet, orders: First, that the same shall be organized as follows: Secretary of State for the Departments of the Interior, Justice, Police, Public Charities and Pardons, Miguel Cardenas; of Foreign Affairs and Public Instruction, Diego Manuel Chamorro; of War and the Navy, General Luis Mena; of Fomento and Public Works, Alejandro Canton. Second, that thanks and appreciation be rendered for the important services furnished by the persons formerly occupying said offices.—Presidential Mansion, Managua, October 23, 1911.—Diaz. The Minister of the Interior according to law.—Rocha."

"In the city of Managua, at 7:30 p. m. the 27th day of October, 1911. I, Adolfo Diaz, President of the Republic, in the presence of Pedro Rafael Cuadra and Diego Manuel Chamorro, who were appointed by order of the 24th instant Secretary of State for the Departments of Finance and Public Credit and Foreign Affairs and Public Instruction, respectively, proceeded to take their formal promise as required by law in the following form: Do you solemnly promise to be true to the Republic, to comply and cause to be complied with the Provisional Law of Guarantees promulgated September 15th last (1910) and other laws of State? To which they replied, we do, we promise to be true to the Republic, to comply and cause to be complied with the Provisional Law of Guarantees promulgated September 15, 1910, and other laws of State. Whereupon I said to them: If you do so act, the country will approve your patriotic conduct, and if not may you be reproved and called to account. This record is hereupon concluded and signed by us before the private Secretary, who attests.—Adolfo Diaz.—Diego Manuel Chamorro.—Pedro Rafael Cuadra.—Before me, Benj. Cuadra, Private Secy."

"In the City, County and State of New York, United States of America, at 11:30 o'clock in the forenoon of the 16th day of April, 1912, before me, Augustine P. Baranco, a Notary Public in and for the counties of Kings and New York, and the following witnesses, legally qualified to act as such and personally known to me: Jesse Knight and Frank J. Torpey: Personally appeared, on behalf of the National Bank of Nicaragua, Incorporated (hereinafter called the 'Bank'), a corporation duly organized, constituted and existing under and by virtue of the laws of the State of Connecticut, United States of America, as appears from the certificate of incorporation which I have had before me, filed in the office of the Secretary of State of the said State of Connecticut on the 3rd day of January of the present year, and from the certificate of organization which I have also seen, filed in the said office of the Secretary of State the 9th day of the aforesaid month and year, its President, Mr. William S. Cox, married, a banker; and its Secretary, Mr. Hugo Kohlmann, single, a lawyer; both are of full age and residents of this city. I certify that they are personally known to me, that they assure me that they are in the full enjoyment of all their civil rights and that they were duly elected to the offices which they hold at the meeting of the Board of Directors of the Bank, held on the 8th day of January, of the present year, as appears from the respective minutes, which I certify to have seen. The authority under which said President and Secretary act is set forth in the resolution of the Board of Directors of the aforesaid Bank adopted at a meeting held on the 4th day of the present month and year, as appears from the respective minutes, which I have had before me, and of which the pertinent portion, duly translated into Spanish, reads as follows:

"The Secretary submitted a draft in the Spanish language, with a translation thereof into English, of the form of proposed concession to be granted by the Republic of Nicaragua to the Bank. Said draft is in accordance with the provisions of the "Treasury Bills Agreement" of September 1, 1911, between the Republic and Messrs. Brown Brothers & Co. and J. & W. Seligman & Company. On motion duly seconded, the following resolutions were unanimously adopted: "Resolved that the Spanish draft of said concession and its English translation be spread upon the minutes; Resolved that the form of concession as contained in said draft be and the same is hereby approved; Resolved that Jesse A. Whitaker be appointed attorney-in-fact of this Bank for the purpose of signing and executing said concession contract on its behalf in Nicaragua; and Resolved that the President and Secretary of the Bank be and they hereby are authorized and directed for and in the name of the Bank to make, execute and deliver a power of attorney in the Spanish language in favor of said Jesse

¹ "Matriz de Gobernacion"—a volume of original copies of "Gobernacion" (Dept. Interior) papers.

² "Toma de Posesion"—a volume of documents pertaining to the installation of public officers.

A. Whitaker, constituting him the attorney-in-fact of the Bank for the purposes aforesaid." The power of said Board of Directors to adopt the above transcribed resolutions is set forth in Articles 9 and 13 of the by-laws of the Bank, which I certify to have had before me and which I, the notary, certify to be ample and sufficient for that purpose. Since the aforesaid Messrs. Cox and Kohlmann are not well acquainted with the Spanish language, they handed to me a minute or memorandum in the English language signed by them in my presence, together with a translation thereof into Spanish, made by the interpreter acting at the execution of the present instrument, which minute and its translation have been protocolized in my notarial register, to all of which I certify. The Spanish translation of said minute is as follows:

"Minute. In compliance with the respective resolutions of the Board of Directors of the Bank, the undersigned, President and Secretary thereof, confer upon Mr. Jesse A. Whitaker, of full age, a citizen of the United States of America, now in the Republic of Nicaragua, a special power of attorney, which shall, however, be ample and sufficient, for the purpose of executing and signing, for and in the name of the National Bank of Nicaragua, Incorporated, a concession contract in accordance with the draft form laid before the Board of Directors of the Bank at a meeting thereof held on the 4th day of April of the present year, said draft form being annexed hereto. New York, April 16, 1912.—William S. Cox—Hugo Kohlmann."

"Said draft form, initialed by the Notary, is annexed to this instrument. The foregoing insertion agrees with its original. Since Messrs. Cox and Kohlmann are not well acquainted with the Spanish language, there appeared as interpreter appointed by them Mr. Joseph A. Caras, of full age, married, a lawyer, and a resident of this city. I certify that he is personally known to me and that he is legally capable of discharging the duties of interpreter and that he was thereunto duly sworn. In the presence of the witnesses and at the request of the grantors, who waived the right which I notified them they had to read it for themselves, I through the medium of the interpreter read to them this instrument in full, explaining at the same time the legal force and value thereof, whereupon with full knowledge of its contents they ratified it without any modification, accepted it and sign it together with the witnesses and interpreter aforesaid, to all of which I certify.—William S. Cox.—Hugo Kohlmann.—Interpreter: J. A. Caras. Witnesses: Jesse Knight, F. J. Torpey. Before me: A. P. Barranco, Notary Public. Notary Public Kings County, N. Y. Certificate filed in New York County No. 116. Instrument dated N. Y. County, April 16, 1912. Notary's Seal. Consulate of the Republic of Nicaragua in New York.—Carmen Diaz, Nicaraguan Consul at New York hereby certifies to the genuineness of the signature of Mr. Augustine P. Barranco above; and that he is, as represented a Notary Public for the Counties of Kings and New York, State of New York, U. S. A. I further certify: that the seal affixed at the foot of the foregoing document is the official seal of said official. And on petition of an interested party, and for any legal purposes, I issue the present instrument in the city of New York the 22nd day of April, 1912. Carmen Diaz, Consul of Nicaragua. Seal of the Consulate. J. Andres Urtecho, Minister of Foreign Affairs according to law, certifies: that the foregoing signature of the Nicaraguan Consul in New York reading 'Carmen Diaz' is genuine. National Palace, Managua, May 21, 1912. J. A. Urtecho. Seal of the Department of Foreign Affairs."

I certify that the parties hereto are personally known to me, that they are legally capable of acting hereunder, and that Señor Cuadra said:

That under date of September 1, 1911, the Republic entered into an agreement known as "treasury-bills agreement" with Messrs. Brown Brothers & Company and J. & W. Seligman & Company, whereby it was provided that said bankers should cause to be incorporated a banking corporation for the purposes in said agreement set forth: That the Republic undertook to grant to said bank to be incorporated a banking concession substantially in the form of Schedule C, annexed to and made a part of said "treasury bills agreement"; that the amount of the authorized capital stock of said banking corporation, which shall be five million dollars United States gold, divided into fifty thousand shares of the par value of one hundred dollars gold each, the minimum capital with which it shall begin business in Nicaragua, which shall be one hundred thousand dollars gold, its powers, its control, and generally the terms and conditions of its incorporation and organization were set forth in detail in said "treasury bills agreement" and in said Schedule C; that pursuant to and in compliance with said provisions, the bankers on the 3d day of January, 1912, incorporated under the laws of the State of Connecticut, one of the States of the United States of America, the National Bank of Nicaragua, Incorporated, and have delivered to the Republic the by-laws and certificates of incorporation thereof setting forth the purposes of the bank, its organization before the law, the form of its management, the duties and powers of its board of directors, its representatives, and in fine all matters relating to its management and operation; that the bankers on their part having fulfilled their respective obli-

gations, and the honorable national constituent assembly having, on the 20th day of March of the present year, adopted a currency law for the introduction and maintenance of a currency system to be carried out according to the provisions of the "treasury bills agreement" and Schedule C thereof; said Señor Cuadra, pursuant to the authority conferred upon him by the decree enacted by the honorable national constituent assembly the 9th day of October, 1911, and for and on behalf of the Republic of Nicaragua, in his capacity of secretary of state for the departments of finance and public credit, hereby grants to the National Bank of Nicaragua, Incorporated, the following banking concession:

Article first. The principal office of the bank in Nicaragua shall be at the city of Managua, and the bank may establish such branches and agencies as it may deem advisable within the Republic or in foreign countries.

Article second. The bank shall have the following exclusive rights, franchises, and concessions:

(a) It shall be the fiscal and disbursing agent of the Government in Nicaragua and the depositary in Nicaragua of all Government funds.

(b) It shall undertake to put into effect and to maintain the plan which the Republic, by the currency law of March 20, 1912, has adopted for the introduction and maintenance of a stable currency system.

(c) It shall have the right to issue bank notes in accordance with the loan and the currency law referred to in the preceding section.

Article third. The bank shall have the following additional rights, franchises, and concessions:

(a) It may purchase, sell, discount, and in general negotiate, upon such terms as it may deem advisable, bills of exchange, commercial paper, drafts, notes, evidences of debt, documents of credit and securities of all kinds, including shares of stock in other companies.

(b) It may receive deposits of money at or without interest, subject to check or otherwise; it may also receive on deposit and have custody of securities and personal property of every kind.

(c) It may make loans or advances, either ordinary or privileged, either with or without security, at such rates of interest as may be agreed upon between the bank and the borrower, either for ordinary banking and commercial purposes or for the special purpose of facilitating mining, agricultural, and industrial operations and public utilities. All loans or advances shall be made on such conditions and under such limitations as may be fixed by the board of directors of the bank.

(d) It may loan money and accept as security improved or unimproved real estate, mortgages, deeds, leases, contracts, pledges of all kinds, and, in general, real and personal property and rights of all kinds.

(e) It may purchase and sell gold, silver, and other metals and deal in exchange.

(f) It may issue bonds, notes, bank notes, certificates of deposit, obligations and credit documents of all kinds, either with or without security.

(g) It may act as surety and guarantor and may furnish bonds and security of every kind.

(h) It may execute all acts and enter into all contracts, civil and mercantile, which may further the purposes of its organization.

(i) It may, by any lawful means, acquire, own, operate, and develop and dispose of, in whole or in part, concessions, rights, securities, business enterprises, and personal property of all kinds. It may also acquire, own, operate, and develop and dispose of such real property as may be necessary for its offices and dependencies; and it may also acquire, and, for a period not exceeding five years, own, operate, and develop and dispose of such real properties when adjudicated to it upon foreclosure or otherwise or which it may receive by way of payment upon the collection of credits or which it may obtain through the exercise of rights incident to any operations in which it may engage.

(j) It may act as factor, agent, or attorney in fact for any and all persons in connection with any and all kinds of business.

(k) It may act as the fiscal or transfer agent of any Government, municipality, or body politic, or corporation, and in such capacity may receive and disburse money, transfer, register, and countersign certificates of stock, bonds, or other evidences of indebtedness, and act as agent for any corporation, foreign or domestic, for any lawful purpose.

(l) It may be appointed and may accept the appointment of executor, or trustee under the last will and testament, or administrator of the estate of any deceased person, and may be appointed and act as a committee of the person and estates of lunatics, idiots, persons of unsound mind, and habitual drunkards, and may act as receiver and trustee in bankruptcy.

(m) It may act generally as trustee, and in that capacity may do all acts and shall enjoy all rights which the laws of either Nicaragua or of the jurisdiction under the laws of which said bank has been incorporated permit or grant to or require of trustees.

(n) It may accept and execute any and all such trusts, duties, and powers in regard to the holding, management, and disposition of any estate or property, real or personal, and the rents and profits thereof, or the sale thereof, as may be granted or confided to it by any court or by any person, corporation, municipality, governmental power, or other authority, and it shall be accountable to all persons in interest for the faithful discharge of any and all trust, duty, or power which it may accept.

(o) It may accept and execute any and all such trusts and powers of whatever nature and description as may be conferred upon or entrusted or committed to it by any person or persons or by any body politic, corporation or other authority, by grant, assignment, transfer, devise, bequest, or otherwise, or which may be entrusted or committed or transferred to it or vested in it by judicial order, and may receive, take, and hold any property or estate, real or personal, which may be the subject of any such trust.

(p) It may engage in all other kinds of credit and banking operations not expressly prohibited by the laws now in force in Nicaragua.

(q) Its bills shall be admitted in all government departments and offices as legal tender.

(r) Any counterfeiting or falsification of the bank's bills shall be construed and punished as a counterfeiting or falsification of national bills and documents.

(s) The bank shall have the preferential right to coin money, gold and silver, or other metals, or any other money which the Government resolves to put in circulation.

(t) It shall enjoy also the free importation of books, papers, safes, materials for vaults, office furniture, and all kinds of stationery, fittings, and all other effects destined for the exclusive use of the bank.

(u) It may do any and all things which shall contribute to the realization of the objects set forth in the foregoing sections, and shall have full legal capacity to do whatever by law may be permitted to either foreign or domestic corporations in Nicaragua.

Article fourth. The capital, funds, deposits, papers, books, checks, notes, and securities of the bank, whether in its own or in others' possession, shall be exempt from the payment of all kinds of national, departmental, municipal, or other taxes or contributions, both such as are at present in force and such as may hereafter be established; and all operations, contracts, acts, and business in which the bank shall participate shall be similarly exempt whenever the payment of any taxes or contributions in connection with such business would by law be payable by the bank.

Article fifth. The bank may keep all or any part of its reserves in the form of deposits with banks, bankers, or banking institutions in the United States of America or in London, England, or in Paris, France.

Article sixth. In case the bank goes into liquidation, voluntary or involuntary, the shareholders shall have the right to name by majority vote, at a meeting to be called for the purpose, the person or persons who shall have sole charge of the liquidation and distribution of the assets.

Article seventh. Any controversy arising between the bank and the Republic by reason of this contract or of any matter connected therewith shall be decided by two arbitrators and one umpire; one of said arbitrators to be appointed by the Republic, the other by the bank, and the umpire to be selected by the two arbitrators thus chosen, or, in case of their failure to agree, by the Secretary of State of the United States.

Article eighth. The term of this contract shall be 99 years.

Mr. Jesse Averitt Whitaker, having been informed as to the terms of said concession, stated:

That he, on behalf of the National Bank of Nicaragua, Incorporated, accepts and ratifies it both as a whole and in every part thereof.

The foregoing declarations were made by the parties hereto, whom I instructed as to the purpose of this instrument, as to the general caluses affirming the validity thereof, and as to the consequences and legal value of the explicit renouncements and implicit stipulations contained in said instrument, which after having been read as a whole by me, the notary, to the grantors, in the presence of the witnesses whose names are set forth in the preamble, was ratified and accepted by them without modification, and signed by all. I so certify, Benj. Cuadra, Pedro Raf. Cuadra, J. A. Whitaker, S. Vargas, G. Lacayo.

Entered in my presence at folio 23 of my No. 8 protocol for the present year; and I affix my seal to this first copy, consisting of five sheets, at the request of Senor Pedro Rafael Cuadra, Minister of Finance, in the city of Managua, at five o'clock in the afternoon of the 25th day of May, 1912. Benj. Cuadra.

APPENDIX 7.

AGREEMENT OF DEC. 9, 1911, BETWEEN THE REPUBLIC OF NICARAGUA, THE ETHELBURGA SYNDICATE, AND ASSENTING BONDHOLDERS.

[Repudiated by Ethelburga Syndicate.]

AGREEMENT made in the City of New York this ninth day of December, 1911, between THE REPUBLIC OF NICARAGUA (hereinafter called the "Republic"), party of the first part, the ETHELBURGA SYNDICATE, LIMITED, of 84 Bishops-gate Street, Within, London, E. C., an English corporation organized under the Companies Acts, 1862-1900 (hereinafter called the "Syndicate"), party of the second part, and SUCH HOLDERS OF BONDS HEREINAFTER MENTIONED AS MAY GIVE THEIR ASSENT HERETO BY DEPOSITING THEIR BONDS HEREUNDER (hereinafter called "Assenting Bondholders"), parties of the third part, WITNESSETH:

That in consideration of the mutual covenants and undertakings hereinafter contained it is hereby agreed as follows:

FIRST: Any holders of bonds known as "The Republic of Nicaragua Six Per Cent. Gold Bonds, 1909, (hereinafter called "1909 Bonds"), who desire to become parties to this agreement may do so by depositing their said bonds with such banks or banking houses in the Cities of London, Paris, Brussels and Amsterdam (hereinafter called "Depositaries") as the Syndicate, with the approval of Brown Brothers & Company and J. & W. Seligman & Company, acting on behalf of the Republic, (hereinafter called the "Bankers"), may appoint; said deposits to be made on or before February 1, 1912, or within such further period or periods, if any, as the "Bankers" may determine. In exchange for the bonds so deposited, said "Depositaries" shall issue receipts in such form as the "Bankers" may determine.

SECOND: This agreement shall become binding only when and in case the total par value of "1909 Bonds" deposited on or before February 1, 1912, shall amount to £1,000,000. Nevertheless, in case a lesser amount (not in any event, however, less than £650,000) shall be so deposited, this agreement shall become binding if the "Bankers," on behalf of the Republic, shall so elect: the decision of the "Bankers" in that regard shall be communicated to the "Depositaries" on or before February 10, 1912. In case £1,000,000 of Bonds as above mentioned shall not be deposited as aforesaid, and in case the "Bankers," acting on behalf of the Republic, shall elect not to accept a lesser amount as aforesaid, the respective "Depositaries" shall, upon the surrender of the receipts issued by them therefor, return the deposited Bonds to the holders of such receipts without cost to such holders, and in that event, nothing herein contained shall alter or affect the present legal relations of the parties hereto to each other, whose rights and obligations in that regard shall continue as they were prior to the execution hereof, and in all respects the same as if the present agreement had not been made.

THIRD: If, on or before February 1, 1912, the total par value of "1909 Bonds" deposited as aforesaid shall amount to £1,000,000, or if, a lesser amount (not in any event, however, less than £650,000) having been deposited, the "Bankers," on behalf of the Republic, shall elect to accept such lesser amount, this agreement shall, immediately upon such limitation being reached or upon such election being made, become binding and effective; and thereupon the "Depositaries" shall, at the request of the "Bankers" and in such manner and form as said "Bankers" may determine, stamp the Bonds theretofore or thereafter within the time and as provided in this agreement deposited with them respectively as also all coupons attached thereto maturing after January 1, 1912; and, upon the surrender of the receipts issued by them therefor, shall return such stamped Bonds and coupons to such receipt holders without expense to said holders.

FOURTH: If the total par value of "1909 Bonds" to be deposited on or before February 1, 1912, as aforesaid shall amount to £1,000,000, or if, a lesser amount (not in any event, however, less than £650,000) having been so deposited, the "Bankers," on behalf of the Republic, shall elect to accept the same, the "Bankers," on behalf of the Republic, shall, out of the fund mentioned in Article Fourteenth, deposit with each of the "Depositaries" an amount sufficient to pay the January 1, 1912, interest coupon upon such Bonds as may be deposited hereunder with such Depositary. Each of said "Depositaries" shall on January 1, 1912, or as soon thereafter as funds may be deposited with it, as aforesaid, pay to the holders of receipts issued by it, the full present par value of the January 1, 1912, coupons corresponding to the bonds covered by said receipts, which coupons shall be surrendered to and cancelled by the Depositary, and by it be delivered to the "Bankers" for account of the Republic.

FIFTH: If this agreement become effective, as above provided, the principal of all "1909 Bonds" deposited hereunder, and the interest represented by the coupons thereto attached, maturing after January 1, 1912, shall thereupon by virtue of the present stipulation, and without the necessity of any further action by any of the parties hereto, immediately be and become reduced to eighty-five per cent. (85%) of their present face or par value; and in that event the Republic hereby pledges its faith and credit to the due and punctual payment of said reduced principal and interest.

Said reduction, however, is agreed to by the "Assenting Bondholders" only upon the following conditions, to wit:

(1) That there shall be no default by the Republic in the punctual payment either of any interest coupon or of the sinking fund hereinafter provided, or of the principal of said stamped bonds when due;

(2) That so long as a certain agreement, known as "Treasury Bills Agreement," between the Republic and the "Bankers," dated September 1, 1911, shall continue in force, the customs duties shall be collected as in said Treasury Bills Agreement provided; and that upon the termination of that agreement the Republic will continue to make such collections substantially in the same manner, through agents to be approved by the Secretary of State of the United States;

(3) That in case of any such default, or in the event of the discontinuance of the collection of duties as aforesaid, the Republic shall thereupon become liable for the present par value of said bonds and of all coupons thereto attached then remaining unpaid; and that in such event the holders of such bonds shall, in addition to the rights conferred upon them hereunder, have all the rights which they had prior to and at the time of the execution of this agreement.

Sixth: The Republic shall have the right, at any time after January 1, 1922, to redeem, in the manner hereinafter provided, and with any funds at its disposal, any or all of said stamped "1909 Bonds" then outstanding, at their reduced par value of 85% and accrued interest. The Republic shall also have the right, at any time after January 1, 1912, and before January 1, 1922, likewise to redeem any or all of said Bonds then outstanding, at 89% of their present par value and accrued interest.

Seventh: From and after January 1, 1912, the semiannual interest upon stamped "1909 Bonds" shall be paid upon presentation and surrender of the corresponding interest coupons, at the offices either of Brown, Shipley & Company or of Seligman Brothers, in London; at the office of Seligman Freres et Cie., in Paris; at the office of Alsberg, Goldberg & Co., in Amsterdam; and at such other banks or banking houses in Brussels as the "Bankers" on behalf of the Republic may appoint. The principal of such Bonds at their maturity or when drawn for redemption as hereinafter provided shall, in like manner, be payable at such of said banks or banking houses as the "Bankers" on behalf of the Republic may appoint.

Eighth: The repayment of the Loan to be represented by "1909 Bonds" shall be effected as follows:

1. At any time or, in their discretion, from time to time the "Bankers," acting on behalf of the Republic, shall apply such portion of the fund mentioned in Article Thirteenth, Paragraph (a), below as may be available for that purpose to the purchase of any of the "1909 Bonds" in the open market at prices not exceeding 89% of their present par value and accrued interest, or to the redemption of stamped "1909 Bonds" at said price and accrued interest.

2. On January 1, 1913, and on the first day of each January thereafter, until the maturity of said Bonds, so long as any of them remain unpaid, the Republic shall deposit with the "Bankers," as a Sinking Fund, a sum equal to at least one per centum (1%) on the reduced face amount of all Bonds theretofore stamped as hereinbefore provided, and also a sum equal to six per centum (6%) on the reduced face amount of all Bonds theretofore purchased or redeemed and cancelled or designated for purchase or redemption for the Sinking Fund.

3. The particular Bonds to be redeemed on each occasion out of the special fund mentioned in paragraph 1 of this Article or out of moneys to be deposited with the "Bankers" for account of the Sinking Fund as provided in paragraph 2 shall be determined by lot, drawings to be made at the offices of either Brown, Shipley & Company or of Seligman Brothers, in the City of London, or at such other place or places as the "Bankers" on behalf of the Republic may appoint. Such drawings shall be held under the direction of a representative of the "Bankers" acting for the Republic in the presence of a Notary Public, who shall officially certify to such drawing. Drawings for Bonds to be redeemed out of said special fund shall be held at such date or dates as the "Bankers" acting for the Republic may determine. Drawings for Bonds to be redeemed out of the Sinking Fund shall be held during each year,

beginning with 1913, on such date as the "Bankers" acting for the Republic may determine.

4. Forthwith, after every drawing to determine the particular Bonds to be redeemed as aforesaid, the "Bankers," on behalf of the Republic, shall give notice of the Bonds which have been drawn for redemption to the holders of the Bonds so drawn; said notice shall be by an advertisement to be published not less than once a week for four successive weeks in one newspaper of general circulation in the City of London, and in one newspaper of general circulation in the City of Paris, to be selected by the "Bankers," on behalf of the Republic, and in such other newspapers and in such other cities as said "Bankers" may determine, the first publication to be made not later than thirty (30) days prior to the date fixed for the redemption of said Bonds, which date shall be determined by the "Bankers." Said notice shall state the numbers of the Bonds drawn, and the time and place or places for the surrender and payment of the Bonds so to be redeemed.

5. At the time and at any of the places at which said Bonds shall be expressed to be payable as aforesaid, the holder of the Bond or Bonds to be redeemed shall surrender the same to the "Bankers," or to their agents, acting on behalf of the Republic, with all coupons maturing after the date on which they are to be so redeemed, and upon such surrender, the "Bankers" acting on behalf of the Republic, shall, out of said special fund or said Sinking Fund, as the case may be, cause to be paid to the holder of such Bonds the amount payable to him in respect of such redemption. The amount required to redeem Bonds drawn for redemption shall, from the date of such drawing, be held by the "Bankers" as a special fund for the holders of such Bonds, to be paid out only on the presentation and surrender of such Bonds with all coupons, as aforesaid, and such Bonds and coupons shall not, after the constitution of such special fund, be entitled to the benefit of the other security afforded by this agreement.

6. Subject to the express provisions of Article Fifth, above, all Bonds to be redeemed as aforesaid prior to January 1, 1922, shall be at the rate of eighty-nine per centum of their present par value and accrued interest; and all Bonds to be redeemed thereafter shall be at their reduced par value of eighty-five per centum and accrued interest.

In case the market price of the Bonds shall at any time during said two periods be at or below the redemption prices respectively assigned to each, the "Bankers," acting on behalf of the Republic, at any time before the drawing to determine the particular Bonds to be redeemed as aforesaid, may in their discretion purchase any such Bonds in the open market out of the amount deposited with them in respect of the Sinking Fund.

7. All Bonds purchased or redeemed as aforesaid shall immediately after such purchase or redemption be cancelled by the "Bankers" and delivered to the Republic.

8. All Bonds drawn for redemption as aforesaid shall cease to bear interest as from the date upon which the same are to be redeemed.

9. All the usual expenses in connection with the drawing or purchase of Bonds under this Article, or for the payment of the principal or interest of the Bonds or otherwise in the service of the Loan represented by said "1909 Bonds," including the cost of cabling and of remittances to Europe and the publication of the notices required hereunder shall be paid by the Republic.

NINTH: Until paid the stamped "1909 Bonds" and interest thereon shall in lieu of any other security be secured by a first lien upon the customs receipts of the Republic to an amount equal to but not exceeding the sum required for the service of the loan represented by such Bonds. For the purpose of rendering said security more effective, the customs receipts pledged hereunder shall be collected in accordance with the provisions of the Treasury Bills Agreement of September 1, 1911, above mentioned, between the Republic and the "Bankers"; and upon the termination of that agreement if the Republic shall desire to preserve the benefit of the reductions stipulated in Article Fifth above, it shall make provision for the collection of customs duties as in said Article Fifth contemplated.

TENTH: The compensation and all expenses of the "Depositaries" hereunder, all expenses connected with the proposed deposit, stamping and return of Bonds, with the printing, issuing and surrender of the receipts, and with the payment of the coupons maturing January 1, 1912; also all expenses incident to the carrying out of this agreement on the part of the Syndicate and the "Assenting Bondholders", including its and their counsel fees, shall in the first instance be for account of the Syndicate; and the Republic shall in no way be liable therefor; nevertheless if this agreement shall become effective the "Bankers" on behalf of the Republic, shall upon the receipt by them of the sum of £371,730, to be paid to them under the provisions of

Article Thirteenth below, repay to the Syndicate or otherwise discharge all such expenses paid or incurred in good faith by the Syndicate; provided that their total amount shall not exceed a sum equivalent to one per cent. (1%) of the reduced face value of bonds deposited and stamped hereunder. Such payments by the "Bankers" shall be made upon presentation to them of proper vouchers or of proof satisfactory to them that the amounts so to be paid are due and owing.

ELEVENTH: The Syndicate shall use its best efforts and endeavors to obtain the deposit of "1909 Bonds" by the holders thereof as hereinabove provided.

TWELFTH: If and when this agreement shall become binding as provided in Article Second above, and after the Syndicate shall have fully complied with all of the provisions of Article Thirteenth below, the Republic and the Syndicate shall mutually release each other from any and all liabilities and obligations existing between them prior to the date hereof.

THIRTEENTH: Immediately after the present agreement shall have become effective as provided in Article Second above the Syndicate shall

(a) Pay to the "Bankers", for account of the Republic, the sum of Three hundred seventy-one thousand, seven hundred thirty pounds sterling (£371,730) with interest, from the date hereof to the date of payment, at a rate one per centum (1%) below the ruling Bank of England rate. Said sum of £371,730 shall, if this contract become binding and effective, be deemed to be the amount for which the Syndicate is accountable, subject, however, to verification by the "Bankers" of the Syndicate's accounts (the payment of the July 1, 1911 coupons to be deemed a proper disbursement) between June 30, 1911, on which date the balance in the hands of the Syndicate was Three hundred ninety-three thousand, three hundred seventy-eight pounds sterling, seventeen shillings and eleven pence (£393,378 17 s. 11d.), and the date hereof: the moneys to be received by the "Bankers" as aforesaid shall be disposed of as hereinafter provided;

(b) It shall deliver to the "Bankers" proof, satisfactory to them, that the Syndicate has discharged the loan of £50,000 made by the London Bank of Mexico and South America, Limited, and the loan of £2,300 made by the Syndicate;

(c) It shall likewise deliver to the "Bankers" the Bonds or other evidences of indebtedness of the "English" and "New Orleans" loans mentioned in a certain contract dated January 19, 1909, between the Republic and the Syndicate, which the Syndicate may have redeemed or converted out of the fund of £500,000 of "1909 Bonds" therein agreed to be set aside for that special purpose, and in case any portion of said "English" and "New Orleans" loans should still be outstanding, the Syndicate shall deliver to the "Bankers" "1909 Bonds" to an amount which at par shall bear the same proportion to said £500,000 of Bonds as the par value of "English" and "New Orleans" loans still outstanding may bear to the total par value of such loans as they were outstanding on January 19, 1909;

(d) It shall deliver to the "Bankers" any other "1909 Bonds" which may still remain unissued in the hands of the Syndicate;

(e) It shall transfer, assign and deliver to the Republic all railroad and other materials which may have been purchased and paid for by it for account of the Republic, destined for use in connection with the projected railroad from the Great Lake of Nicaragua to the Atlantic Ocean, together with proof satisfactory to said "Bankers" of such purchase and payment; also all engineering surveys, reports, maps, data and other information which it may have or be entitled to receive regarding said projected railroad; and

(f) It shall cancel all contracts, not actually carried out, which it may have made either for the purchase of further materials or for work to be done upon or in connection with said projected railroad, and it shall forever hold the Republic harmless from any and all claims which may arise by reason of any act or thing done by the Syndicate in that regard; provided, however, that, out of the moneys to be received by the "Bankers" as in Paragraph (a) of this Article set forth, the "Bankers" on behalf of the Republic will, upon presentation of proper vouchers or other proof satisfactory to them repay to the Syndicate, or otherwise discharge, such amounts, not exceeding One thousand two hundred pounds sterling (£1,200) in the aggregate, as the Syndicate may pay or be liable for on or in connection with the cancellation of certain contracts for services between the Syndicate and two engineers now in Nicaragua.

FOURTEENTH. The £371,730 in cash to be paid by the Syndicate to the Bankers as provided in Article THIRTEENTH, Paragraph (a) above, shall be applied by said Bankers to the following purposes:

(a) To the payment of the unreduced January 1st, 1912 coupon, upon the stamped "1909 Bonds" as provided in Article FOURTH above.

(b) To the payment of the stamped interest coupons maturing July 1st, 1912, on the stamped "1909 Bonds."

(c) To the payment at the option and in the discretion of the "Bankers" of any interest which may be due or may become due upon any outstanding portion of said "English" Loan of 1886 or said "New Orleans" Loan of 1904.

(d) To the payment of commissions and expenses mentioned in Article TENTH above and of any amounts required to be paid under the provisions of Article THIRTEENTH, Paragraph (f) above.

(e) To the payment of the expenses of the "Bankers" including counsel fees which may have been or may be incurred by them in connection with the negotiation, completion and carrying out of the present contract.

(f) To the purchase or redemption of "1909 Bonds," as provided in said Article EIGHTH, Paragraph 1 above, and to the redemption or conversion, at the option of the "Bankers" and in their discretion, of any portion of said "English" Loan of 1886 or of said "New Orleans" Loan of 1904 still outstanding.

(g) To the payment of the usual expenses in connection with the drawing, redemption and purchase of bonds as provided in Article EIGHTH, Paragraph 1, above, and to similar usual expenses in connection with the drawing, redemption and purchase of any outstanding portion of said "English" and "New Orleans" loans.

(h) Any balance of said fund remaining unexpended in the hands of the "Bankers" on December 31st, 1912, shall become a part of the Sinking Fund provided in Article EIGHTH above.

FIFTEENTH In so far as this agreement provides that the "Bankers" shall act as trustees or custodians of any fund or as fiscal agents for the Republic with reference to the loan represented by the "1909 Bonds" or otherwise, they hereby accept such trusts and agencies, subject, however, to the following conditions:

1. They may at any time, instead of acting personally, employ and appoint such agent or agents and attorney or attorneys as they may deem desirable.

2. They shall not be answerable for the default or misconduct of any agent, attorney, bank or banker appointed or selected by them for any purpose hereunder, if such agent, attorney, bank or banker shall have been selected with reasonable care, nor for anything whatever in connection with such trusts or agencies, except for their own wilful misconduct.

3. They shall only be chargeable for such moneys as may be actually received by them from or for account of the Republic.

4. They shall be protected in acting upon any notice, request, consent, certificate, bond or other paper or document believed by them to be genuine and to be signed by the person or persons purporting to sign the same.

5. They, or either of them, may withdraw and resign as trustees or fiscal agents by giving reasonable notice to the Republic of such intention, specifying the date when it is desired such withdrawal shall take effect. In case said "Bankers" shall so withdraw or resign, a successor or successors shall be appointed by the Republic. These provisions shall severally apply to each of the two firms constituting the "Bankers" hereunder, except that, in case of the withdrawal or resignation of either of said firms, the remaining firm shall continue to be trustee or fiscal agent, and so long as such firm shall so continue, no successor to the firm which may have thus withdrawn or resigned shall be appointed.

6. In the custody of moneys hereunder, they shall be liable only as bankers.

The above provisions shall also apply to the banks and banking houses mentioned in Article SEVENTH above.

SIXTEENTH. The "Bankers" execute this agreement on behalf of the Republic pursuant to the authority conferred upon them by Article NINTH of the "Treasury Bills Agreement" hereinbefore mentioned, dated September 1, 1911 and by subdivision (A), Section 2, Article Seventh, of contract "Schedule B", annexed to said "Treasury Bills Agreement"; copies of said two provisions are hereto annexed. It is hereby expressly stipulated that in thus executing this agreement the "Bankers" assume no personal liability of any kind and that, as regards the Republic, this agreement shall become binding only after it shall have been approved by the Executive of the Republic. It shall be sufficient, for this purpose, if said Executive shall notify the "Bankers" by cable of such approval, and in that event the "Bankers" shall so notify the Syndicate.

SEVENTEENTH. Otto Herbert Fuerth executes this agreement on behalf of the Syndicate, and states that he is duly authorized to do so; as, however, his authority in that regard does not appear, he hereby undertakes to secure the formal ratification and approval of this agreement by the Board of Directors of the Syndicate within fifteen days from the date hereof and to deliver due proof thereof, satisfactory to the "Bankers", to Brown, Shipley & Company at their office in the City of London.

IN WITNESS WHEREOF, the Republic of Nicaragua has caused these presents to be executed by the "Bankers" above-mentioned, and Ethelburga Syndicate, Limited, has caused these presents to be executed by Otto Herbert Fuerth, and the said "Bankers" and the said Fuerth, have also hereunto set their respective hands and seals in acceptance of the provisions hereof, applicable to them respectively.

Executed in quadruplicate.

In presence of:

HUGO KOHLMANN
JOSEPH A. CARAS

REPUBLIC OF NICARAGUA,
By BROWN BROTHERS & Co.
J. & W. SELIGMAN & Co.
ETHELBURGA SYNDICATE, LIMITED,
By O. H. FUERTH.
BROWN BROTHERS & Co.
J. & W. SELIGMAN & Co.
O. H. FUERTH.

ARTICLE NINTH OF "TREASURY BILLS AGREEMENT" OF SEPTEMBER 1, 1911

ARTICLE NINTH.

In order to facilitate the settlement of the financial affairs of the Republic, Messrs. Brown, Brothers & Company and J. & W. Seligman & Company are hereby authorized as Agents of the Republic to confer with the Ethelburga Syndicate, Limited, of London, and the holders of the 1909 bonds with a view to the settlement in accordance with the provisions of Article Seventh, Section 2, subdivision (A) of said contract "Schedule B" of the differences which have arisen between them and the Republic.

SUBDIVISION (A), SECTION 2, ARTICLE SEVENTH OF CONTRACT "SCHEDULE B," ANNEXED TO "TREASURY BILLS AGREEMENT."

Whereas certain differences have arisen between the Republic and the Ethelburga Syndicate, Limited, of London, with reference to an issue of bonds of the Republic made pursuant to the provisions of an instrument dated January 19, 1909; and

Whereas the Republic desires to adjust said differences and to fully protect all *bona fide* purchasers and holders of bonds duly issued under said instrument;

Therefore, the Republic, as a part of the consideration hereunder, hereby irrevocably authorizes the Fiscal Agent, on its behalf, to do whatever in the opinion of said Fiscal Agent may be fair, just, lawful or equitable in the adjustment of said differences with the Ethelburga Syndicate, Limited, and in the purchase or retirement of all bonds issued pursuant to said instrument dated January 19, 1909; to which end and with a view to the settlement and adjustment of the entire controversy the Fiscal Agent may make, execute and deliver such agreements of compromise and settlement as it may deem proper either with the Ethelburga Syndicate, Limited, or with others; may purchase or retire any or all bonds issued pursuant to said instrument; may discharge, redeem or convert the prior debts or loans of the Republic mentioned in said instrument dated January 19, 1909, or may provide for their discharge, retirement or conversion; or may, in its absolute discretion, make use of any or all legal remedies available for the enforcement of the rights of the Republic in the premises; or may submit any or all questions which have arisen or may arise in the premises to arbitration under the provisions of said instrument dated January 19, 1909, or otherwise; the Fiscal Agent upon making any such compromise, payment or agreement, is hereby authorized to receive the said fund in accordance with the terms of such settlement and give a receipt therefor in the name of the Republic which shall be full satisfaction of all claims which the Republic may have against the Ethelburga Syndicate, Limited.

APPENDIX 8.

(Copy.)

NEW YORK, July 17, 1912.

To the Honorable PHILANDER C. KNOX,
Secretary of State of the United States, Washington, D. C.

SIR: Mr. Ernest H. Wands, financial advisor of Nicaragua, recently received a letter from Dr. Castrillo, Nicaraguan minister in Washington, making certain comments upon and requesting certain information regarding the attitude of Messrs. Brown Brothers & Company and Messrs. J. & W. Seligman & Company in relation to matters which have been the subject of contract between Nicaragua and the Bankers. Mr. Wands handed me the minister's letter above referred to and requested me to furnish him with the information called for.

In compliance with this request, I have to-day written to Mr. Wands a letter in which I have referred at length to various matters regarding which I think you should be advised. For the information of the department, therefore, I beg to inclose herewith a copy of my letter to Mr. Wands.

Very respectfully, yours,

S. MALLET-PREVOST.

JULY 16, 1912.

ERNEST H. WANDS, Esq.,
71 Broadway, Manhattan.

DEAR SIR: I have read Dr. Castrillo's letter to you of the 9th instant.

The questions put by the minister and his comments upon the situation disclose a misapprehension on his part as to the meaning and effect of the supplemental loan agreement of March 26th last and of the other contracts subsequently entered into by Nicaragua. I quote in translation the following extracts from the minister's letter:

"In the agreement with the Ethelburga it was stipulated that the advances made by the Bankers in the form of temporary or preliminary loans and the expenses in connection with the entire business should be paid out of the funds (deposited in London).

"After that contract had been signed, I received instructions to communicate with the Secretary of State in order to obtain the delivery of that money to us for the present necessities of the country, money which is ours; this indicates that in Nicaragua they were not willing that these funds should at once be paid to the Bankers, since such payment would render illusory the loan recently agreed to, it having been stipulated that these expenses should be taken out of the "large loan."

"Then came the conveyance which I made of the railroad of Nicaragua in favor of the company organized in the United States. While it is true that the shares almost all belong to the Government of Nicaragua, it is also true that the Bankers have an option upon 51% thereof, and that the company has already appointed a commissioner to receive the railroad. Thus it appears to my country that we have alienated the railroad without receiving a single cent.

"The Bankers can make use of the option if and when it suits them. Meanwhile, the economic situation in Nicaragua is each day more critical. The necessity of remedying that situation is immediate. There is no room for delay of days, much less of months. I wish, therefore, that the Bankers would fix a definite term within which they shall exercise the option.

"While it is certain that the Bankers will receive the Ethelburga fund; while it is a fact that they are enjoying the security of the customs; while we have transferred our railroad by public deed and in due form to an American company; while, finally, we have complied on our part and have given every security asked for, the Bankers seek delay and merely make promises, in which many no longer believe.

"In view of the deeds of conveyance and of the appraisal of the railroad therein contained, and in view of the fact that the Bankers have in their possession the information which was necessary for said conveyance, what necessity is there for them to await the report of the commissioner who has gone to take charge of the railroad?

"Why do they await the result of the settlement with the Ethelburga Syndicate and the receipt by them of the Ethelburga fund in order to exercise the option, unless it be that they desire to utilize the same money by giving it to us in payment of the railroad shares?"

Disregarding the uncalled-for and unfounded criticisms of the Bankers contained in the above extracts, which I feel sure the minister himself will, on reflection, regret, the letter may be summarized in the following statements:

1. That Nicaragua has parted with her railroad and steamship lines because she has transferred them to an American company and because that company has appointed a general manager to operate the properties.

2. That Nicaragua has received no consideration for the above transfer because the Bankers have not yet exercised their option to purchase 51 % of the company's shares.

3. That owing to the critical financial situation of Nicaragua, the Bankers ought to purchase said shares immediately without further investigation as to the value of the properties.

4. That the proposed settlement with the holders of "1909 Bonds" and with the Ethelburga Syndicate has no relation to the railroad proposition, and that the purchase of the railroad shares by the Bankers should not wait upon that settlement.

5. That the funds on deposit with the Anglo South American Bank (Limited), in London should not be applied to the liquidation of Nicaragua's indebtedness to the Bankers, but should be turned over to Nicaragua for her present necessities.

6. That the expense which the Bankers have incurred in the business should not be paid out of the so-called "Ethelburga Fund" but out of the "large loan" when made.

It is quite evident that the minister does not fully appreciate the provisions and significance of the supplemental loan agreement of March 26th last. Whatever has been done since that date has been in strict compliance with the terms of that instrument.

It is true that Nicaragua has transferred her railroad and steamship lines to Ferrocarril del Pacifico de Nicaragua, a Maine corporation; it is true that as the result of that operation Nicaragua has received and now owns not most, but absolutely all, the shares of that company's capital stock. The minister errs when he says that his Government "has alienated the railroad without receiving a single cent." Its alienation of the properties in question has been nothing more than a change in the form of ownership. Prior to June 19th last, upon which date Dr. Castrillo executed the deed of conveyance, the title to the railroad and steamship lines was vested directly in the Government; since then it has been vested in a corporation owned wholly by that same Government. In the first case the ownership was direct; in the second case it was indirect; in both cases it was complete. The Government has parted with nothing whatever.

And yet, notwithstanding this fact, the Government has received a very large cash consideration, which, while not technically the price of any transfer, was nevertheless paid, because, among other things, the Government agreed to transfer its road in the manner above explained.

As an essential part of the supplemental loan agreement the Government undertook to convey its road to an American corporation, to place the management of that corporation in the hands of the Bankers and to pledge all the stock of the company as collateral security for the loans which the Bankers undertook to make. In consideration, partly, of this the Bankers have advanced to the Republic for its general needs \$255,000 and have opened a credit for an additional \$500,000 to be used in the reform of the currency.

As matters stand to-day the Bankers, in addition to paying out for account of Nicaragua large sums for expenses, have parted with \$1,750,000 in cash, of which \$1,500,000 has been deposited with the United States Mortgage and Trust Company and \$250,000 has been paid directly to the Government. Of the \$1,500,000 deposited with the trust company \$910,000 has actually been drawn by the Government and used to purchase and retire about 14,500,000 pesos of Nicaraguan paper currency. Further amounts are being drawn every day for the same purpose, and when the fund out of which these drafts are paid is exhausted the Bankers have agreed and stand ready to provide \$500,000 more. Out of the same fund of \$1,500,000 deposited with the trust company \$100,000 has been paid in as capital of the bank, every share of which belongs to Nicaragua. In addition to this, the new coins and paper currency which have been ordered will cost \$140,000. The result of all these operations has been to reduce the rate of exchange from above 2,000, which it was in 1911, to 1,550, at which figure it has been steady for some time. The benefits of this reduction and of a stable rate of exchange must soon be reflected in the business operations of the country.

In view of all this, can the minister seriously contend that Nicaragua has not received a single cent for the transfer of the railroad?

As further bearing upon the subject, permit me to quote the following provisions of the supplemental loan agreement which have determined the course recently followed:

* * * * *

The minister's letter of July 9th indicates a certain misunderstanding on his part as to the terms of the option which the Bankers hold for the purchase of 51% of the shares of the railroad company. The terms of that option are fully set forth in article fourteenth of the supplemental loan agreement, and these include the period within which the option must be exercised. While that period has a long time yet to run, I feel sure that the Bankers will give it their attention at the earliest possible moment, hoping thereby to find a way of helping Nicaragua out of her difficulties. More than a month ago, on June 4th, the Bankers telegraphed as follows to Mr. Whitaker, their representative at Managua:

"You will assure the President that as soon as the Ethelburga settlement is concluded we shall give our immediate consideration to the question of the railroad share option, which, if resulting in purchase, will provide the Government with a large sum for immediate necessities."

Dr. Castrillo fails to see any connection between the purchase of the railroad's shares by the Bankers and the settlement with the Ethelburga Syndicate, and surmises that the delay is due to the desire of the Bankers to use the money which they will receive as a result of that settlement to pay the purchase price of the shares. While there is no foundation for such an assumption, I cannot find fault with Dr. Castrillo for seeking to find some explanation for the delay, since the real reason has probably not been explained to him. I mention the matter here, but only in strict confidence, because its publicity might seriously affect the negotiations with the council of foreign bondholders.

Notwithstanding the assertion of the Nicaraguan Government that the railroad is free and clear from all incumbrances, and notwithstanding the fact that no lien appears of record in the usual form, it has been authoritatively stated that the railroad has from time to time been pledged, or agreed to be pledged, for foreign debts of Nicaragua. There seems to be a question as to whether or not the holders of the 1909 bonds are entitled to that security, and it is important to have that question definitely settled before the Bankers purchase the railroad's shares. The question has never been discussed by the Bankers, either with the Ethelburga Syndicate or with the council of foreign bondholders, and I do not know whether either of those corporations is aware of the possible rights of the 1909 bondholders in that connection. However, in order to clear the matter up and to place Nicaragua in a position where she can dispose of the railroad without leaving any cloud upon her title thereto, the Bankers incorporated the following provision into the agreement of May 25th last between the Republic of Nicaragua and the council of foreign bondholders:

"The assenting bondholders hereby accept said customs revenues, collected and administered as aforesaid, as the sole security for the payment of the stamped 1909 bonds, the reduced coupons and the sinking fund, and hereby waive and release any other security or any other claims for charges upon real or personal property."

The moment the contract of May 25th becomes effective, any lien to which the assenting bondholders may possibly be entitled upon the railroad will, by virtue of the above stipulation, be released. It is for this release among other things that the bankers are waiting, and you will, therefore, readily see that there is an intimate relation between the proposed settlement and the possibility of the exercise of the bankers' option.

It is hardly necessary for me to repeat that this information is given to you in strict confidence. I see no reason, however, why you should not communicate it to Dr. Castrillo, provided you will at the same time impress upon him the necessity of treating it as secret.

Still another point that Dr. Castrillo has evidently misunderstood is the significance of the Railroad Company's capitalization. He seems to think that because the bankers accepted at its face value the inventory and appraisal of the railroad furnished by the Government, and because they made that appraisal the basis of the company's capitalization, therefore the bankers have full knowledge of the value of the properties and should make no further investigations.

Of course there is no relation whatever between the capitalization of the railroad and the option price. The latter is definitely fixed by article fourteenth of the supplemental loan agreement, and that price would remain the same whether the capitalization of the company had been one million or ten million dollars. Article fourteenth provides:

"For a period of twelve months from the date hereof, also during such period as * * * the bankers shall have the right at their option to purchase, and the Republic hereby agrees at the request of the bankers under said option to sell, transfer, convey and assign to them, free and clear of any and all liens, charges or incumbrances, 51 per cent of the entire capital stock of the Railway and Steamship Company hereinbefore referred to, for the price of \$1,000,000.00 United States gold * * * it being agreed, however, that in case the bankers shall exercise said option and shall

purchase said stock they shall advance to the company within two years following the date of said purchase at least \$500,000.00, to be expended on extensions and improvements of said railway and steamship lines."

Dr. Castrillo should bear the above in mind and should hardly expect prudent business men to part with \$1,000,000 in cash and to agree to expend half a million more upon improvements until after they have fully satisfied themselves that what they are buying is worth the price.

I pass now to the question as to how the fund of \$371,000 at present deposited in London should be dealt with when recovered.

Dr. Castrillo seems to think that the Bankers ought not to receive it, and he states that the Government at Managua shares his views.

You will recall that after the Bankers had loaned Nicaragua \$1,500,000.00 under the treasury bills agreement and when a request was made for further loans aggregating \$755,000.00, the question naturally arose as to what security Nicaragua could offer. A second lien on the customs seemed hardly sufficient—indeed, it was not a second but, at best, a third lien, since \$430,000.00 per annum were first to be set aside for other purposes, even before the treasury bills could come in for their second lien. Under these circumstances it was agreed that the funds deposited in London by the Ethelburga Syndicate should be a part of the security, and it was consequently stipulated as follows:

"Sixth. The principal and interest of all loans to be made hereunder * * * and the expenses mentioned in article eighteenth below, shall be secured as follows: * * * (4) by the claims of the Republic against the Ethelburga Syndicate, Limited, of London, especially against any moneys deposited by said Ethelburga Syndicate with the Anglo-South American Bank, Limited, or elsewhere."

It will be clear from this that as long ago as March 26th, the date of the supplemental loan agreement, the Government of Nicaragua had in contemplation the application of the funds in London for the liquidation of its indebtedness to the Bankers. The agreement of May 25th, therefore, between the Republic of Nicaragua and the Bankers was nothing new; it merely gave effect to the earlier stipulation. If the agreement of May 25th had not been entered into, the only result would have been that the fund in question would have remained as security under the supplemental loan agreement, without any consequent benefit to Nicaragua. That the Managua Government fully understood the situation is evidenced by voluminous telegraphic correspondence between New York and Managua, which I think it unnecessary at this time to quote.

As to the Bankers' expenses, these were expressly included in the supplemental loan agreement, from which I quote the following:

"Eighteenth. The Bankers shall be repaid all expenses incurred by them on account of counsel fees, cabling, travelling expenses, and generally all sums expended in connection with the matters covered by this agreement or in connection with the incorporation and organization of the Railway and Steamship Company, but no compensation shall be paid to the Bankers for their services except the one per cent commission on drafts paid by them as above provided. Said expenses, except as hereinbefore provided, shall be repaid by the Republic out of its general revenues not later than October 15th, 1912, and shall be paid prior thereto * * * in case any amounts shall sooner be collected on account of the claims against the Ethelburga Syndicate; in any of the cases mentioned said expenses shall be immediately paid out of the proceeds of any such * * * collection."

This inclusion of expenses was absolutely just and proper. The Bankers have made large loans to Nicaragua without a cent of commission, at a rate of interest (6 %) which contrasts favorably, to say the least, with the rate of 18 % that I understand the Government has recently agreed to pay to certain New Orleans lenders. Up to the present time not a cent has been returned to the Bankers, either by way of interest or otherwise. Whether or not they will ever make any profit out of the business depends entirely upon the options which they hold for the purchase of things whose value is highly problematic. For a year and a half they have been giving daily personal attention to the affairs of Nicaragua, bringing to the solution of the many problems involved their best thought and experience. No one who has not been in daily contact with them can form any proper conception of the amount and character of work done. Is it too much to ask that they be repaid the amounts which they have actually expended during that year and a half? There can be but one answer to that question, and that answer was given by the Nicaraguan Government itself, when it signed the supplemental loan agreement and included therein the provision which I have quoted above.

Before closing; and as bearing still further upon the attitude of the Bankers, I quote the following from a telegram which the Bankers sent to Mr. Whitaker on June 4th last, with instructions to present the same to the President. The telegram was in answer to an inquiry from the President as to whether the Bankers would accept

payment of the treasury bills and supplemental loan and release Nicaragua from all other obligation:

"If we should accept the President's suggestion to withdraw, all the benefits of whatever we have done since February, 1911, and more especially since the 1st of September of last year, would be wholly lost to Nicaragua. We have striven earnestly to help Nicaragua, and we believe that the results of our efforts must soon be felt. Exchange has already become stable, and, as a result of this, customs receipts have greatly improved. The bank has been organized and will soon begin business. Currency reform has been rendered possible and will soon be effected. The railroad will shortly be administered for the benefit of the Government, thereby increasing the Government's revenues from that source. The abandonment of all this would be an incalculable loss to Nicaragua and would discredit her in all the financial markets of the world.

"As throwing light upon our attitude in this matter, you will call the President's attention to the way in which we have, step by step, become further and further involved in financing his country.

"First, as regards the amounts of the loans. The first proposition made to us contemplated nothing more than the general loan under the convention between the United States and Nicaragua, and contained no suggestion of any temporary loan. Taking that proposition as a basis, we made a bid, which was accepted. Within a very short time thereafter came the need of more help to establish a stable currency. For this purpose we advanced one million and a half dollars gold, doing this, however, upon the express assurance that the outstanding paper currency did not exceed thirty million pesos, and that hence the million and a half gold which we furnished would be ample for the purposes of monetary reform and for the capital of the bank. It soon transpired that without our knowledge and notwithstanding the assurance above referred to, the Government had made further paper issues of sixteen million pesos, thus rendering the monetary situation much more difficult. To meet this difficulty we were asked for a further credit of half a million dollars gold, which we granted.

"Second, as regards the Government's necessities. At the time that we first considered the large loan we were assured by the financial agent of Nicaragua that that country could well afford to hypothecate its entire customs revenues, and that her income from other sources would be ample to meet her current budget. Upon the faith of that assurance we submitted a bid for the large loan, and upon the same faith we subsequently advanced one million and a half under the treasury bills agreement. During the visit of Messrs. Harrison and Conant to Managua they were informed by the Government that the current expenses could not be met out of the unpledged revenues, but that if the Bankers would render temporary assistance by advancing monthly the sum of \$30,000.00 up to October 15th next the deficiency would be met. We acceded and extended to the Government a further credit of \$255,000.00. After this came still further requests for loans of over \$1,300,000.00 gold. These we felt compelled to decline, but we offered and made immediately available half the credits reserved for July, August, September, and October. Then came the President's telegram suggesting that we withdraw wholly from the business.

"It is difficult to understand how any such suggestion can be made, in view of what we have done for Nicaragua and of the many proofs we have given her of our good will."

Since the date of the telegram above quoted, and complying with still further requests received from Nicaragua, the Bankers have authorized the Government to draw for the entire balance of the monthly allowances; they have also agreed that the expenses of the mixed claims commission shall during the present year be paid out of the customs funds which are pledged as security for other loans; and they have within the past few days taken up and paid a draft which would otherwise have gone to protest.

Very truly, yours,

S. MALLET-PREVOST.

APPENDIX 9.

THE REPUBLIC OF NICARAGUA AND UNITED STATES MORTGAGE AND TRUST COMPANY.

COLLATERAL TRUST AGREEMENT.

(Dated, October 8, 1913.)

Agreement, made at the city of New York, this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first

part, and United States Mortgage and Trust Company, a corporation organized under the laws of the State of New York, hereinafter called the "trustee," party of the second part, witnesseth:

Whereas, for the purposes of providing for the payment of its obligations, of insuring the stability of its currency system, and other purposes, the Republic proposes to create and issue its treasury bills to the aggregate principal amount of one million sixty thousand dollars (\$1,060,000) United States gold, to be secured as hereinafter provided; and

Whereas, the execution of this agreement and the issue of bills herein described has been duly authorized by the Republic and all action has been taken necessary to make said bills the legal obligations of said Republic; and

Whereas, the Republic desires the United States Mortgage and Trust Company to act as trustee under this agreement:

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

ARTICLE FIRST.

THE TREASURY BILLS.

SECTION 1. The Republic shall issue its bills to the aggregate principal amount of one million sixty thousand dollars (\$1,060,000) United States gold, which shall be designated and known as "Republic of Nicaragua treasury bills of 1913" (hereinafter for brevity called the "bills.")

SECTION 2. The bills shall be in denominations of five thousand dollars (\$5,000) and ten thousand dollars (\$10,000) each; shall be dated the first day of October, 1913; shall be payable in gold coin of the United States of the present standard of weight and fineness, on the first day of October, 1914, without interest; and on and after the first day of January, 1914, shall be subject to redemption at the option of the Republic at a premium of one per centum (1%) upon notice as hereinafter provided.

SECTION 3. The bills shall be payable at the offices of either Brown Brothers & Company or J. & W. Seligman & Company in the city of New York; or at the option of the holder, at the offices of Brown, Shipley & Company or Seligman Brothers, in London, England, at the fixed rate of exchange of four and 85/100 dollars (£4.85) to the pound sterling; or at the option of the holder, at the office of Seligman Freres & Cie., in Paris, France, at the fixed rate of exchange of five (5) francs and twenty-one (21) centimes to the dollar.

SECTION 4. The bills shall be in substantially the following form and of substantially the following tenor and purport:

| | |
|------------------------|---------------------|
| No. | \$..... |
| | United States gold. |
| REPUBLIC OF NICARAGUA. | |
| Treasury bill of 1913. | |

NEW YORK, *October first, 1913.*

One year from date (fixed) the Republic of Nicaragua, for value received, promises to pay to _____, or order, the sum of _____ dollars (\$_____) in gold coin of the United States of America, at the office of either Brown Brothers & Company or J. & W. Seligman & Company in the city of New York; or at the option of the holder, at the office of either Brown, Shipley & Company or Seligman Brothers, in London, England, at the fixed rate of exchange of four and 85/100 dollars (\$4.85) to the pound sterling; or at the office of Seligman Freres & Cie., in Paris, France, at the fixed rate of exchange of five (5) francs twenty-one (21) centimes to the dollar.

This bill is issued in pursuance of and subject to an agreement between the Republic of Nicaragua and United States Mortgage and Trust Company, of New York, dated _____, 1913.

Minister of Finance and Financial Agent.

Authenticated as a bill described in the within-mentioned agreement dated _____, 1913.

UNITED STATES MORTGAGE AND TRUST COMPANY,
Trustee,

By _____.

570 CONVENTION BETWEEN UNITED STATES AND NICARAGUA.

SECTION 5. The bills shall be signed in the city of New York by the minister of finance and financial agent of the Republic.

SECTION 6. Each bill shall bear thereon a certificate substantially in the form as shown in section 4 above, which shall be signed by the trustee, authenticating such bill; no bill shall be valid without such certificate so signed; and such certificate shall be conclusive evidence that the bill so certified has been duly issued in pursuance of this agreement and that the holder is entitled to the benefits thereof. Bills to the amount of said issue shall be signed by the minister of finance and financial agent of the Republic, and delivered to the trustee for certification as aforesaid, and when so certified shall be delivered by the trustee to Brown Brothers & Company and J. & W. Seligman & Company.

SECTION 7. The loan represented by said bills shall constitute and is hereby declared to be a direct liability and obligation of the Republic irrespective of any security provided hereunder, and the Republic hereby pledges its faith and credit for the due and punctual payment of said bills and for the performance of all its undertakings hereunder.

SECTION 8. The Republic shall pay the stamp and other duties, if any, to which under the laws of the Republic this agreement is or may be subject, and the bills shall be exempt from all taxes now or hereafter established by or within the Republic. The Republic shall also pay the stamp and other duties, if any, to which under the laws of either the United States, Great Britain, or France said bills may be subject.

ARTICLE SECOND.

SECURITY.

SECTION 1. The Republic covenants and agrees that the bills shall be, and they hereby are, secured as follows:

(a) By a lien or charge upon all import and export customs duties receivable by or for the Republic from and after the date of said bills, said lien or charge upon said customs duties being, however, subject to the following prior liens thereon:

1. To the lien created in favor of certain of the 1909 bonds of the Republic by the agreement of May 25, 1912, between the Republic and the "corporation of foreign bondholders."

2. To the lien created in favor of the "corporation of foreign bondholders" by the indemnity agreement between the Republic and said corporation dated October 31, 1912; and

3. To the lien in favor of the National Bank of Nicaragua (Incorporated) for insuring the stability of the currency exchange fund created by an agreement of even date herewith between the Republic and said bank.

(b) By a first lien or charge on one thousand four hundred and seventy (1,470) shares of the capital stock of the National Bank of Nicaragua (Incorporated) certificates for which, duly endorsed in blank, are pledged and deposited with the trustee upon the execution hereof. Said certificates shall be in the name of the minister of finance of the Republic, or of such person or persons as he may from time to time designate; and before being deposited as aforesaid shall be stamped as required by a contract of even date herewith between the Republic and Brown Brothers & Company and J. & W. Seligman & Company.

(c) By a first lien or charge on sixteen thousand one hundred and seventy (16,170) shares of the capital stock of Ferrocarril del Pacifico de Nicaragua, certificates for which shares, duly endorsed in blank, are pledged and deposited with the trustee upon the execution hereof. Said certificates shall be in the name of the minister of finance of the Republic, or of such person or persons as he may from time to time designate; and before being deposited as aforesaid shall be stamped as required by a contract of even date herewith between the Republic and Brown Brothers & Company and J. & W. Seligman & Company.

SECTION 2. So long as no default shall exist in respect to any of the covenants, stipulations, and conditions herein or in said bills set forth on the part of the Republic to be performed, the Republic shall be entitled to receive all dividends upon the shares of stock held and pledged hereunder, and voting power upon such shares shall be exercised by such person or persons as the minister of finance of the Republic may from time to time designate. In the event, however, of any such default, the trustee shall be entitled to receive all dividends upon the shares of stock pledged hereunder, and shall hold or apply such dividends for the benefit or security of the holders of bills hereunder; and, in order that said dividends shall be paid to it for the purposes aforesaid, said trustee may at its option cause said shares of stock to be transferred to its name or that of its nominee, and when so transferred said shares shall continue to be held by said trustee under the terms of this agreement as security hereunder.

ARTICLE THIRD.

COLLECTION OF CUSTOMS.

The provisions of the agreement of May 25, 1912, between the Republic and the "corporation of foreign bondholders" with respect to the collection of customs, are hereby ratified and confirmed; and it is hereby agreed that, so long as any of the bills shall remain unpaid, all customs duties, both on exports and imports, receivable by or for the Republic, shall be collected and administered by the collector general of customs as set forth in article fifth of the treasury bills agreement of September 1, 1911, between the Republic of Nicaragua and Brown Brothers & Company and J. & W. Seligman & Company, under which the United States Mortgage and Trust Company has heretofore acted as trustee. The provisions of sections 2, 3, and 4 of said article fifth of said treasury bills agreement are hereby continued in force during the life of the bills issued hereunder, and are hereby incorporated into and made applicable to this agreement; provided, however, that so long as there shall be no default hereunder, any amounts so collected not required for the purposes of the three agreements mentioned in article second, section 1, subdivision (a) above, shall be payable to the Republic by deposit to its credit with the National Bank of Nicaragua, Incorporated.

ARTICLE FOURTH.

ENFORCEMENT OF SECURITY UPON DEFAULT.

In case default shall be made in the payment of any bill (or in case default shall be made in the due performance of any of the covenants of the Republic hereunder and any such last-mentioned default shall continue for a period of thirty (30) days after written notice thereof and demand of performance), then and in each such case the trustee shall forthwith notify the collector general of customs of such default; and thereafter all import and export customs duties, after payment of the expenses attending the collection of the same, and after setting aside such amounts, if any, as may be required by the agreements mentioned in article second, section 1, subdivision (a) above, and so long as any of the bills, or any interest thereon, remain unpaid, shall from time to time, at least monthly, be remitted to the trustee. The amounts so to be received by the trustee shall from time to time be applied by it as follows:

1. To the payment of all expenses, liabilities, and advances made or incurred by the trustee in the conduct and enforcement of the trusts hereby created, including a reasonable compensation to the trustee, its agents, attorneys, and counsel.

2. To the payment from time to time, ratably among the holders of the bills hereby secured, of the amounts owing and unpaid upon such bills, without preference of any bill over any others, until the whole amount owing or unpaid upon such bills, with interest at the rate of six per centum (6%) per annum from and after the date of their maturity, shall have been paid.

Notwithstanding the provisions hereinbefore contained with reference to the disposition and application of the customs revenues in case of default as aforesaid, the trustees may, and if thereunto requested by the holders of a majority in amount of the bills issued and outstanding hereunder, and if indemnified to its satisfaction for its costs and expenses in so doing, shall proceed to sell the shares of stock pledged hereunder; provided, however, that at the date of such sale or sales the whole amount owing or unpaid upon the bills hereby secured, with interest at the rate of six per centum (6%) per annum from and after the date of their maturity, and the compensation and expenses of the trustee shall not have been liquidated; provided, also, that the shares of stock of the National Bank of Nicaragua (Incorporated) shall be first sold, but not until the expiration of six (6) months after such default; and provided further, that the shares of Ferrocarril del Pacifico de Nicaragua shall be sold second, but not until the expiration of one (1) year after such default.

The sale or sales to be made hereunder shall be at public auction at such place in the city of New York and at such time and upon such terms as the trustee may specify.

Notice of any such sale shall state the time when and the place where the same is to be held and shall contain a brief general description of the securities to be sold. Such notice shall be published twice a week for two (2) successive weeks prior to such sale in a daily newspaper published in the city of New York, and a copy of said notice shall, at least two weeks prior to the date of sale, be sent to the Republic as hereinafter provided.

The trustee shall have the power, in its discretion, to adjourn any such sale from time to time as to the whole or any part of the property to be sold; and if so adjourned, shall have power to smake such sale upon the date to which the adjournment is had without further notice of the time or place to which the sale may be so adjourned.

Upon the completion of any such sale or sales the trustee shall transfer and deliver such of the shares of stock as shall have been sold to the purchaser or purchasers thereof, and the same shall thereupon be freed and discharged from the trusts and lien hereby created. The trustee and its successors are hereby appointed true and lawful attorney or attorneys irrevocable of the Republic, in its name, to make, execute, and deliver to such purchaser or purchasers such good and sufficient assignments, transfers, or other instruments as may be necessary or proper to vest in such purchaser or purchasers full and complete title and ownership of and to the shares of stock so sold.

The receipt of the trustee for the purchase money shall be sufficient discharge for the purchaser or purchasers of any of said shares for his or their purchase money.

Upon any such sale the trustee or any holder of bills hereunder, or any other person, may bid for and may purchase the stock offered for sale or any part thereof.

The proceeds of any sale made as aforesaid, in so far as the amounts theretofore received by the trustee from the collector general of customs, as hereinbefore provided, or the amounts realized under any earlier sale of securities hereunder may have been insufficient for the purpose, shall be applied as follows:

1. To the payment of the costs and expenses of such sale, including a reasonable compensation to the trustee, its agents, attorneys, and counsel, and of all expenses, liabilities, and advances made or incurred by the trustees in the conduct and enforcement of the trusts hereby created;

2. To the payment of the whole amount then owing or unpaid upon the bills hereby secured, with interest at the rate of six per centum (6%) per annum from and after the date of their maturity, or in case of the insufficiency of such proceeds for that purpose, then to the payment ratably of the amounts owing and unpaid upon such bills without preference of any bill over any others; and

3. To the payment of the surplus, if any, to the Republic or to whomsoever shall be lawfully entitled to receive the same.

ARTICLE FIFTH.

REDEMPTION OF BILLS.

On and at any time after the first day of January, 1914, the Republic, at its option, may redeem all or any of the bills at that time outstanding by paying the principal amount of such bills, together with the premium of one per centum (1%) thereon, provided that the Republic shall, by publication in one or more newspapers of general circulation in each of the cities of New York, London, and Paris, respectively, twice a week for one (1) month immediately preceding the date of such redemption, have given prior notice of its intention to so redeem. Such notice shall specify the date of redemption and, if part only of the bills are to be redeemed, shall designate the numbers of such bills.

In case the Republic shall desire to redeem, as aforesaid, all bills outstanding it may deposit with the trustee the amount necessary for such redemption, together with proof that said notice of redemption has been given by publication in the manner aforesaid; and in that case, upon the payment to the trustee of all costs, charges, and expenses to which it may be entitled the trustee shall cancel and satisfy this agreement. If such deposit and payment shall be made as aforesaid, said deposit as between the Republic and the holders of said bills shall be deemed to be a payment of said bills.

After the shares of stock pledged hereunder shall be thus released from the lien of this agreement, the certificates representing said shares, stamped as required by a contract of even date herewith between the Republic and Brown Brothers & Company and J. & W. Seligman & Company, shall be delivered to the minister of finance of the Republic, or to such person or persons as he in writing may direct.

ARTICLE SIXTH.

DEFEASANCE.

Whenever the Republic shall pay all bills secured hereunder or shall provide for such payment by depositing with the trustee the entire amount due thereon, if the Republic shall at the same time pay or cause to be paid all other sums payable hereunder, then and in such case the right, title, and interest of the trustee under this agreement shall cease and determine, and the trustee shall deliver to the minister of finance of the Republic, or to such person or persons as he in writing may designate, all securities pledged hereunder, stamped as aforesaid, and shall execute proper instruments acknowledging satisfaction.

ARTICLE SEVENTH.

CONCERNING THE TRUSTEE.

SECTION 1. The Republic hereby appoints the United States Mortgage and Trust Company trustee for the holders of bills, with full power to appoint agents in the United States or Europe, or elsewhere, to act for it in respect thereof, and the United States Mortgage and Trust Company hereby accepts such appointment.

SECTION 2. The trustee may at any time instead of acting personally employ and appoint such agent or agents and attorney or attorneys as it may deem desirable.

SECTION 3. The trustee shall be entitled to reasonable compensation for all services rendered by it in the execution of the trusts hereby created, and the Republic agrees from time to time to pay such compensation and to reimburse the trustee, with interest, for all liability and expenses, including counsel fees, which it may have incurred hereunder.

SECTION 4. The trustee shall not be answerable for the default or misconduct of any agent, attorney, bank, or banker appointed or selected by it in pursuance hereof if such agent, attorney, bank, or banker shall have been selected with reasonable care; or for anything whatever in connection with this trust except for its own wilful misconduct.

SECTION 5. The trustee may at any time and from time to time take such steps as it may deem proper for the enforcement of the provisions hereof and for the protection of the rights of the holders of bills hereunder.

SECTION 6. The trustee shall have, in addition to the rights, powers and duties conferred by law and otherwise by this instrument, the following rights, powers and duties:

(a) It shall from time to time receive all such sums as shall be paid to it in accordance with this agreement, and shall use and apply in the manner herein authorized the moneys so received.

(b) It may, subject to the terms of this agreement, act in accordance with the written order of the minister of finance of the Republic; and the order of the minister of finance as aforesaid shall be full protection to the trustee for action in accordance therewith.

(c) The trustee shall only be chargeable for such moneys as may be actually received by it in the city of New York from the Republic or for its account.

(d) All representations and recitals contained in this agreement and in the bills are made by and on behalf of the Republic, and the trustee is in no way responsible therefor or for any statement therein contained or for any action or thing by it done by reason of any representation made by the Republic or by any of its agents or representatives. The trustee shall be protected in acting upon any notice, request, consent, certificate, bill, or other paper or document believed by it to be genuine and to be signed by the person or persons purporting to sign the same. It may advise with legal counsel, and the trustee shall incur no liability for any action taken or suffered hereunder by the trustee in accordance with the opinion of such counsel. The trustee shall incur no responsibility in respect of the execution or validity hereof or of said bills, nor in respect of the genuineness, validity, or value of any shares of stock deposited with it, and makes no representations in respect thereof, nor shall it incur any responsibility, except as herein expressly provided, in respect of the disposition of said bills or the application of the proceeds thereof. The trustee shall incur no responsibility by reason of the failure of the Republic or of any other person or persons mentioned herein to carry out or perform any covenant, agreement, or provision of this contract.

SECTION 7. The trustee may withdraw and resign by giving notice to the Republic of such intention, specifying the date when it is desired such withdrawal shall take effect, which shall not be less than one (1) month after such notice to the Republic shall have been given, unless shorter notice shall be accepted by the Republic. In case the trustee shall resign, a successor shall, with the approval of the Secretary of State of the United States, be appointed by the Republic by designation in writing under the hand of the minister of finance of the Republic; a counterpart thereof shall be delivered to such successor, and a counterpart filed in the Department of State of the United States of America.

Any corporation into which the trustee or its successor in the trust may be merged, or any corporation resulting from any merger or consolidation to which the trustee or its successor or successors shall be a party, shall be its successor in the trust hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

ARTICLE EIGHTH.

NOTICES.

Any statement, notice, request, or other communication under this contract from the trustee to the Republic shall be in writing, addressed "El ministro de hacienda de la República de Nicaragua," and shall be deemed to have been duly given if delivered at the legation of the Republic in Washington, District of Columbia, or at the consulate of the Republic in the city of New York, or if deposited in the mails enclosed in a sealed, postage-prepaid package, addressed as above to Managua, Nicaragua. Service of such notice or other communication shall be deemed complete as of the date of such delivery or as of the date of such deposit in the mails; in each case, however, a duplicate of such statement, notice, request, or other communication shall be delivered to the Department of State of the United States.

Any notice or other communication from the Republic to the trustee shall also be in writing, and shall be sufficiently given if addressed to such trustee and delivered at its office in the city of New York.

ARTICLE NINTH.

GENERAL PROVISIONS.

SECTION 1. This contract shall bind and is for the exclusive benefit of the parties hereto and the holders of the bills issued hereunder.

SECTION 2. This contract shall be deemed to be, and shall be construed as, a New York contract made for the benefit and security of the holders from time to time of the bills issued hereunder; and time is of the essence of this agreement.

SECTION 3. This contract has been submitted to the Secretary of State of the United States for his approval, and it is hereby agreed that, within ten (10) days from the date hereof, the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

SECTION 4. Upon the execution hereof the originals of this contract as well as the bills therein described executed by the minister of finance shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them, one original to Señor don Pedro Rafael Cuadra, one to the United States Mortgage & Trust Company, one to Brown Brothers & Company, one to J. & W. Seligman & Company and one in accordance with Section 3, above, to the Department of State of the United States, and the bills to be delivered to the United States Mortgage and Trust Company for certification, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the Executive of the Republic and deposited with the National Bank of Nicaragua (Incorporated), in Managua, and the latter shall have notified Brown Brothers & Company and J. & W. Seligman & Company by cable of the making and deposit of such decree, provided, however, that such decree shall be made and deposited and notice thereof received within seven (7) days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid within said seven (7) days, or within such further period as the parties hereto may agree, this agreement and said bills shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this agreement to be subscribed on its behalf by Señor don Pedro Rafael Cuadra, minister of finance and financial agent of the Republic, and the United States Mortgage and Trust Company has caused this agreement to be subscribed in its name by one of its vice presidents, and its corporate seal to be hereunto affixed and attested by one of its assistant secretaries, the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.

UNITED STATES MORTGAGE AND TRUST COMPANY,
 By CARL G. RASMUS, *Vice-President.*

[SEAL.]

Attest:

V. EHRLICHER, *Assistant Secretary.*

APPENDIX 10.

THE REPUBLIC OF NICARAGUA AND BROWN BROTHERS & COMPANY AND J. & W. SELIGMAN & COMPANY.

AGREEMENT FOR PURCHASE OF RAILROAD AND BANK STOCK.

(Dated, October 8, 1913.)

Agreement, made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Brown Brothers & Company and J. & W. Seligman & Company, copartnerships, doing business in the city of New York, hereinafter called the "Bankers," parties of the second part; Witnesseth:

Whereas the Republic is indebted to the Bankers under agreements heretofore made between them; and

Whereas the Republic by contract with the Bankers dated March 26th, 1912, obligated itself to sell to them at their option fifty-one per cent (51%) of the capital stock of Ferrocarril del Pacifico de Nicaragua, hereinafter called the "Railroad Company," for one million dollars (\$1,000,000) United States gold; and

Whereas, for the purpose of liquidating the indebtedness above mentioned, of providing further funds to insure the stability of the currency of the Republic, of increasing the capital of the National Bank of Nicaragua (Incorporated), hereinafter called the "Bank," of liquidating the Republic's indebtedness to the Bank, of providing for the Republic's current expenses, and for other purposes, the Republic has this day sold to the Bankers gold treasury bills representing an aggregate principal amount of one million sixty thousand dollars (\$1,060,000) United States gold for the price of one million dollars (\$1,000,000); and

Whereas for the purposes aforesaid the Republic desires and the Bankers are willing to exercise the option above mentioned upon the terms and conditions hereinafter set forth; and

Whereas for the purposes aforesaid the Republic wishes and the Bankers are willing to purchase one thousand five hundred and thirty (1,530) shares of the capital stock of the Bank;

Now, therefore, in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, and in consideration of the covenants and undertakings by the Republic in various other contracts executed simultaneously herewith, it is hereby agreed as follows:

ARTICLE FIRST.

The following contracts executed simultaneously herewith are hereby made a part of this agreement, to wit:

1. A contract between the Republic and the United States Mortgage & Trust Company, as trustee. p 568
2. A contract between the Republic and the Bankers for the purchase of treasury bills. p. 542
3. A contract between the Republic and the National Bank of Nicaragua (Incorporated); and p 579
4. A contract between the Republic and Ferrocarril del Pacifico de Nicaragua. p 581

Copies of said contracts, marked respectively "Schedule No. 1," "Schedule No. 2," "Schedule No. 3," and "Schedule No. 4," are hereto annexed.

ARTICLE SECOND.

The Republic hereby sells, assigns, and transfers to the Bankers sixteen thousand eight hundred and thirty (16,830) shares of the capital stock of the Railroad Company for the sum of one million dollars (\$1,000,000) United States gold, to be paid as hereinafter set forth, upon the delivery and transfer of said shares.

ARTICLE THIRD.

The Bankers shall loan to the Railroad Company, within three (3) years from October 1, 1913, the sum of five hundred thousand dollars (\$500,000) United States gold, which shall, at the discretion of said company, be expended on extensions and improvements of its railway and steamship lines and/or in the construction of new lines; said loan shall be made by the purchase from the Railroad Company, at eighty-five per cent (85%) of their par value, of six per cent (6%) ten-year bonds to be issued by the Railroad Company, to be secured by a first mortgage and lien upon its properties.

ARTICLE FOURTH.

As certificates representing the entire capital stock of the railroad are at present deposited with the Bankers under the "Supplemental loan agreement of" March 26, 1912, the Bankers are hereby authorized to cause certificates representing the sixteen thousand eight hundred and thirty (16,830) shares hereby sold to them to be transferred on the books of the Railroad Company to their own name and take delivery of the same: and, after stamping the same as hereinafter provided, are further authorized to deliver certificates representing the remaining sixteen thousand one hundred and seventy (16,170) shares to the United States Mortgage & Trust Company, as trustee, to be held by said trustee as provided in contract, Schedule No. 1.

ARTICLE FIFTH.

The one million dollars (\$1,000,000) purchase price of the Republic of Nicaragua's treasury bills of 1913, as provided in Schedule No. 2, and the one million dollars (\$1,000,000) purchase price of the sixteen thousand eight hundred and thirty (16,830) shares of railroad stock as hereinbefore provided, shall be paid by the Bankers as follows:

1. Forty-seven thousand dollars (\$47,000) by payment to the Bank of the purchase price of four hundred and seventy (470) shares of its capital stock to be issued in the name of Señor don Pedro Rafael Cuadra, financial agent of the Republic.

2. By payment to the Bank, for the purposes stated in contract, Schedule No. 3, of the sums mentioned in articles second and fifth of said schedule.

3. By payment to the Bankers of such sum or sums as may be required to retire all treasury bills of 1911 still outstanding; to liquidate all sums advanced by the Bankers to or for account of the Republic under the provisions of the supplemental loan agreement of March 26, 1912; to repay all expenses heretofore incurred or disbursements made by the Bankers in connection with the various contracts and negotiations had between them since March 26, 1912; and to pay all expenses incident to the present contract, to the contracts executed by the Republic simultaneously herewith, and to the carrying of the same into effect. Said accounts shall include interest from the date of the respective payments.

4. The balance of said two million dollars (\$2,000,000) shall be deposited with the Bankers in New York to the credit of the Republic, and shall be subject to drafts or checks to be drawn by the minister of finance or by the financial agent of the Republic. Of said balance, seven hundred and twenty-five thousand dollars (\$725,000) shall be deposited forthwith and the remainder as soon as the amount thereof shall be determined upon the liquidation of the other sums hereinbefore provided to be paid.

ARTICLE SIXTH.

Simultaneously with the execution hereof, the Bankers shall purchase from the National Bank of Nicaragua (Incorporated), one thousand five hundred and thirty (1,530) shares of its capital stock, and shall pay therefor the sum of one hundred and fifty-three thousand dollars (\$153,000).

ARTICLE SEVENTH.

Any sums hereafter paid out for the Republic by the Bankers on account of cables or other expenses shall be repaid by the Republic upon presentation to its minister of finance of the corresponding accounts, accompanied by the usual vouchers; but the Bankers are hereby authorized to apply to the liquidation of said accounts any moneys of the Republic which may at any time be in their hands.

ARTICLE EIGHTH.

In case the Republic shall at any time desire to dispose of all or any part of its shares of stock in the Railroad Company and or in the Bank, it shall first offer the same in writing to the Bankers, who shall have the right, at their option, at any time within thirty (30) days after the receipt of such offer, to purchase the same or any part thereof at the same price and upon the same terms and conditions as may be offered by other intending *bona fide* purchasers. Said preferential right shall continue until said shares shall have actually been sold, paid for, and delivered to others in accordance with the foregoing stipulation at prices and upon terms and conditions which the Bankers, within thirty (30) days prior to such sale, shall have declined. Said preferential right shall not apply to any sale of said shares which may be made

pursuant to the terms of contract, Schedule No. 1, for the purpose of making effective the security provided thereunder; at any such sale, however, the Bankers may purchase said shares for their own account.

In order that the preferential right hereby given may be effective, the certificates of stock of said Republic in said railroad and in said Bank to be deposited with the United States Mortgage & Trust Company, as trustee, as provided in contract, Schedule No. 1, and any certificates for any further shares which may be issued to the Republic by reason of any increase in the capital stock of said railroad and/or of said Bank, and any subsequent certificates issued in substitution of any of said shares, shall be appropriately stamped as being subject to the provisions of this agreement.

ARTICLE NINTH.

The option granted to the Bankers to obtain from the Republic a concession for the construction and operation of a proposed railroad from some point on or near the Atlantic coast to connect with the Great Lake of Nicaragua or with the lines of Ferrocarril del Pacifico de Nicaragua is hereby cancelled and terminated, and the Bankers are hereby released from the obligations imposed upon them by article sixth of Schedule X of the treasury bills agreement of September 1, 1911, with reference to the survey of such proposed railroad.

ARTICLE TENTH.

So long as the Bankers shall own or control fifty-one per cent (51%) of the capital stock of the Bank, and the Republic shall continue to own forty-nine per cent (49%) of said capital, the directors to be elected at the annual meetings of stockholders shall be nominated, six (6) thereof by the Bankers, two (2) by the minister of finance of the Republic, and one (1) by the Secretary of State of the United States, and at each such annual meeting the Republic and the Bankers will vote or cause to be voted the shares so held or controlled by them in favor of the persons to be so nominated and will elect or cause to be elected such persons as directors of the Bank.

In case of any vacancy in the office of director caused by death, resignation, removal, or otherwise, the vacancy thus created shall be filled by a person to be nominated either by the Bankers, the Republic, or the Secretary of State of the United States, according as the original nomination of the director so dying or withdrawing may have been made by one of them.

The director to be nominated as aforesaid by the Secretary of State of the United States shall, immediately after his election as such director, be appointed bank examiner at a monthly salary of two hundred dollars (\$200), to be paid by the Bank; said director and bank examiner shall reside in the United States, but whenever he may deem proper shall, at the expense and cost of the Bank, visit Nicaragua for the purpose of there examining into the operations of the Bank; the result of all such examinations, together with the bank examiner's recommendations thereon, shall be confidential and shall first be reported to the board of directors, but copies of all such reports shall be filed by the Bank with the minister of finance of the Republic and with the Secretary of State of the United States.

For the purpose of giving effect to the provisions of this article said provisions, so far as may be necessary or proper, shall be incorporated into the by-laws of the Bank and said by-laws shall be amended accordingly.

ARTICLE ELEVENTH.

So long as the Bankers shall own or control fifty-one per cent. (51%) of the capital stock of the Railroad Company, and the Republic shall continue to own forty-nine per cent (49%) of said capital, the directors to be elected at the annual meetings of stockholders shall be nominated; six (6) thereof by the Bankers, two (2) by the minister of finance of the Republic, and one (1) by the Secretary of State of the United States, and at each such annual meeting the Republic and the Bankers will vote or cause to be voted the shares so held or controlled by them in favor of the persons to be so nominated, and will elect or cause to be elected such persons as directors of the Railroad Company.

In case of any vacancy in the office of director caused by death, resignation, removal, or otherwise, the vacancy thus created shall be filled by a person to be nominated either by the Bankers, the Republic, or the Secretary of State of the United States, according as the original nomination of the director so dying or withdrawing may have been made by one of them.

The director to be nominated as aforesaid by the Secretary of State of the United States shall, immediately after his election as such director, be appointed railroad examiner at a monthly salary of two hundred dollars (\$200), to be paid by the Railroad Company; said director and railroad examiner shall reside in the United States, but whenever he may deem proper shall, at the expense and cost of the Railroad Company, visit Nicaragua for the purpose of there examining into the operations of the railroad; the result of all such examinations, together with the railroad examiner's recommendations thereon, shall be confidential and shall first be reported to the board of directors, but copies of all such reports shall be filed by the Railroad Company with the minister of finance of the Republic and with the Secretary of State of the United States.

For the purpose of giving effect to the provisions of this article, said provisions, so far as may be necessary or proper, shall be incorporated into the by-laws of the Railroad Company; the number of directors shall be increased from seven (7), the present number, to nine (9), and the by-laws shall be amended accordingly.

ARTICLE TWELFTH.

The bank examiner and railroad examiner mentioned in articles tenth and eleventh shall be one and the same person, and such person shall continue to act in those capacities and as director of the Bank and of the Railroad Company, respectively, so long only as the Republic shall continue to own forty-nine per cent. (49%) of the capital stock of said corporations. Whenever the Republic shall cease to own said amount of stock in either of said corporations, the person then acting as examiner therefor shall cease to act both as such examiner and as a member of its board of directors, and the Republic shall thereupon procure his resignation, as also the resignation of the two other directors of such board to be nominated by the Republic as hereinbefore provided.

ARTICLE THIRTEENTH.

The Bankers shall be liable only for the payment of the sums hereinbefore provided, and they shall not be liable for the proper application or disposal of such sums.

The Bankers shall at all times be free from liability in acting upon any notice, request, consent, certificate, paper, or other document believed by them to be genuine and to be signed by the person or persons purporting to sign the same.

ARTICLE FOURTEENTH.

Any notice under this agreement by the Bankers to the Republic shall be in writing, addressed "El Ministro de Hacienda de la Republica de Nicaragua," and shall be deemed to have been duly given if delivered at the legation of the Republic in Washington, District of Columbia, or at the consulate of the Republic in the city of New York, or if deposited in the mails enclosed in a sealed, postage-prepaid package, addressed as above to Managua, Nicaragua. Service of such notice shall be deemed complete as of the date of such delivery or as of the date of such deposit in the mails. In each case, however, a duplicate of such notice shall be delivered to the Department of State of the United States.

Any notice to the Bankers shall be given in writing, addressed to Brown Brothers & Company and J. & W. Seligman & Company, and delivered at their offices in the city of New York.

ARTICLE FIFTEENTH.

This agreement shall be deemed to be, and shall be construed as, a New York contract; and time is of the essence of this agreement. The provisions of this agreement shall apply to and in respect of the firms of Bankers constituting the parties of the second part as such firms shall from time to time be constituted, without reference to any change of membership.

ARTICLE SIXTEENTH.

The preferential rights granted hereunder to the parties of the second part are intended for their joint benefit, and in each case such rights shall be exercised jointly by both firms, except that, if in the case of any particular preferential right either of said firms shall elect not to avail itself thereof, the same may be exercised by and shall inure to the benefit of the other firm.

ARTICLE SEVENTEENTH.

The Republic grants to the Bankers the right to sell, assign, and convey to any person, company, or companies, excepting to foreign Governments, all or any part of the rights granted or secured to them hereunder.

ARTICLE EIGHTEENTH.

Within ten (10) days from the date hereof the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

ARTICLE NINETEENTH.

Upon the execution hereof the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, of Number 30 Broad Street, New York, in escrow, to be delivered by them, one (1) to Señor don Pedro Rafael Cuadra, three (3) to the Bankers, and one (1), in accordance with article eighteenth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the Executive of the Republic and deposited with the National Bank of Nicaragua (Incorporated), in Managua, and the latter shall have notified the Bankers by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven (7) days from the date hereof or within such further period as the parties hereto may agree. If such Executive decree be not made and deposited and notice thereof received by cable as aforesaid, within said seven (7) days or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be canceled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this contract to be subscribed on its behalf by Señor don Pedro Rafael Cuadra, minister of finance and financial agent of Nicaragua, and said Brown Brothers & Company and said J. & W. Seligman & Company have hereunto set their hands and seals the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.

BROWN BROTHERS & CO. [SEAL.]
J. & W. SELIGMAN & CO. [SEAL.]

APPENDIX 11.

THE REPUBLIC OF NICARAGUA AND NATIONAL BANK OF NICARAGUA, INCORPORATED.
AGREEMENT.

(Dated, October 8, 1913.)

Agreement, made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part and National Bank of Nicaragua, Incorporated, hereinafter called the "Bank," party of the second part, witnesseth:

Whereas the law of March 20, 1912, of the Republic, hereinafter called the "monetary law," authorized the Bank as the agent of the Republic to issue bank notes in exchange for the national currency then in circulation; and

Whereas said monetary law provided for the setting aside of certain moneys, which, together with any additions or increments thereto, should constitute a fund called the "exchange fund;" and

Whereas, in order to further guarantee the stability of the currency, it is deemed expedient to increase said exchange fund and to have the same administered by said Bank:

Now, therefore, for and in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

First. The exchange fund mentioned in article ninth of the monetary law, and all replenishments, additions and increments thereto, shall hereafter be held and administered by the Bank, and shall be deposited in special accounts in New York or London, apart from the funds of the Bank.

Second. The Republic shall forthwith pay or cause to be paid to the Bank the sum of three hundred and fifty thousand dollars (\$350,000) as an addition to said exchange fund.

Third. If whenever and as often as the exchange fund deposited in New York and London shall fall below one hundred thousand dollars (\$100,000), United States gold, the same shall be replenished as hereinafter provided until such exchange fund shall amount to two hundred thousand dollars (\$200,000), United States gold.

Said replenishment shall be effected as follows:

Whenever said exchange fund deposited in New York and London as aforesaid shall fall below one hundred thousand dollars (\$100,000), United States gold, the Bank shall notify the minister of finance of the Republic and the collector general of customs; thereafter and until said fund so deposited shall have been increased to two hundred thousand dollars (\$200,000), United States gold, the collector general of customs shall, at least monthly, after paying the expenses attending the collection of customs, after remitting to New York or Europe the sums required for the service of the 1909 bonds of the Republic, as required by the agreement of May 25, 1912, between the Republic and the corporation of foreign bondholders, and after setting aside such sums, if any, as may be required by the indemnity agreement between the Republic and said corporation of foreign bondholders, dated October 31, 1912, deposit with the bank as additions to the exchange fund a sum equal to twenty-five per cent (25 %) of the total gross amount of said customs.

This provision for the replenishment from time to time of the exchange fund shall be and is hereby made a lien and charge on the customs of the Republic, subsequent only (1) to the lien established in favor of the holders of 1909 bonds by the agreement of May 25, 1912, above referred to; and (2) to the lien in favor of the corporation of foreign bondholders in accordance with the indemnity agreement of October 31, 1912, above mentioned.

As the bank notes issued under the monetary law have been and will continue to be issued by the Bank solely as the agent of the Republic, the Republic will hold the Bank harmless against any claims that may be made against it by reason of such notes.

Fourth. The Republic shall forthwith pay or cause to be paid to the Bank all sums on deposit with the United States Mortgage and Trust Company under the provisions of an agreement known as the "Treasury bills agreement," dated September 1, 1911, between the Republic and Brown Brothers & Company and J. & W. Seligman & Company, and also all sums which may be remitted to said trust company for account of the Republic or as part of the exchange fund; and the Bank shall thereupon hold and dispose of said sums upon the same trusts and for the same purposes as under existing contracts would govern their disposition in the hands of said trust company. The present agreement shall be sufficient authority to the United States Mortgage and Trust Company to make the payments aforesaid.

Fifth. The Republic shall forthwith pay or cause to be paid to the Bank the following sums:

1. Ten thousand dollars (\$10,000) as compensation for the Bank's services in connection with the conversion of the national currency, from August 1, 1913, to July 31, 1914, inclusive.

2. Sixty thousand dollars (\$60,000) or such other sum as may still be owing from the Republic to the Bank on account of the loan of 1,500,000 pesos which became due on February 8, 1913, or on account of any other transaction between the Republic and the Bank.

3. Thirty thousand dollars (\$30,000) or such other sum as may be owing from the Republic to the Bank on account of advances recently made for army pay rolls and other Government expenses.

Sixth. The collection of the internal revenue of the Republic, at present in charge of the Bank, shall be resumed by the Republic and the payment of the interest on the internal-revenue bonds of the Republic shall no longer be made through the Bank.

Seventh. This agreement shall be deemed to be and shall be construed as a New York contract.

Eighth. Within ten days from the date hereof the Republic shall file with the Department of State of the United States of America, an original executed counterpart of this contract.

Ninth. Upon the execution hereof, the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow to be delivered by them, one to Señor don Pedro Rafael Cuadra, one to National Bank of Nicaragua (Incorporated) one to Brown Brothers & Company, one to J. & W. Seligman & Co., and one, in accordance with eighth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the Execu-

tive of the Republic and deposited with National Bank of Nicaragua (Incorporated), in Managua and the latter shall have notified Brown Brothers & Co., and J. & W. Seligman & Co. by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven (7) days from the date hereof, or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid, within said seven (7) days, or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be cancelled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this agreement to be subscribed on its behalf by Señor don Pedro Rafael Cuadra, minister of finance and financial agent of Nicaragua, and the National Bank of Nicaragua (Incorporated), has caused this contract to be executed by its president thereunto duly authorized and its seal to be hereto affixed and attested the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.

NATIONAL BANK OF NICARAGUA (INCORPORATED),
By JAMES BROWN, *President.*

[SEAL.]

Attest:

J. A. WHITAKER, *Secretary.*

APPENDIX 12.

THE REPUBLIC OF NICARAGUA AND FERROCARRIL DEL PACIFICO DE NICARAGUA.

AGREEMENT.

(Dated, October 8, 1913.)

Agreement made at the city of New York this 8th day of October, 1913, between the Republic of Nicaragua, hereinafter called the "Republic," party of the first part, and Ferrocarril del Pacifico de Nicaragua, hereinafter called the "Railroad Company," party of the second part: Witnesseth:

Whereas the parties hereto desire to provide for the payment of certain dividends by the Railroad Company, and to adjust and settle certain other matters hereinafter mentioned:

Now, therefore, for and in consideration of the premises and of the mutual covenants and undertakings hereinafter contained, it is hereby agreed as follows:

First. All cash earnings of the railroad on hand as of October 1, 1913, after setting aside an amount sufficient to discharge all unpaid obligations of said railroad for running expenses to that date, and all unpaid obligations for betterments and improvements up to September 11, 1913, including the items mentioned in a letter dated August 16, 1913, from Brown Brothers & Company and J. & W. Seligman & Company to Honorable Pedro Rafael Cuadra, minister of finance of the Republic of Nicaragua, addressed to him at the Nicaraguan legation at Washington, and after payment by the Republic of such sums as may be due from it to the Railroad Company for services rendered or as a result of contract obligations, shall be distributed as a dividend and paid in whole to the Republic, and any additional expenditures or obligations incurred or made by the railroad for account of capital between September 11, 1913, and October 1, 1913, shall be regarded as having been made after October 1, 1913, and shall be dealt with accordingly.

Second. The Republic hereby confirms and warrants the title of the railroad to the oil tank at Corinto free from any lien or claim.

Third. The branch line from Momotombo in the direction of Matagalpa is hereby declared to be a branch of the main line within the provisions of Article I, section 1, of the concession of June 19, 1912.

Fourth. The railroad shall return to the Republic the steamer *Nicarao*, which it has been using on Lake Nicaragua. No charge shall be made by the Republic for such use, neither shall the Republic be liable for the cost of the repairs made to said steamer.

Fifth. This agreement shall be deemed to be and shall be construed as a New York contract.

Sixth. Within ten (10) days from the date hereof the Republic shall file with the Department of State of the United States of America an original executed counterpart of this contract.

Seventh. Upon the execution hereof, the originals of this contract shall be deposited with Curtis, Mallet-Prevost & Colt, No. 30 Broad Street, New York City, in escrow, to be delivered by them one to Señor don Pedro Rafael Cuadra, one to Ferrocarril del Pacifico de Nicaragua, one to Brown Brothers & Company, one to J. & W. Seligman & Co., and one, in accordance with sixth above, to the Department of State of the United States, when and as soon as a decree approving this contract sufficient in the opinion of said Curtis, Mallet-Prevost & Colt shall have been made by the executive of the Republic and deposited with National Bank of Nicaragua (Incorporated), in Managua, and the latter shall have notified Brown Brothers & Co., and J. & W. Seligman & Co. by cable of the making and deposit of such decree; provided, however, that such decree shall be made and deposited and notice thereof received within seven (7) days from the date hereof or within such further period as the parties hereto may agree. If such executive decree be not made and deposited and notice thereof received by cable as aforesaid, within said seven (7) days or within such further period as the parties hereto may agree, this agreement shall be null and void and shall be cancelled by said Curtis, Mallet-Prevost & Colt.

In witness whereof the Republic has caused this agreement to be subscribed on its behalf by Señor don Pedro Rafael Cuadra, minister of finance and financial agent of Nicaragua, and Ferrocarril del Pacifico de Nicaragua has caused this concession to be executed by its president thereunto duly authorized and its seal to be hereto affixed and attested the day and year first above written.

This contract is executed in quintuplicate.

PEDRO RAF. CUADRA,
Minister of Finance and Financial Agent of the Republic of Nicaragua.
 FERROCARRIL DEL PACIFICO DE NICARAGUA,
 By FREDERICK STRAUSS, *President.*

[SEAL.]

Attest:

JASON A. NEILSON, *Secretary.*

APPENDIX 13.

(Copy.)

AUGUST 12, 1913.

BROWN BROTHERS & COMPANY,
 59 Wall Street, Room 308, New York.

GENTLEMEN: The information contained in the enclosures which accompanied your letter of August 11th is much appreciated.

This department would also like a copy of the basis on which your firm and J. and W. Seligman and Company, might feel disposed to increase its Nicaraguan loan at this time to approximately \$2,000,000.

The information that your position in this connection had been defined to Mr. Cuadra came to this department yesterday.

I am, gentlemen, your obedient servant,

For the Secretary of State:

(Signed) J. B. MOORE, *Counselor.*

[Brown-Seligman letterhead.]

JAW-EN

Z-126

Honorable WILLIAM JENNINGS BRYAN,
Secretary of State, Washington, D. C.

STR: In response to your letter of August 12th, we have the honor to enclose herewith a copy of the memorandum which we furnished to Mr. Cuadra, roughly setting forth the basis on which we were inclined to consider an advance of \$1,600,000 to the Government of Nicaragua, all the existing indebtedness of that Government to us to be liquidated by and consolidated in the above total of \$1,600,000.

If your department would prefer to see the total of this amount increased from \$1,600,000 to approximately \$2,000,000 for the purpose, as we understand, of permitting the Mixed Claims Commission to deal with small claims adjudicated up to date, we are disposed to consider an increase.

In order that the new loan may appear on its face to be properly margined, however, we prefer to keep the total amount of advances under the new arrangement at somewhat less than the option price of the railroad, namely, \$2,000,000.

We have the honor to remain, yours, respectfully,

(Sd.) BROWN BROS. & Co.,
By Mr. JAS. BROWN.
J. & W. SELIGMAN & Co.

Enclosure.

TRANSLATION OF MEMORANDUM HANDED TO SR. GUADRA AUG. 9, 1913.

The Bankers propose to make a new contract, or several contracts, covering a new loan of one million six hundred thousand dollars (\$1,600,000). The loan is to be for 9 months with option for the Republic to liquidate same after 3 months at premium of 1%. The rate of interest will be 6% per annum to be discontinued upon loan being made.

The amount of proposed loan is to be applied as follows:

| | |
|--|--------------|
| Loan of..... | \$1,600,000 |
| Less discount for 9 months, at 6% per annum..... | 72,000 |
| Leaving a balance to be disposed of,..... | 1,527,000 |
| To be applied in the following manner: | |
| Liquidation of pending accounts of the Bankers, expenses, etc..... | \$711,000.00 |
| Conversion fund..... | 500,000.00 |
| Payable in cash to the Republic of Nicaragua..... | 317,000.00 |

The guaranty required will be the following:

All shares of the Railroad.

All shares of the National Bank of Nicaragua.

Customs duties, after paying expenses, etc., on the Ethelburga bonds, it being understood that this guaranty will not be made effective until, or after, maturity of the loan, or, in other words, all customs duties, after paying expenses of the loan of Ethelburga, belong freely to the Government until the maturity of the new loan.

The following condition will also be made:

When the conversion fund shall be reduced to \$100,000, 25% of the customs duties will be applied to this fund until the sum of \$200,000 is reached; this condition to have a revolving character.

The conversion fund will be administered by the bank and disposed in a special account in New York, apart from the general funds of the bank.

The cash which is designed for the use of the Government will be deposited in the national bank and disbursed by means of checks on the bank in the manner observed at present, according to the decree of October 31, 1912. The internal revenue will be administered by the bank in the same manner employed at present. The Government will grant an option on all shares of the railroad at the price of two million dollars net. At the time of exercising the option, all receipts not disposed of as dividends, as set forth in another paragraph, will belong to the purchasers.

The time of the option will be until June 1st, 1914. The Bankers will reserve the right to exercise the option, if convenient, at the time the Government may offer to pay their obligation, and will last while there is any amount pending and not paid.

There will be paid to the Government every month a dividend not to exceed $\frac{1}{2}$ % per month on the railroad capital, if such an amount has been earned after paying all expenses of operation, administration, repairs, etc.

The concession for the building of the railroad to the Atlantic coast will be continued for the period of one year after exercising the option of purchase of the Pacific R. R., and this will be included in the sale of the shares of the Pacific R. R.

The Bankers to have preferential right for two years, under equal conditions, for any financial operation on the part of the Republic of Nicaragua.

The Government, upon signing the present contract, obligates itself simultaneously to make effective a law covering new taxes which will provide the country with a minimum of \$360,000.

The Bankers not to be under obligation to spend \$500,000 in railroad improvements—this to be at their discretion.

Subjects pending and necessary to arrange: Controversy over wharf, oil tank, ship "Nicarao," right of way of Momotamho.

584 CONVENTION BETWEEN UNITED STATES AND NICARAGUA.

(Copy.)

WASHINGTON, D. C., August 20th., 1913.

BROWN BROTHERS & Co.,
59 Wall St., Room 308, New York.

Department would like by telegraph amount Nicaragua now owes you and would be pleased to know by mail on what terms and condition(s) you would increase loan for about one year to between two million and two and one-half million, and if you would consider your security on this latter amount ample without an option on the railroad. Please consider inquiry confidential.

(Sd.) W. J. BRYAN.

NEW YORK, August 20, 1913.

HONORABLE WILLIAM JENNINGS BRYAN,
Secretary of State, Washington, D. C.

Replying to your telegram of even date, Nicaragua now owes us about \$711,000, apart from contingent liability on bills discounted for national bank. We have every disposition to assist Nicaragua, but our letter to Department of State, under date August 13, and enclosure, set forth the limit to which we feel justified in going, both as to amount of loan and security, as well as other terms and conditions.

BROWN BROS. & Co.
J. & W. SELIGMAN & Co.

AUGUST 26, 1913.

HONORABLE WILLIAM JENNINGS BRYAN,
Secretary of State, Washington, D. C.

SIR: On August 13th last we had the honor of sending you copy of a memorandum roughly setting forth the bases on which we were inclined to consider an advance of \$1,600,000 to the Government of Nicaragua. That memorandum had been discussed in general terms with Señor Cuadra, finance minister of the Republic of Nicaragua, and a copy had been retained by him for his consideration.

Yesterday we had the pleasure of a conference with Mr. B. W. Long, Chief of the Bureau of Latin-American Affairs of your department, and as the result of that conference we are willing, if desired by the department, to modify the plan outlined in the memorandum referred to in the following particulars, namely:

1. The amount of the loan may be \$2,000,000 instead of \$1,600,000. The loan shall be represented by treasury bills, and the interest may be paid either monthly or through the discounting of the bills at the time of their issue. We much prefer the latter method, as discounted bills will be more marketable and therefore more desirable. In order, however, that Nicaragua shall receive the immediate benefit of the entire \$2,000,000, the nominal amount of the loan in case of its discount may be increased by an amount equal to the interest.

2. The \$500,000 which, according to the memorandum above referred to, was to be paid into the conversion fund may instead be applied as follows:

\$250,000 to the conversion fund; and

\$250,000 to an increase of the capital of the National Bank of Nicaragua.

In this case, however, we should expect the additional stock issued by the bank to be deposited with the stock already issued as security for the contemplated loan.

3. Instead of an option on all of the railroad stock at \$2,000,000, we would be willing to accept two separate options, one on 51% of the stock at \$1,000,000, and another for the remaining 49% of the stock at \$1,250,000. We should expect the first option on 51% of the stock to run until June 1, 1914, or in case the loan should not be paid at maturity, then until the repayment of that loan. We should expect the second option on 49% of the stock to run until the expiration of one year after the exercise by us of the first option on 51% of the stock.

4. As a special concession to Nicaragua, we would be willing to waive our claim to the concession for the construction of the East Coast Railroad.

The above, taken in connection with the memorandum sent you on August 13th, represent in a general way the terms upon which we are willing to make the proposed loan. It is hardly necessary to add that, if these terms should be acceptable to Nicaragua, the contracts would have to cover many other details which it is unnecessary at present to discuss, and we assume, of course, that all of our own out-of-pocket expenses in connection with the negotiations and the closing of the contracts will be borne by the Government of Nicaragua.

We have the honor to be, very respectfully, yours,

BROWN BROTHERS & Co.
J. & W. SELIGMAN & Co.

AUGUST 27, 1913.

Messrs. BROWN BROTHERS AND COMPANY and
Messrs. J. AND W. SELIGMAN AND COMPANY,
59 Wall Street, New York.

GENTLEMEN: I beg to acknowledge with thanks the receipt of your letter of August 26th, and with further reference to the bases on which you would be willing to consider an advance to the Government of Nicaragua.

In so far as our advice is desired by Nicaragua and can properly be given, we are in duty bound to consider the interests of that Government and assist them in securing such funds as they need on terms that are equitable and just.

The main objection made to your offer is that the rate of interest does not measure the compensation which you ask. There is a concealed profit in the option on the railroad, indefinite in amount, which you claim in addition to principal and interest. It would be easier to advise intelligently upon such a contract were the amounts which you are to receive in return for the loan less uncertain. If, in addition to the interest at the rate of six per cent per annum, you ask for the imposition of an option which far exceeds in value the interest charge, I will ask, in order to learn what you regard as a fair rate of interest, that you submit propositions on the following bases:

At what rate of interest will you extend the \$711,000 for six months from October 15, 1913 (this being the approximate amount due you), the security to be the same that you have now, excepting that there shall be no option on the railroad? The railroad will be given as security, but in case of sale Nicaragua will have a right to realize its value above the loan. Also state what rate of interest for extension for one year, with same security without option; also state rate of interest which you would ask for a loan of one million and a half, two million, or two million and a half for one, two, or three years, the security being the same, but there being no option on the railroad.

You will see that what we desire is a proposition in which all of the profit will be stated in the form of interest, with the same security as now, except the option.

As the Nicaraguan Government is anxious for an early adjustment of its financial obligations, I will ask that you wire an answer.

I am, gentlemen, your obedient servant,

(Signed) W. J. BRYAN.

WASHINGTON, D. C., Sept. 17, 1913.

Messrs. BROWN BROTHERS & COMPANY and
J. & W. SELIGMAN & COMPANY,
55 Wall Street, New York.

Before signature would like to see copy of contract agreed upon between Nicaraguan Government and yourselves. We do not see any necessity for including the 49% of the stock of railway to secure the loan of \$1,000,000, especially if revenues of this portion of road are pledged.

W. J. BRYAN.

[Brown-Seligman letterhead.]

SEPTEMBER 19, 1913.

To the Honorable WILLIAM JENNINGS BRYAN,
Secretary of State, Washington, D. C.

DEAR SIR: We have the honor of acknowledging your telegram of the 17th inst., as follows:

Washington, D. C., Sept. 17, 1913.

Messrs. BROWN BROTHERS & COMPANY and
J. & W. SELIGMAN & COMPANY,
55 Wall Street, New York.

Before signature would like to see copy of contract agreed upon between Nicaraguan Government and yourselves. We do not see any necessity for including the 49% of the stock of railway to secure the loan of \$1,000,000, especially if revenues of this portion of road are pledged.

W. J. BRYAN.

Upon receipt of the above, we took the matter up with Señor Cuadra, the financial agent of Nicaragua, and with Mr. Douglas, legal adviser of the Nicaraguan Government.

While we regret that it has not been possible for us to eliminate from the proposed contract the security of the 49% of stock of the railroad, we are glad to inform you

586 CONVENTION BETWEEN UNITED STATES AND NICARAGUA.

that an understanding has been arrived at which meets the views of Señor Cuadra and of Mr. Douglas, and which we trust will merit your approval. Mr. Douglas informs us that he will discuss the matter with you in detail, and that it will be unnecessary for us to write you further at this time.

We note your request that the proposed contract shall not be signed until after submission to you. We are anxious to do nothing in this matter which does not meet with your full approval, and we shall therefore gladly comply with your request.

We have the honor to be, very respectfully, yours,

(Firm name signed by Mr. T. M. Brown.)

(Sd.)

J. & W. SELIGMAN & Co.

OCTOBER 2, 1913.

To the Honorable WILLIAM JENNINGS BRYAN,
Secretary of State, Washington, D. C.

DEAR SIR: Complying with the request contained in your telegram of September 17th, we hand you herewith drafts of the following proposed contracts with the Republic of Nicaragua:

1. Collateral Trust Agreement between Nicaragua and the United States Mortgage and Trust Company, for the purpose of securing an issue of \$1,050,000 treasury bills.

2. Agreement between Nicaragua and ourselves for the purchase by us of the treasury bills above mentioned.

3. Agreement between Nicaragua and ourselves regarding the purchase by us of 51% of the capital stock of the Ferrocarril del Pacífico de Nicaragua, the increase of the capital stock of the National Bank of Nicaragua, and the acquisition by us of 51% of the capital stock of said bank.

4. Agreement between Nicaragua and the National Bank of Nicaragua, Incorporated, relating principally to the increase of the currency exchange fund and the maintenance of the present currency system.

5. Agreement between Nicaragua and the Ferrocarril del Pacífico de Nicaragua.

Wishing to comply in all respects with your request, we have not committed ourselves with Nicaragua to the acceptance of the above contracts, but have notified Señor Cuadra, financial agent of the Republic, that our action with reference to said contracts must depend upon whether or not they receive your approval.

Awaiting your reply, we remain,

Respectfully, yours,

(Encls.)

BROWN BROTHERS & Co.
J. & W. SELIGMAN & Co.

DEPARTMENT OF STATE,
Washington, October 6, 1913.

Messrs. BROWN BROTHERS AND COMPANY and
J. AND W. SELIGMAN,
59 Wall Street, New York City.

GENTLEMEN: Referring to the contract between the Government of Nicaragua on the one part and Messrs. Brown Brothers and J. and W. Seligman on the other part, relating to the purchase of 51 per cent of the railway stock and 51 per cent of the bank stock, I beg leave to say that the Government of Nicaragua has expressed a desire that the bankers shall purchase the specified percentages in pursuance of an option given to them by the Government of Nicaragua under a contract made in 1911, such contract being approved by the Department of State at that time. As the purchase is to be completed under a contract made in 1911, upon the terms and conditions of which it is not within my province now to take any action, I merely state the facts without expressing any opinion upon the merits of the transaction.

I am, gentlemen, your obedient servant,

(Signed.) W. J. BRYAN.

DEPARTMENT OF STATE,
Washington, October 6, 1913.

Messrs. BROWN BROTHERS AND COMPANY and
J. AND W. SELIGMAN AND COMPANY,
59 Wall Street, New York City.

GENTLEMEN: The loan contracts (embraced in the two contracts called the collateral trust agreement and the contract for the purchase of the Treasury bills) which Nicaragua has completed with the trust company and the bankers, having been submitted to the Department of State for examination and approval, I beg to say

that the terms of the loan are approved by the department, with the following reservations: The department would have preferred to have had the loan made without including the forty-nine per cent of the railroad stock among the securities given; but in view of the fact that the Nicaraguan Government is willing to include this stock as security, and in view of the further fact that twelve months' time is allowed for the redemption of said stock after the maturity of the loan, the department will not interpose an objection to this particular feature of the loan.

In approving this loan the department desires it distinctly understood by the Nicaraguan Government, by Brown Brothers, and by the trust company that this approval does not commit the department to any future action, but is merely advisory. Because of its friendly interest in Nicaragua, because it desires to encourage all legitimate American investments in foreign countries, and because Nicaragua is dealing with American citizens it has, at the request of all the parties interested, expressed this approval, with the understanding that the department will be free to act according to its judgment and with the light that it then has upon any request that may be made thereafter in connection with the carrying out of the terms of these contracts.

This department does not wish the provision about the inspector of customs to remain in the contract.

I am, gentlemen, your obedient servant,

(Signed) W. J. BRYAN.

(Copy.)

DEPARTMENT OF STATE,
Washington, October 6, 1913.

Messrs. BROWN BROTHERS & COMPANY and
J. AND W. SELIGMAN & COMPANY,
59 Wall Street, New York City.

GENTLEMEN: Please find inclosed carbon copy of a letter addressed to Pedro Rafael Cuadra, minister of finance of Nicaragua.

I understood in my telephonic conversation with Mr. Thatcher Brown that there would be no objection to incorporating this clause in the proper contract.

I am, gentlemen, your obedient servant,

(Signed) W. J. BRYAN.

Inclosure: As stated, dated October 6th.

(Copy.)

OCTOBER 6, 1913.

DEAR MR. CUADRA: After carefully reviewing the matter of the \$400,000 which is to be set aside for the Nicaraguan Mixed Claims Commission, it seems that a clause might be added to the loan contract to read as follows:

"The Nicaraguan Government having so desired, it is agreed that the Bankers shall pay \$400,000 from the amount of the loan to the persons entitled thereto under the awards of the Nicaraguan Mixed Claims Commission."

This department would be glad if you could have this clause so incorporated.

I am, my dear Mr. Cuadra, sincerely, yours,

PEDRO RAFAEL CUADRA, Esquire,
Care of McAlpin Hotel, New York City.

OCTOBER 8, 1913.

HONORABLE WILLIAM JENNINGS BRYAN,
Secretary of State, Washington, D. C.

SIR: Replying to yours of the 6th instant enclosing carbon copy of a letter addressed by you to Senor Don Pedro Rafael Cuadra, minister of finance of Nicaragua, we beg to say that at the signing to-day of the contracts between the Republic and ourselves, Mr. Cuadra was unwilling to have the suggested provision incorporated.

We have, however, a letter from Mr. Cuadra, of which we enclose a copy herewith, and in which he states that he will have a conference with you on this subject in a few days and that meanwhile the amount to be deposited with us for account of Nicaragua will not be drawn against by Nicaragua below \$400,000 pending adjustment of this matter with you. May we ask you to advise us of any adjustment which may be so made?

Very respectfully, yours,

(Sd.) BROWN BROS. & Co.

(Firm name signed by Mr. T. M. Brown.)

(Sd.) J. & W. SELIGMAN & Co.

CC to C. M.-P. & C.

NEW YORK, *October 8th, 1913.*

Messrs. BROWN BROTHERS & COMPANY and
Messrs. J. & W. SELIGMAN & COMPANY,
New York City.

GENTLEMEN: I am in receipt of a letter from the Secretary of State under date of the 6th instant, in which he suggests that a provision be inserted into the general loan contract, which will provide for the setting apart of \$400,000 of the loan for the account of the "Mixed Claims Commission," and in this connection, I take note of the fact that you have a communication from the Secretary of the same date, in which he sends you copy of his letter to me. I regret that I can not consent to the incorporation of such provision in the contract. When this suggestion was made at an early stage of these negotiations, I then objected to it on a number of grounds then stated, all of which I repeated to Mr. Bryan, and then an understanding was arrived at between us to the effect that while such provision should be omitted from the contract, the subject matter of the Mixed Claims Commission would be arranged on a basis as to amount and method of payment that would be satisfactory to the Secretary of State at Washington, and I propose in perfect good faith to do this, and to that end I will have a conference with Mr. Bryan in a few days, and meanwhile, let me say that the amount to be deposited with you for the account of Nicaragua will not be drawn against by Nicaragua or by me on behalf of Nicaragua, below \$400,000, pending adjustment of this matter with the Department of State.

When the matter has been adjusted, you will, of course, be informed of it.

I remain, very respectfully,

(Signed)

PEDRO RAF. CUADRA.

OCTOBER 18, 1913.

Honorable WILLIAM JENNINGS BRYAN,
Secretary of State, Washington, D. C.

SIR: Referring to the letter of the 2nd instant, addressed to you by Messrs. Brown Brothers & Company and J. & W. Seligman & Company, and enclosing drafts of certain proposed agreements; and referring to your letters of the 6th instant, in reply to the above, we now, by direction and on behalf of the Republic of Nicaragua and in accordance with the provisions of the agreements hereinafter mentioned, beg to hand you herewith, for filing with the Department of State, an original counterpart of each of the following agreements, all dated October 8th, 1913:

1. Collateral trust agreement between the Republic of Nicaragua and the United States Mortgage & Trust Company;
2. Agreement for purchase of treasury bills, between the Republic of Nicaragua, party of the first part, and Messrs. Brown Brothers & Company and J. & W. Seligman & Company, parties of the second part;
3. Agreement for purchase of railroad and bank stock, between the Republic of Nicaragua, party of the first part, and Messrs. Brown Brothers & Company and J. & W. Seligman & Company, parties of the second part;
4. Agreement between the Republic of Nicaragua and National Bank of Nicaragua, Incorporated; and
5. Agreement between the Republic of Nicaragua and Ferrocarril del Pacifico de Nicaragua.

The above agreements, having been deposited with us in escrow at the time of their execution, have to-day been delivered.

Respectfully, yours,

CURTIS, MALLET, PREVOST & COLT.

SMP/8
(Encls.)

APPENDIX 14.

MONETARY LAW, REPUBLIC OF NICARAGUA, MARCH 20, 1912.

The National Constituent Assembly decrees that it approves the decree on the monetary conversion issued by the executive power in council of ministers on the 25th of February of the current year in these terms:

ART. 1. The monetary unit of the Republic shall be the córdoba, and shall contain one gram 672 milligrams of gold, nine-tenths fine, and shall be divisible into one hundred equal parts.

ART. 2. The gold coins of the Republic shall be as follows:

Ten córdobas, which shall contain 16.72 grams of gold, nine-tenths fine.

Five córdobas, which shall contain 8.36 grams of gold, nine-tenths fine.

Two and a half córdobas, which shall contain 4.18 grams of gold, nine-tenths fine.

ART. 3. The silver and minor coins of the Republic shall be as follows:

The *córdoba*, which shall contain 25 grams of silver, nine-tenths fine.

The *half-córdoba*, which shall contain 12½ grams of silver, eight-tenths fine.

The *quarter-córdoba*, which shall contain 6¼ grams of silver, eight-tenths fine.

Ten centavos, which shall contain 2½ grams of silver, eight-tenths fine.

Fine centavos, which shall be of the weight of five grams, of which 75 parts shall be of copper and 25 parts of nickel.

One centavo, which shall be of the weight of four grams, of which 95 parts shall be of copper and five parts of zinc.

One-half centavo, which shall be of the weight of two and one-half grams, of which 95 parts shall be of copper and five parts of zinc.

ART. 4. The amount of the coinage of both gold and silver shall be determined by the National Bank, under regulations approved by the Executive; provided, that arrangements may be made whenever it seems proper and desirable, by agreement between the Executive and the National Bank, for the unlimited coinage of gold.

ART. 5. The tolerance, or allowance for wear, of all the coins of the Republic shall be determined by Executive decree.

ART. 6. The National Bank shall have and exercise all the powers granted in the banking concession, attached as Schedule "C," to the trust and fiscal agency contract entered into between the Republic of Nicaragua and Messrs. Brown Brothers & Company and J. & W. Seligman & Company, of New York, on September 1, 1911, as modified by the treasury bills agreement of the same date.

ART. 7. The minister of finance shall subscribe, on behalf of the Government of Nicaragua, a sum not exceeding \$500,000 of the capital of the National Bank of Nicaragua, authorized by the treasury bills agreement between the Republic and Brown Brothers & Company and J. & W. Seligman & Company, of New York, dated September 1, 1911, and shall pay, in accordance with said agreement, such subscription from the proceeds of the loan provided for in said agreement.

ART. 8. The President of the Republic is authorized to arrange with the bankers named as parties in said treasury bills agreement for the exchange, on or before July 1, 1912, or with the approval of the bankers at a later date, if deemed proper, of the national currency of Nicaragua for notes of the bank, at a rate to be agreed upon by the President and the bankers and officially declared not less than three weeks prior to the date agreed upon, and in no event to be higher than fifteen hundred pesos in national currency notes for each one hundred córdobas.

ART. 9. The present currency plan is hereby declared to be the plan referred to in article 8 of the treasury bills agreement of September 1, 1911, between the Republic and Brown Brothers & Company and J. & W. Seligman & Company, as bankers.

In accordance with the provisions of that agreement the minister of finance is hereby authorized, with the approval of said bankers, to order the United States Mortgage & Trust Company, as trustee, to pay over or set aside, in whole or in part, as may become necessary, the moneys now in the hands of said trustee as said minister of finance, with the approval of the bankers, may determine.

The moneys thus paid over or set aside, together with any addition or increment thereto, shall constitute a fund to be called the exchange fund, which may be hereafter made a part of the reserve held against the notes of the National Bank. Said exchange fund shall be available and used for the following purposes:

First. To exchange on demand for the gold coin of Nicaragua and the notes of the National Bank of Nicaragua, in sums of not less than five thousand córdobas, or the equivalent thereof in the money of the United States, at the principal office of said National Bank of Nicaragua, or at such branch offices of the bank as may be designated for the purpose, with the approval of the minister of finance, drafts on the said exchange fund in the United States or other foreign country, charging a premium of one-half of one per cent for sight drafts and one per cent for telegraphic transfers.

Second. To exchange on demand for the currency of the United States, or of any other foreign country in which a part of said exchange fund may be deposited, in sums of not less than five thousand córdobas, or the equivalent thereof in such foreign currencies, drafts on the National Bank of Nicaragua or upon such branch offices of the bank as may be designated by said bank for the purpose, with the approval of the minister of finance, charging a premium of half of one per cent for sight drafts and one per cent for telegraphic transfers.

Third. To make exchanges between the notes of the National Bank, the gold or silver coin of the Republic, the currency of the United States, and other foreign currencies, under regulations to be made for that purpose by the National Bank, subject to the approval of the minister of finance.

The premiums charged for drafts and telegraphic transfers under this article may be temporarily increased or decreased by the National Bank or by the custodians of the exchange fund, under the direction of the National Bank, and may be different between different points; but they shall in no case be fixed higher than one and one-quarter per cent for sight drafts nor one and three-quarters per cent for telegraphic transfers, except with the approval of the minister of finance.

The exchanges above provided for may be made provisionally for and with the existing national currency notes of the Republic, until such date as may be fixed under article 14 of this act for the termination of the legal tender quality of such notes and at rates of exchange to be fixed from time to time by the minister of finance, with the approval of the bankers or their representatives.

The amounts received as premiums from the sale of drafts or transfers shall be carried to the credit of the fund herein provided for, which shall bear the cost of such drafts and transfers.

Any drafts against said fund, and any orders for payments therefrom, when drawn and signed by the National Bank of Nicaragua, Incorporated, shall be paid out of said fund by the depositary or custodian thereof. Such drafts or orders shall provisionally, until the bank shall be opened for business in Managua, be drawn and signed by the minister of finance, and shall be valid when approved by the bankers or their representatives.

All of the drafts or orders referred to in this article shall be sufficient warrant to such depositary or custodian for the payments therein called for.

ART. 10. Neither the Government nor any other person, firm, or corporation, except the National Bank, shall, during the term of the charter of said bank, be permitted to issue paper currency or any other form of obligation payable to bearer and capable of being used for circulation as money.

ART. 11. The gold coin of the Republic, the silver códobas, and the notes of the National Bank shall be receivable for customs and other public dues and shall be legal tender in the payment of debts within the Republic.

The subsidiary silver and the minor coins of the Republic shall be legal tender to an amount not exceeding ten códobas.

ART. 12. The importation of foreign coin shall be subject to the control of the executive, exercised by decree.

ART. 13. The circulation of foreign currencies, whether of paper or of gold, silver, or other metals, may be permitted or prohibited by executive decree.

ART. 14. Six months after the official rate of exchange provided for in art. 8 of this act comes into operation, the National Bank then being ready to issue its notes in exchange for the national currency and coins, the latter currency and coins shall no longer be received for customs or other public dues or be legal tender. The currency and coins remaining in circulation after this date—forged or altered notes excepted—may be redeemed under special regulations approved by the National Bank and the executive.

ART. 15. The executive may take any measures necessary and proper for carrying out the provisions of this act and the provisions of the treasury bills agreement dated September 1, 1911, and subsequent amendments thereto, and to enable the National Bank and the bankers parties to that agreement to better perform any or all the functions therein conferred upon them and to restore and maintain the stability of the national monetary system, the measures taken in this connection by the executive to have legal effect provided they be not inconsistent with the present law.

ART. 16. The counterfeiting of the notes of the National Bank shall be subject to the penalties which are provided by the laws relative to the counterfeiting of money.

ART. 17. The banking law promulgated by executive decree March 6, 1882, and all other acts inconsistent with this act are hereby repealed.

APPENDIX 15.

PENFIELD & PENFIELD,
ATTORNEYS AND COUNSELLORS AT LAW,
Colorado Building, Washington, D. C., July 18, 1914.

Honorable WILLIAM J. STONE,
*Chairman Committee on Foreign Affairs of the Senate,
Washington, D. C.*

DEAR SENATOR STONE: I believe you will remember my having presented to you last Monday morning, July thirteenth, Mr. Sam. D. Spellman, president of the George D. Emery Company, who, in response to a summons, came to Washington to testify before your committee. Mr. Spellman has informed me that, during the course of the testimony, he was asked to furnish the committee with a copy of the Emery contract, and he has requested me, as Washington attorney of the company, to send you a copy of the concession, which I have in the files of my office. Complying with Mr. Spellman's request, I am enclosing herein an English copy of the contract, as translated from the Spanish by the Department of State.

You will notice that the contract of 1894 was renewed in 1898, and that additional amendments were made in 1900.

On August ninth, 1906, the contract was arbitrarily and illegally annulled and an embargo placed on all the property of the company by President Zelaya. The company at once presented the matter before the Department of State, and, after three years of waiting and diplomatic negotiation between the two Governments, a protocol of arbitration, a copy of which is attached hereto and marked "Exhibit B," was signed, on May twenty-fifth, 1909, between the United States of America and the Republic of Nicaragua, through their respective plenipotentiaries, Honorable Philander C. Knox, Secretary of State of the United States of America; Señor Doctor Don Pedro Gonzales, envoy extraordinary and minister plenipotentiary of the Republic of Nicaragua, on special mission; and Señor Doctor Don Rudolfo Espinosa, envoy extraordinary and minister plenipotentiary of the Republic of Nicaragua to the United States, providing for the arbitration of the case of the George D. Emery Company vs. the Republic of Nicaragua.

Under Article IX of said protocol of arbitration, the Government of Nicaragua reserved the right, at any time within four months after the signature of the protocol, to negotiate for a settlement of the case, and thus avoid the necessity of arbitration. Taking advantage of the authority granted under said article, the Government of Nicaragua agreed to settle said case, and a protocol of settlement, a copy of which is attached hereto and marked "Exhibit C," was signed on September eighteenth, 1909, between the United States of America and the Republic of Nicaragua, through their respective plenipotentiaries, Honorable Alvey A. Adee, Acting Secretary of State of the United States of America, Señor Doctor Don Pedro Gonzales, envoy extraordinary and minister plenipotentiary of the Republic of Nicaragua on special mission, and Señor Doctor Don Rodolfo Espinosa, envoy extraordinary and minister plenipotentiary of the Republic of Nicaragua to the United States, under the terms of which a definite and final settlement was made of said case.

Under said protocol of settlement of September eighteenth, 1909, the United States of America, for and in behalf of the company, turned over to the Nicaraguan Government all timber rights that had been granted to the company and under which it had operated, the plant and equipment of the company, including its railroad, steamers, launch, schooner, boats, cattle, and tools, and a release of all damages which the company had suffered by reason of the unlawful action of the Nicaraguan Government.

In consideration of said action on the part of the Government of the United States, the Government of Nicaragua promised and agreed, in said protocol of settlement of September eighteenth, 1909, to pay to the United States of America the sum of six hundred thousand dollars in eight installments as follows: Fifty thousand dollars in thirty days, fifty thousand dollars in ninety days, fifty thousand dollars in one hundred and eighty days, one hundred thousand dollars in one year, one hundred thousand dollars in two years, one hundred thousand dollars in three years, one hundred thousand dollars in four years, and fifty thousand dollars in five years, after the date of the signing of said protocol, the last four of said installments to bear interest beginning one year from the date of the signing of said protocol at the rate of five per cent per annum, payable annually.

The Nicaraguan Government promptly paid the first installment when it fell due, but it has not yet paid the remaining installments or the interest due thereon, for the reason that, as the Knox-Castrillo convention furnished a basis for the obtaining of loans, the proceeds of which would be applied to the liquidation of the Republic's indebtedness, including the amount due the United States Government under the

protocol of September eighteenth, 1909, the Government of the United States was waiting for the passage of the convention and the making of the loan, provided for thereunder, before collecting the amount due under said protocol of September eighteenth, 1909.

It now appears that the Knox-Castrillo convention is not receiving any further consideration from this Government, but that a treaty may be signed between the Government of the United States and the Republic of Nicaragua, under the terms of which the former will agree to pay to the latter a certain sum of money, currently reported as three million dollars (\$3,000,000), in consideration of the latter granting to the former the exclusive right to the construction of a canal and certain naval bases.

In view of the above, it would seem that the United States Government ought now to make an arrangement in an article of the canal treaty whereby it may be provided that from the sum of money that the United States is to pay to the Government of Nicaragua under the canal treaty, or any other treaty, there shall be deducted a sum sufficient in amount to pay the remaining installments, and interest, that are due from the Republic of Nicaragua to the United States of America under and by virtue of the protocol of settlement of September eighteenth, 1909, the original of which is on file in the archives of the Department of State.

Respectfully, yours,

WALTER S. PENFIELD.

P-K.

Enclosures.

EMERY CONTRACTS.

Original contract, 1894. Renewal of contract of 1894, 1898. With additional amendments, Aug. 8th, 1900.

ORIGINAL CONTRACT, 1894.

[Translation.]

The national legislative assembly decrees:

Single (article). To approve the contract concluded July 24 of the present year between Mr. Gregorio Abanza, assistant secretary of fomento (public improvements), in charge of the department, in behalf of the Government, and Mr. Herbert Clark Emery, in his own behalf, as follows:

Gregorio Abanza, assistant secretary in charge of the ministry of fomento of the Republic of Nicaragua, representing the Government, and Herbert Clark Emery, for himself, in view of the fact that the contract concluded by the latter with the minister of finance on February 9, 1892, was not ratified by the Congress (an indispensable requisite for its validity, because it contained an exclusive privilege), have agreed to renew the said contract in the following terms, which shall be submitted to the assembly for their constitutional ratification.

ART. 1. Within three months from date, at the latest, a general balance shall be drawn up of the amount of timber exported by Emery from the date of the aforementioned contract, and for this purpose Emery pledges himself to place, within the shortest possible time, in the hands of the person whom the Government shall designate at Bluefields the commercial books of his firm which show the business of exportation of timber, the shipping manifests, and any other documents which may serve the said purpose and which may be demanded of him by the Government, which may also present such documents in evidence as it sees fit regarding the settlement.

ART. 2. The timber exported by Emery up to the present date and referred to in the foregoing article which has not yet been paid for shall be paid for at the rate of two pesos silver, which the Government shall receive for each log, whatever may have been their quantity and dimensions.

ART. 3. Once this contract is ratified, Emery shall immediately pay to the Government, in conformity with the foregoing clause and on account of the value of the timber exported, the sum of 8,000 dollars gold in drafts on New York, payable as follows: One draft of 2,000 dollars at 60 days' sight, another of \$3,000 at 90 days' sight, and another of \$3,000 at 120 days' sight.

ART. 4. If after the balance is made it is shown that Emery owes a greater sum than that indicated in the foregoing article, he shall immediately pay the difference in drafts on New York at 60 days' sight and at the rate of purchase of the Bank of Nicaragua.

ART. 5. The Government by this contract grants to Emery the exclusive right of cutting timber in the national uncultivated lands of the Atlantic coast of the Republic for the period of five years from the day on which it is ratified by the assembly, and it may be extended for five years longer at the will of both parties and under the same conditions as the present contract.

In case, after the first five years have expired, another person or company should propose better terms to the Government for this business, Emery shall have the right to offer similar terms; but the person or company offering better advantages for the nation must, upon making its offer, deposit in any bank of the Republic or in the national treasury the sum of \$30,000 gold to guarantee the fulfillment of its obligations.

ART. 6. Emery shall pay to the Government for each log of mahogany, cedar, granadillo (West India red ebony), or ebony which he exports from and after this date, and at the option of the said Government, \$1.00 gold or its equivalent in legal tender money of the country at the rate of exchange prevailing at Bluefields on the day of the payment.

ART. 7. The payment for said logs shall be made at the time they are embarked, it being Mr. Emery's duty to notify the representative of the Government on the Atlantic coast, or such person as the latter may designate, of the date of embarkation, sufficiently early in order that the person who is to take note of the number of logs may be on the spot at the time they are loaded.

ART. 8. Emery obligates himself to plant two young trees of the same species for every tree that he cuts down, and he must care for them until the employee of the Government gives him a receipt for them.

ART. 9. In order to cut and take out the aforementioned timber, Emery may open up roads and clear out ravines and creeks, make the necessary clearings in order to establish pastures for his animals, and construct the necessary apparatus across rivers in order to gather up the logs brought to the water, all at his own expense, and provided that such apparatus shall not obstruct the free navigation by ships of the rivers; likewise Emery may construct the warehouses necessary to store the supplies, victuals, and other belongings of the enterprise.

ART. 10. Likewise for the purpose of cutting and taking out timber and conveying it to the points where it is to be transported, Emery shall have the right to maintain and operate steam or sailing vessels in such number as is necessary for the carrying out of his work.

ART. 11. The steamers and other vessels mentioned in the foregoing article shall be exempt from any maritime tax and from port dues such as pilotage, anchorage, etc., in the rivers and ports of the Atlantic coast of the Republic.

ART. 12. Exempt from customs duties or any other tax shall be the victuals necessary for the employees and workmen, the fodder for the cattle and horses, coal, machinery, rails, tools, and other utensils which Emery may need in his enterprise. It is understood that Emery and his agents shall not be entitled to give or sell said articles to outsiders, and that they are excluded from the free importation of liquors, for which they shall pay duties according to the tariff.

ART. 13. The Government mail shall be transported free of charge on the voyages which have to be made by the steamers and sailing vessels belonging to Emery. The troops of the Republic shall also be transported, but the Government shall pay for them only half of the regular fare, which shall never be higher than that established at present on the steamer Carazo, and Emery being under no obligation to furnish them food.

ART. 14. The Government shall have the right to station on board Emery's steamers or sailing vessels one or more guards for the sole purpose of watching the embarkation of the timber and preventing smuggling.

ART. 15. This contract comprises the whole Atlantic coast, including the territory called "Reserva Mosquita" (Mosquito Reserve), and consequently, upon drawing up the balance mentioned in article 1, Emery shall pay for the timber which has not yet been paid for and which has been taken from the said reserve since February 12, 1894, at the rate of two pesos silver, as stipulated in the second clause.

ART. 16. Emery may transfer this contract to any other person or company, but neither he nor his successors shall make any international reclamation by reason of the present stipulation. Whatever difference may arise between the parties shall be settled by a tribunal of arbitrators which shall be organized in this Republic, one of the arbitrators being appointed by the Government and the other by the concessionary. The arbitrators designate a third person (umpire) for the event of a disagreement. From the award of the arbitrators there shall be no appeal.

ART. 17. This contract shall be rescinded for failure to fulfill it or for contravention of the stipulations by either of the parties. The rescision shall be declared by the tribunal of arbitrators mentioned in the foregoing article.

Art. 18. The exclusive right to cut timber which is granted to Mr. Emery by this contract shall not prevent the Government from also cutting what it needs for national works which it may undertake, nor shall it affect the rights previously acquired by private parties. Neither shall it prevent private parties from cutting, without any charge, what timber they need in order to build houses, repair estates, or make furniture to remain in the territory itself.

Art. 19. Upon the termination of this contract the Government shall not be obliged to pay Emery the value of the improvements which he may have made in the country, but Emery may dispose of them in accordance with the Nicaraguan laws.

In witness whereof the present document is signed in the city of Managua on the 24th day of July, 1894.

(Signed) GREGORIO ABANZA.
H. C. EMERY.

The President of the Republic resolves to approve the foregoing contract concluded on this date between the assistant secretary of fomento, in charge of the department, and Mr. H. C. Emery.

Managua, July 24, 1894.

(Signed) ZELAYA.
(Signed) ABANZA,
Assistant Secretary of Fomento, in charge of the Department.

Given in the hall of sessions of the national legislative assembly, Managua, July 27, 1894.

(Signed) F. BACCAH.
AUGUSTIN DUARTE, *Serio.*
GUSTAVO GUZMAN.

Let it be executed.

National Palace, Managua, July 27, 1894.

(Signed) J. S. ZELAYA.
(Signed) G. ABANZA.

The minister of fomento by law accepted the foregoing contract with the modifications made by the legislature, Managua, July 27, 1894.

(Signed) ABANZA.
H. C. EMERY.

A true copy.

Bluefields, November 26, 1897.

(Signed) REYES,
Governor and Intendant.

1898.

[Translation of renewal of 1894 contract.]

EMERY CONTRACT.

The national assembly decrees:

To hereby approve the contract entered into between the minister of public works, representing the Government, and Mr. Herbert C. Emery, per se, as follows:

ARTICLE I. An extension of time is granted on the contract entered into between the Government and Mr. Herbert C. Emery, on the 24th day of July, 1894, and ratified by Congress on the 27th day of the same month and year. This extension to be for fifteen years, beginning on the date of expiration of the first contract.

ARTICLE II. The clauses stipulated in the above contract shall be the same as those to which the grant of this extension is subject, with the amendments agreed upon in the present contract, excepting articles 1, 2, 3, and 4, already complied with by the contractor.

ARTICLE III. Mr. Emery binds himself to construct fifty miles of railroad, extending between Great River and Kuringuas, for his own operation, better known as Pearl Lagoon River. The gauge to be of 3' 6" or 4' 8½" (English). Construction to begin at camp known as "Number Nine," near "La Cruz," and the road located on national lands in the Department of Zelaya, with direction towards the Department of Matagalpa. The rolling stock for this road, stations, workshops, bridges, etc., and other constructions necessary for the guarantee of good service to passengers and freight shall be made in conformity to the plans that the company's engineer shall present

to and approved by the minister of public works. At the expiration of the fifteen years it shall become Government property without indemnization of any kind, and in good serviceable condition.

ARTICLE IV. Mr. Emery binds himself to pay to the Government, after the ratification of this contract, a bonus of twenty thousand (\$20,000) dollars gold in good commercial drafts on Boston or New York, ten thousand (\$10,000) dollars at 30 days' sight, and ten thousand (\$10,000) dollars at 60 days' sight. He also binds himself to pay, in advance to the treasury at Bluefields, at the beginning of each year the sum of ten thousand dollars (\$10,000) gold. These amounts to be paid by commercial drafts on Boston or New York during the term of this contract.

ARTICLE V. The Government grants to Mr. Emery ten thousand manzanas of national lands, either in the Department of Zelaya or Matagalpa, to be cultivated during the years to which this contract refers. The lots shall be of five hundred manzanas each alternate with lots of the Government of equal dimensions; all of these lots to be measured by Mr. Emery in conformity with the existing laws, and their corresponding titles delivered provisionally before cultivating and definitely after their cultivation.

ARTICLE VI. All employees and laborers of the company shall be exempt from military service during time of peace and also from all charges for passports.

ARTICLE VII. The government grants to Mr. Emery for his company the introduction of the following articles free from all fiscal duty, to wit:

Flour, corn meal, salted and canned meats, dried and canned fish, canned vegetables, canned fruits, pickles, sugar, salt, tea, coffee, vinegar, sauces, onions, cheese, lard, butter, oatmeal, cornstarch, condensed milk, medicines, syrups, biscuits, macaroni, common (or laundry) soaps, hops, brooms, pearline, mustard, brogans, coal, and fodder for cattle and horses.

There is furthermore granted him the introduction, free of duty, of all material necessary for the construction and repairs of machinery, buildings, boats, railroad, and the buildings necessary for same.

To make use of this concession, Emery shall present to the inspector general of the Atlantic coast an authentic copy of his foreign orders and also a copy of the original invoice, when received, for comparison.

ARTICLE VIII. Emery can not sell nor transfer to any person not belonging to the company any of the articles expressed in the above clause that he may import under protection of this concession; same to be revived before local tribunals of the country under penalty of paying double the amount of duties for the goods introduced as per tariff of the Government customhouse.

Emery submits entirely to the laws in force referring to this article.

ARTICLE IX. Emery shall lose all rights to the lands given in article 5 of the present contract should he not cultivate same, as referred to in said article during the term of this contract.

ARTICLE X. After Emery has worked sections of five hundred to one thousand manzanas, planting in them during the following year one plant for each log cut, they shall revert to the Government for uses which they may deem convenient, Mr. Emery not being permitted to again work these sections, thereby revising article 8 of contract of July, 1894.

ARTICLE XI. The inspector general of the Atlantic coast shall appoint, fifteen days after Mr. Emery or his representative shall request it, the employee who is to receive the plants mentioned in the foregoing article. Should Mr. Emery not make this request by the end of the year in which said planting is to be accomplished, or should the number of plants not come up to the requirements of this contract, a fine of (\$1.00) one dollar shall be imposed for each plant found short.

ARTICLE XII. Should Mr. Emery fail to deliver to the satisfaction of the Government, the fifty miles of railroad in accordance to stipulations in clause 3, he will pay to the Government the sum of five hundred thousand dollars in current money of the country, guaranteed by all the material belonging to this plant, which he can not dispose of, mortgage, nor transfer by title to any person whatsoever.

ARTICLE XIII. Emery can transfer this contract to any person or company, but neither he nor his successors can establish by virtue of the concessions of this contract any international claim.

ARTICLE XIV. Any differences arising between the parties to this contract shall be decided by a court of arbiters, to be formed in this country, consisting of one appointed by the Government and one by Mr. Emery; and these to appoint an umpire, before taking cognizance of the point in dispute, for the event in which they should not agree. The decision of this court shall be final, all in accordance to the laws of the country.

596 CONVENTION BETWEEN UNITED STATES AND NICARAGUA.

MANAGUA, March 2nd, 1898.

JOSE C. MUNOZ—H. C. EMERY:

The President of the State approves the foregoing contract, same to be submitted to the national assembly for ratification.

ZELAYA.

Minister of Public Works Munoz.

Managua, March 2nd, 1898.

Given in Congress at Managua this 5th day of March, 1898.

CLETO CAJINA, D. P.
GENARO LUGO, D. S.
SANTIAGO LOPEZ, D. S.

Approved, National Palace, Managua, March 5th, 1898.

J. S. ZELAYA.

Minister of Public Works Jose C. Munoz.

Granted, Managua, March 7th, 1898.

MUNOZ.

(A to B, page 18.)

ADDITIONAL AMENDMENTS, AUGUST 8TH, 1900.

[Translation.]

(Copy.)

The National Legislative Assembly of the Republic of Nicaragua hereby decrees: Sole article. To approve of the additional contract, celebrated between the Executive Power and Mr. Sam D. Spellman, legal representative of Mr. H. C. Emery, said contract modifying and adding various articles of the contract of July 24th, 1894, and May 5th, 1898, with the following stipulations:

I.

Article V of the contract of July 24th, 1894, and Article XV of the same contract, shall read as follows:

First Section.—The Government concedes to Emery, his heirs and successors, the exclusive right to cut the timbers in the national forests, situated in the girdle comprised by the following boundaries: From the frontier of Honduras in southerly direction by the meridian of $84^{\circ} 52'$ west to the parallel of $13^{\circ} 35'$ northern latitude; from the crossing point of these two lines in a straight direction to the westward on the line of the said parallel until the meridian of $84^{\circ} 57'$ is reached, from here straight to the south on the line of this meridian down to the parallel of $12^{\circ} 43'$; then straight to the east on the line of the said parallel of $12^{\circ} 43'$ until the meridian of $84^{\circ} 38'$ is reached; from here to the south as far as the parallel of $11^{\circ} 38'$; from the crossing point of the meridian of $84^{\circ} 38'$ and the parallel of $11^{\circ} 38'$ by a straight astronomical line to the crossing point of the meridian of $84^{\circ} 07'$ and the parallel of $10^{\circ} 58'$ and from here direct to the south to the left-hand bank of the San Juan River. It is understood that the meridians and parallels which the present stipulations refer to shall be laid down with strict scientific exactness by two engineers, one of whom to be appointed and to be paid by each party, six months after the ratification of the present additional contract, during which time Emery shall not cut timber outside of these places.

Section 2nd.—In drawing up the balance mentioned in Article I of the contract of July 24th, 1894, Emery, his heirs and successors, shall pay the value of the logs which have not yet been paid for and which have been extracted from the territory called the Mosquito Reserve, from the date when Nicaragua came into possession thereof, at the rate of \$2.00 silver for each log, whatever their quality or dimensions may have been.

II.

Article III of the contract concluded March 2nd, 1898, and ratified March 5th of the same year, shall read as follows:

Mr. Emery obligates himself to construct for his operation fifty miles of railroad, which shall be comprised between the Great River and Kurringwass or Pearl Lagoon River. He shall start the construction at the camp known as Camp No. 9, near La Cruz, and the line shall be laid in national territories of the Department of Zelaya, with direction towards the Department of Matagalpa; the gauge shall be four feet eight and a half inches, English measurement; the rails shall be of steel, American

type, and not less than thirty pounds in weight per yard; the spikes to be used shall be of iron, and not less than four and a half inches long; the ties shall be of durable wood, and not less than seven feet long by seven inches wide and five inches thick; fish plates with bolts; track shall be constructed at a level higher than the ordinary overflow of the creeks and rivers; the surface of the bedding shall have 12 feet width in the open lands and 10 feet in the cuts; ditches shall be made parallel to the road for the drainage of the latter; the crossing of creeks shall be made by trestles of good timbers and will have to be turned over in good conditions; the bridges across the large rivers shall be of iron or steel structure, with pillars of stonework; the grades shall not be more than 3 per cent; the curves shall not exceed 15 degrees (a radius of 384 feet), and the rails shall be bent before being placed in the same and shall have the necessary superelevation of the outside rail; the tangents between two curves of different directions shall be placed at distances of not less than one hundred feet apart; the ballast of the road shall be selected from such as in the judgment of the engineer of Mr. Emery answers best for the purpose; the right of way shall be one hundred feet in width, and no large trees shall be left standing in the same; the drainage tubes shall be of iron or earthen ware; the rolling stock of the railroad shall have at least three locomotives and thirty cars; the water-supply stations shall have tanks of not less than ten miles apart; each eight miles there shall be a section house, constructed of sawed lumber with iron roofing, with the capacity to accommodate ten men, and which shall serve as guard stations. Terminals: At the terminal extremities of the line turntables or Y, as well as engine houses shall be built, the latter with capacity of at least two engines. The rolling stock of the road, the stations, the workshops, wharfs, bridges, etc., and other accessory constructions for the service of passengers and freight, for its guarantee, etc., shall be made in conformity with the plans, which the engineer of the enterprise of Emery will present and which will be approved of by the secretary of public work. All of which will become property of the Government in good condition and working order when the term of the prolongation of 15 years expires without any recompensation whatever.

III.

Article XII of the contract of March 5th, 1898, shall read as follows:

In case that Mr. Emery should not turn over the fifty miles of railroad to the satisfaction of the Government, in conformity with the stipulations of clause III, he shall pay to the Government the amount of \$500,000.00 in the currency of the country, which payment he guarantees with all the property belonging to the enterprise, which property he can not alienate, mortgage, or transfer by any title to any other person, and it is stipulated that in case of transferring or selling this contract to any other person or persons or company, Mr. Emery will always continue to be responsible for that which has been agreed upon in this contract.

IV.

Mr. Emery, his heirs and successors, obligate themselves to renounce the exclusive right to cut timber in a strip of land six miles wide and throughout the whole extent comprised between the point where the projected Wawa railroad begins and the town of Matagalpa, when this railroad is started, but if this work, after having been started, should be suspended for more than three consecutive months, Mr. Emery shall be released by that occurrence from the present obligation.

MANAGUA, August 3rd, 1900.*

L. RAMIREZ M.—SAM D. SPELLMAN.

The President of the Republic agrees to approve of the preceding contract.
Managua, August 3rd, 1900.

ZELAYA.

The secretary of public work.

RAMIREZ M.

Given in the chamber of sessions, Managua, August 8th, 1900.

JOSE D. GAHEZ, D. P.
RUDOLFO ESPINOZA R., D. S.
MAX SACASA, D. P.

Above decree to be executed.
Managua, National Palace, August 11th, 1900.

JOSE S. ZELAYA.

The secretary of public work.

L. RAMIREZ M.

The above is in conformity.
Managua, Aug. 11th, 1900.

RAMIREZ H. M.

CONSULATE OF THE UNITED STATES OF AMERICA,
Managua, Nic., C. A.

I, the undersigned, vice consul of the United States of America, do hereby certify that the foregoing addition of contract was duly recorded at this consulate.

Given under my hand and the seal of this consulate this eleventh (11th) of August, 1900.

ARTHUR O. WALLACE.

(Copy.)

PROTOCOL OF AGREEMENT.

The United States of America and the Republic of Nicaragua, through their respective plenipotentiaries, Philander C. Knox, Secretary of State of the United States of America, and Senor Doctor Don Pedro Gonzales, envoy extraordinary and minister plenipotentiary of the Republic of Nicaragua on special mission, being duly authorized thereto, and Senor Doctor Don Rodolfo Espinosa, envoy extraordinary and minister plenipotentiary of Nicaragua to the United States, have agreed upon and concluded the following protocol:

Whereas the United States of America, on behalf of the George D. Emery Company, an American corporation, claims that the annulment by the Government of Nicaragua of a certain concession granted by said Government to one Herbert C. Emery, and by him assigned to said George D. Emery Company, was contrary to law and in contravention of the rights of said corporation, under its concession; and

Whereas the Republic of Nicaragua maintains both the legality and justice of such annulment, and

Whereas the two Governments have concluded to submit the determination of the controversy to arbitration, it is therefore agreed as follows:

ARTICLE I.

The High Contracting Parties will submit to an international tribunal of arbitration, for decision, the questions hereinafter stated in their order, namely:

1. Whether by the decision of June 11th, 1903, rendered by the arbitrators provided for in the concession, said concession was annulled.

2. Whether (a) the annulment of said concession by the Nicaraguan Government; (b) the proceedings and judgment of the Nicaraguan courts for 500,000 silver dollars and the embargo of the property of said corporation and the interference with the work and business of said corporation by the Nicaraguan Government; (c) the sale by the Nicaraguan Government by contract of May 18th, 1905, to Angel Caligaris of forty thousand hectares of national lands in the Department of Zelaya; (d) the grant by the Nicaraguan Government to Lomax S. Anderson of the concession dated February 7th, 1906, were in contravention of the rights of said corporation and of the principles of equity and international law.

If the arbitral tribunal find in the affirmative on any of the foregoing questions contained in clause 2 of this article, they shall then assess and award damages against the Nicaraguan Government to cover whatever loss, damages, costs, and expenses, if any, said corporation has suffered and incurred by reason of such act or acts in contravention of justice, equity, and international law; it being understood that for the purposes of any arbitral assessment of damages, the Government of the United States recognizes the right of the Government of Nicaragua to set off by way of reduction of damages any counterclaim against the Company.

ARTICLE II.

Any award that the tribunal may render against said Nicaraguan Government shall be payable in United States gold and shall include interest at the rate of six per cent per annum on all losses or damages from the time they occurred until the award is fully paid.

ARTICLE III.

The said questions shall be referred to a tribunal composed of three arbitrators, one to be named by the President of the United States, and one by the President of Nicaragua, at or before the time of signing this protocol, and the third, who shall be one learned in the law and able to speak, write, and understand the English language, to be selected by mutual accord between the two first named arbitrators. In the event no selection of the third arbitrator is made within thirty days after the signing of this

protocol, then such third arbitrator, who shall be a citizen of neither the United States nor Nicaragua, is to be selected by the King of Great Britain.

In case of the death, absence or incapacity of any arbitrator, or in the event of his ceasing or omitting to act, the vacancy shall within thirty days be filled in the same manner as the original appointment, the period of thirty days to be calculated from the date of the happening of the vacancy.

ARTICLE IV.

Within sixty days from the date of the signing of this protocol, the Government of the United States, through the Department of State, shall furnish to the Government of Nicaragua, through its Legation at Washington, and to each arbitrator a copy of its case, stating therein all the claims of the George D. Emery Company against the Government of Nicaragua, together with all correspondence between the two Governments and between said corporation and each of said Governments, respectively, and, also, all documents, affidavits, and other evidence in its possession in relation to the case.

Within sixty days from the signing of this protocol, the Government of Nicaragua, through its Legation at Washington, shall furnish to the Government of the United States, through the Department of State, and to each arbitrator a copy of its case, stating therein all its claims against the George D. Emery Company, together with copies of all correspondence between the two Governments and between said corporation and the Government of Nicaragua, respectively, as well as all documents, affidavits, and other evidence in its possession in relation to the same.

Within sixty days after filing such cases and the accompanying evidence, each Government shall in the same manner furnish to the other Government and to each arbitrator its counter-case, which shall contain only answers in defense to the other's case, and shall admit of no other charges against each other;

Such counter-cases shall be accompanied with copies of all documents, affidavits, and other evidence in support thereof.

The period for submission of evidence shall thereupon be closed; provided that the tribunal may, however, allow or require either Government to furnish such additional evidence as may be deemed necessary, in the interest of justice.

The tribunal shall be at liberty to employ for its information all manner of documents and statements which it shall consider necessary, without being bound by strict judicial rules of evidence.

ARTICLE V.

The arbitrators shall organize and hold their first session in the City of Washington, District of Columbia, U. S. A., as soon as practicable, within one month following the filing of the counter-cases, and shall subscribe as their first act a solemn declaration to examine, consider, and decide the questions submitted to them in accordance with justice and equity and the principles of international law. The concurrent action of any two arbitrators shall be adequate for a decision on all matters and questions submitted to the arbitral tribunal.

ARTICLE VI.

The arbitrators shall establish such rules of procedure as they may deem expedient, and shall hear one person as agent on behalf of each Government, and consider such arguments, written or oral, as said agent may present, and may with the consent of either agent hear other counsel on the side such agent represents.

ARTICLE VII.

The arbitrators shall decide the case by taking into consideration every circumstance connected with the Emery concession, the diplomatic correspondence between the two Governments relative thereto, and such documents and other evidence as may be submitted to them by the High Contracting Parties, or as may be required by the tribunal. Their decision shall be final and conclusive, and shall be rendered within thirty days from the date of the first meeting, unless deferred by the tribunal for the purpose either of allowing or requiring further evidence, or of filling a vacancy in the tribunal.

ARTICLE VIII.

Reasonable compensation to the arbitrators for their services and all expenses incident to the arbitration, including the cost of such clerical aid as may be necessary to and be appointed by the tribunal, shall be paid by the two Governments in equal moieties.

ARTICLE IX.

It is furthermore mutually agreed by the Contracting Parties that the Government of Nicaragua reserves the right at any time within four months after the signature of this protocol to negotiate for a settlement directly with the Company, and it is understood that if within the said months such settlement is made, approved by the Government of the United States and definitively consummated, the arbitration herein provided for will not be carried out.

IN WITNESS WHEREOF, the respective plenipotentiaries of the two Governments have signed and sealed the present protocol in duplicate in the English and Spanish languages.

Done at Washington, this twenty-fifth day of May, in the year 1909.

| | | |
|----------|--------------------|--------|
| (Signed) | PHILANDER C. KNOX. | (SEAL) |
| (Signed) | PEDRO GONZALES | (SEAL) |
| (Signed) | RODOLFO ESPINOSA. | (SEAL) |

SUPPLEMENTARY PROTOCOL.

The United States of America and the Republic of Nicaragua, through their respective Plenipotentiaries, Philander C. Knox, Secretary of State of the United States of America, and Senor Doctor Don Pedro Gonzales, Envoy Extraordinary and Minister Plenipotentiary of the Republic of Nicaragua on Special Mission, being duly authorized thereto, and Senor Doctor Don Rodolfo Espinosa, Envoy Extraordinary and Minister Plenipotentiary of the Republic of Nicaragua to the United States, have agreed upon and concluded the following protocol supplementary to the protocol signed this day for the submission to arbitration of the Emery case.

SOLE ARTICLE. It is understood and agreed between the High Contracting Parties that for the purposes of the arbitration provided for in the protocol signed this day submitting to arbitration the claim of the George D. Emery Company against the Government of Nicaragua, all the dates and periods of time therein indicated, except the period provided for in Article IX, shall for the purposes of such arbitration and for the preparation thereof be computed as if the said protocol of arbitration had been signed four months from this date.

IN WITNESS WHEREOF, the respective Plenipotentiaries of the two Governments have signed and sealed the present Supplementary Protocol in duplicate in the English and Spanish languages.

Done at Washington, this twenty-fifth day of May in the year nineteen hundred and nine.

| | | |
|----------|--------------------|---------|
| (Signed) | PHILANDER C. KNOX. | [SEAL.] |
| (Signed) | PEDRO GONZALES. | [SEAL.] |
| (Signed) | RODOLFO ESPINOSA. | [SEAL.] |

PROTOCOL OF SETTLEMENT.

The United States of America and the Republic of Nicaragua through their respective plenipotentiaries, Alvey A. Adee, Acting Secretary of State of the United States of America, and Senor Doctor Don Pedro Gonzalez, Envoy Extraordinary and Minister Plenipotentiary of the Republic of Nicaragua on Special Mission, duly authorized thereto, and Senor Doctor Don Rodolfo Espinosa, Envoy Extraordinary and Minister Plenipotentiary of Nicaragua to the United States, have agreed upon and signed the following protocol of settlement:

Whereas under a certain protocol between the United States of America and the Republic of Nicaragua, signed at Washington on the 25th day of May, 1909, it was agreed that the claim of the George D. Emery Company, an American corporation, against the Republic of Nicaragua, should be submitted to the jurisdiction and adjudication of an arbitration tribunal composed of three arbitrators; and,

Whereas it was provided in Article IX of said protocol that the Government of Nicaragua reserved the right at any time within four months after the signature of said protocol to negotiate with said company for a settlement of all difficulties existing between them, it being understood that if within the said four months such settlement were made, approved by the Government of the United States, and definitively consummated, that then and in that event the arbitration provided for in said protocol should not be carried out; now

Therefore, the respective governments, animated by the spirit of sincere friendship that should exist between the two nations, and actuated by the firmest desire to maintain and continue the good understanding which should exist and increase between them and to the end of avoiding all possible future differences regarding this matter and of settling existing differences concerning said claim by common accord instead of future proceedings under the said protocol, and in pursuance of the express provision of Article IX of said protocol as above set forth, have now reached an amicable arrangement and settlement of the said claim and have agreed to and do settle the same in the manner and form hereinafter stated:

ARTICLE I.

The United States of America for and in behalf of the George D. Emery Company hereby sells, sets over, and assigns to the Republic of Nicaragua forever all the right, title and interest of the George D. Emery Company in, to, and under the following described property and releases the following claims:

1. A certain timber concession granted to Herbert Clark Emery on July 27, 1894, as well as certain modifications of said concession granted to said Herbert Clark Emery on May 5, 1898 and on August 11, 1900, and by him assigned to the George D. Emery Company, it being understood that all operations under this concession shall cease and determine from and upon the date of the signing of this agreement, provided that this shall not affect the rights of the George D. Emery Company to remove under the conditions hereinafter set forth in this agreement, all timber which, prior to the date of this agreement, the Emery Company has felled.

2. The plant and equipment owned by the George D. Emery Company and located within the territory of the Republic of Nicaragua, including the steamers *Yulu*, *Pioneer*, the launch *Yamni*, the schooner *Atlantic* and all small boats, together with all railroads, tramroads, and their equipment, all cattle, tools, and working outfit of camps, work expended in the woods, and all other assets within said territory not herein enumerated but belonging to said company, all said equipment and boats to be delivered to the Government of Nicaragua on or before May 18th, 1910, said equipment and boats when so delivered to be in as good condition as they are upon the date of the signing of this protocol of settlement, necessary wear and tear excepted, the Emery Company hereby undertaking and agreeing to execute to the Government of Nicaragua bills of sale for all personal property transferred by the said Company to said Government under the terms of this protocol, and said Company also agreeing that for a period of eight months, or until said boat shall on or before the expiration of said period of eight months be delivered to the Government of Nicaragua, it will insure the steamer *Yulu* for the sum of Thirty-Five Thousand Dollars (\$35,000), United States Gold, and will assign and deliver the policy to said Government of Nicaragua.

3. All damages of whatsoever name or nature which the George D. Emery Company has suffered or claimed to have suffered by reason of any interference, lawful or unlawful, with its operations by the Government of Nicaragua or any of its officials, or by reason of any interruptions, lawful or unlawful, of its work by said Government or any of its officials.

ARTICLE III. In consideration of the above premises and for a full, complete and final settlement of all claims of whatsoever name or nature made by the George D. Emery Company against the Government of Nicaragua, and in full and complete payment of all property sold and transferred by this instrument to the Government of Nicaragua by the George D. Emery Company, the Government of Nicaragua promises and agrees:

1. To pay to the United States of America the sum of six hundred thousand dollars (\$600,000) in gold coin of the United States of America of the present standard of weight and fineness at the office of the Secretary of State, Washington, D. C., in the United States of America, in the following installments and at the following times, namely: Fifty thousand dollars (\$50,000) in thirty (30) days, Fifty thousand dollars (\$50,000) in ninety (90) days, Fifty thousand dollars (\$50,000) in one hundred and eighty (180) days, One hundred thousand dollars (\$100,000) in one (1) year, One hundred thousand dollars (\$100,000) in two (2) years, One hundred thousand dollars (\$100,000) in three (3) years, One hundred thousand dollars (\$100,000) in four (4) years, and Fifty thousand dollars (\$50,000) in five (5) years, after the date of the signing of this protocol, the last four of said installments to bear interest beginning one year from the date of the signing of this protocol at the rate of five per cent (5%) per annum, payable annually.

2. The Government of Nicaragua hereby releases all its claims of whatsoever name or nature which it has against the George D. Emery Company no matter upon what

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