REPORT

OF THE

SECRETARY OF THE TREASURY,

ON THE

STATE OF THE FINANCES,

FOR

THE YEAR ENDING JUNE 30, 1862.

WASHINGTON:
GOVERNMENT PRINTING OFFICE.
1863.
REPORT
OF THE
SECRETARY OF THE TREASURY.

DECEMBER 5, 1862.—Referred to the Committee on Finance, and ordered to be printed.

TREASURY DEPARTMENT, December 4, 1862.

Sir: In obedience to the act which requires the Secretary of the Treasury to prepare and lay before Congress, at the commencement of every session, a report on the subject of finance, embracing estimates of receipts and disbursements and plans of revenue, he submits, respectfully, the following views and statements:

The breaking out of the existing rebellion, soon after the incoming of the present administration, demanded the employment of all necessary means for the preservation of the territorial integrity of the republic, and for the maintenance of the constitutional supremacy of the whole people, through their national government, over every State and every citizen.

To authorize and prescribe the employment of these means was the peculiar province of Congress; to call forth and direct the armed force, which might be authorized, belonged to the President, and, under him, to the Departments of War and of the Navy; while to provide the means to meet authorized expenditures in its employment devolved, under the legislation of Congress and the direction of the President, on the Secretary of the Treasury.

Varying exigencies have required adapted measures and demanded unanticipated expenditures. Estimates, correct when made, have been rendered inaccurate by changed circumstances. Such conditions always attend war, whether external or civil, and we could not hope to escape them.

It is not, therefore, matter of surprise that the estimates submitted in July, 1861, for the year ending on the 30th of June, 1862, were exceeded by the actual expenditures, or that those submitted in December, for the year which will end on the 30th of June, 1863, will probably be, in like manner, exceeded.

The estimates of the Secretary must, necessarily, be derived chiefly from information furnished by other heads of departments; and this information, adjusted to existing and probable circumstances, cannot possibly anticipate all the vicissitudes of war or of legislation.

Thus, the estimates for the last fiscal year, submitted at the July
session of 1861, were based on estimates from the War Department for an army, including regulars and volunteers, of three hundred thousand men; and from the Navy Department, for a naval force quite inconsiderable in comparison with that afterwards found to be indispensable. Congress, thinking the proposed military force inadequate, provided for a volunteer army of five hundred thousand men, besides regular troops and special corps, numbering, together, over fifty thousand, and also for considerable additions to various corps, and a large increase of pay and rations. The estimates of July required, of course, correction in December.

So, also, the estimates for the current fiscal year, submitted at the last session, were framed in substantial accordance with information furnished by the several departments. The necessities of the war, however, rendered it expedient, in the judgment of the Executive and of Congress, to call for three hundred thousand additional volunteers, and make a draft of three hundred thousand men in addition to these. The estimates, of course, must again prove inadequate.

The increase of the army, however, did not greatly affect disbursements between the date of the December report and the close of the then current fiscal year. The increase of debt, therefore, did not exceed the December estimate. On the contrary, while the estimate anticipated a public debt on the 30th of June, 1862, of $517,312,802 93, its actual amount on that day was $514,211,371 92. This amount, of course, does not include unascertained claims, but only that debt, the evidences of which exist in the treasury, upon its books, or in the form of requisitions in favor of creditors or of disbursing officers. It is not probable, however, that at the date named these claims much, if at all, exceeded the balance in the treasury, namely, $13,043,546 81.

But while the public debt on the 1st of July, 1862, did not reach the amount anticipated by the estimates, there is no room for the pleasing hope that the results of the current fiscal year or the next will exhibit a similar proportion. On the contrary, the estimate of the public debt on the 1st of July, 1863, heretofore submitted, must now be advanced, in view of the unexpected increase of expenditures, authorized and incurred or likely to be incurred, to $1,122,297,403 24; and on the supposition that the war may be continued with diminished disbursements until the 1st of July, 1864, the debt likely to have been then incurred must be estimated at $1,744,685,586 80.

It has been the care of the Secretary to reduce the cost of the debt, in the form of interest, to the lowest possible amount, and it is a source of real satisfaction to him that he has been able, thus far, to confine it within very moderate limits. The first loans, being of a magnitude hitherto undreamed of in our market, were necessarily made at an interest which he regarded as high, though lenders strenuously insisted on higher; but large amounts are now obtained at five and four per cent., while the circulation of United States notes constitutes practically a loan from the people to their government without interest. The average rate on the whole loan is thus reduced to 4½ per cent. Whether a similar result may attend future loans must be determined partly by the legislation
of Congress, partly by the conduct of the war, and partly by the condi-
tion of the markets for money.

The statements of the actual and estimated receipts and expendi-
tures for the last and the current fiscal year, in comparison with those
of the December report, must undergo modifications similar to those
of the public debt. Both receipts and expenditures for the current
and the following year will be increased: the former by the opera-
tions of the augmented tariff and of the internal revenue, and the
latter by the exigencies of the war.

The aggregate receipts for the fiscal year 1862, from all sources,
including the balance of $2,257,065 80 in the treasury from the pre-
ceding year, were $583,885,247 06; and the aggregate expenditures
$570,841,700 25; leaving a balance in the treasury on the 1st day of
July, 1862, of $13,043,546 81. From the receipts and from the ex-
penditures should be deducted the amounts both received and dis-
bursed within the year on account of permanent and temporary debt,
amounting to $96,096,922 09; leaving the total of receipts not applied
in payment of debt $487,788,324 97, and the total of current disburse-
ments $474,744,778 16. As the amount of debt, so also the amount
of the expenditures for the last year falls short of the estimates.

The actual receipts for the first quarter of the fiscal year 1863,
commencing July 1, 1862, appear from the books of the treasury;
the receipts for the three remaining quarters can only be estimated
on the basis of appropriations made and asked for by the several
departments. They have been and are estimated as follows:

For the 1st quarter the actual receipts from customs,
internal duties, direct tax, lands, and all other
sources, excluding loans, and including the balance,
from last year, of $13,043,546 81, were... $37,208,529 02
For the 2d, 3d, and 4th quarters the estimated re-
cceipts from all sources are .................. 143,286,816 58

Making the total of actual and estimated receipts,
from ordinary sources and from the direct tax,
during the year 1863 ......................... 180,495,345 60

To this sum must be added sums
already realized from loans in all
forms, which amounted, during
the 1st quarter, to ........... $114,458,821 02
And during the months of October
and November, estimating for
some of the last days of Novem-
ber, to ......................... 85,670,895 99

Making an amount already obtained from loans to
the 1st of December, and applied in payment of
current expenditure and principal and interest
of public debt, of ...................... 200,129,717 01
And there must be added, also, the amount which will probably be hereafter realized from loans in all forms, under existing laws, namely

$131,021,197 35

Making the total of receipts, actual and anticipated, under existing laws

511,646,259 96

On the other hand—

For the 1st quarter of the fiscal year 1863 the actual expenditures were

111,084,447 40

For the 2d, 3d, and 4th quarters the actual and estimated expenditures, under existing appropriations, including interest on public debt, are

672,843,841 78

And additional appropriations are asked for by the several departments, to meet estimated deficiencies, to the amount of

109,418,032 30

Making the whole amount actually expended or estimated

893,346,321 48

To which must be added the estimate for payment of principal of public debt during the year, of

95,212,456 14

Making an aggregate, for all purposes, of

988,558,777 62

It is necessary to observe, however, that in the present state of the law the estimates of the departments always largely exceed expenditures. The law forbids the transfer of any part of an appropriation for one object or class of objects to another. Consequently, when any appropriation happens to be exhausted, expenditures for the objects of it, however important, must be arrested until a further appropriation can be had. Such an occurrence during the recess of Congress might occasion great public inconvenience and injury. Hence it has become usual to make every estimate large enough to cover all possible requirements under it till a session of Congress shall afford an opportunity of providing for any deficiencies which may thereafter occur. Hence there is always a large balance of unexpended appropriations at the end of every fiscal year, which, after two years from the making of them, are carried to the credit of what is called the surplus fund.

It may be safely estimated, therefore, that, of the appropriations made and asked for, there will remain unexpended on the 30th June, 1863,
and should, of course, be deducted from the apparent aggregate of expenditures, not less than $200,000,000 00

The deduction of this sum will leave as the true aggregate of expenditures for the year 788,558,777 62

But of this sum, as already stated, there has been received and may be expected from customs, internal duties, and other ordinary sources $180,495,345 60
And from loans in all forms 331,150,914 36

Making an aggregate of realized and anticipated resources, to be deducted from the sum of actual and anticipated expenditures for all purposes, of 511,646,259 96

And leaving yet to be provided for the current year by the action of Congress 276,912,517 66

The estimates for the fiscal year 1864, commencing on the 1st day of July next, and ending on the 30th day of June, 1864, must, in the present circumstances of the country, be, in great part, conjectural. The estimates of expenditures have been framed by the several departments on the supposition of the continuance of the war—a supposition which, though very properly assumed as the basis of estimates intended to cover all contingencies, is not, it may be confidently hoped, destined to be realized. The estimates of receipts are based upon the operations of recently enacted laws, the working of which cannot be accurately foreseen.

The estimates of expenditures are as follows:

For the civil list, including foreign intercourse and miscellaneous expenses, other than on account of the public debt $25,081,510 08
For the Interior Department, Indians and Pensions 10,346,577 01
For the War Department 738,829,146 80
For the Navy Department 68,257,255 01
For interest on public debt 33,513,890 50
For principal of public debt 19,384,804 16

895,413,183 56

To which sum should be added the expenditures for which appropriations made are estimated as remaining undrawn on the 1st July, 1863 200,000,000 00

Making the aggregate of expenditures to the 1st July, 1864, for which appropriations are made or asked 1,095,413,183 56
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From which should be deducted the probable amount of appropriations which will remain undrawn on the 1st of July, 1864 .......................... $250,000,000 20

Making the true amount of probable expenditures during the fiscal year, 1864 ..................... 845,413,18

The estimates of receipts are as follows:
From customs .......................... $70,000,000
From internal duties ................. 150,000,000
From lands ........................... 25,000
From miscellaneous sources ....... 3,000,000

Making the aggregate of receipts for the fiscal year 1864 to be deducted from the aggregate of expenditures .......................... 223,025,000 00

And leaving the amount of expenditures of the fiscal year 1864 to be provided for .................. 622,388,183 56

The whole amount to be provided by Congress, beyond resources available under existing laws, may, therefore, upon the supposition of the continuance of the war, be stated as follows:
For the fiscal year 1863 .......................... 276,912,517 66
For the fiscal year 1864 .......................... 622,388,183 56

Making an aggregate of .......................... 899,300,701 22

A tabular statement is submitted with this report, and as part of it, exhibiting clearly the details of the receipts and expenditures of the financial years 1862, 1863, and 1864.

Another table is also submitted, in which may be seen of what particulars the existing debt consists, in what years it was contracted, and when and in what amounts it will become due.

The other tables required by law also accompany this report.

In order to the formation of sound opinions as to the measures required for meeting the demands disclosed by the estimates and yet unprovided for, it may be useful to review, briefly, in connexion with their actual and probable results, the measures already recommended and adopted, or yet under legislative consideration.

With a view to the necessary provision for the expenditures then anticipated, the Secretary proposed to Congress, at its last session, such measures as seemed to him best adapted to the attainment of that object. These were (1st) an increase of duties on various imports; (2d) an increase of the direct tax; (3d) the levying of internal duties; (4th) a limited emission of United States notes, convertible into coin; (5th) the negotiation of loans, facilitated by the organization
of banking associations, whose circulation should consist only of notes uniform in character, furnished by the government, and secured, as to convertibility into coin, by United States bonds deposited in the treasury.

At the time these recommendations were submitted, the banks had not suspended specie payments, and there was reason to believe that economized expenditure and decisive military action would secure the means required for the suppression of the rebellion without serious sacrifices on the part of the government, and without resort to any other currency than that of coin and equivalent notes.

Unexpected military delays, however, increased expenditures, diminished confidence in public securities, and made it impossible for the banks and capitalists, who had taken the previous loans, to dispose of the bonds held by them except at ruinous loss, and impossible for the government to negotiate new loans of coin except at like or greater loss.

These conditions made a suspension of specie payments inevitable. The banks of New York suspended on the 30th of December, 1861. Their example was followed by most of the banks throughout the country, and the government yielded to the same necessity in respect to the United States notes then in circulation.

These changed circumstances required a change of measures. The expenditures had already reached an average of nearly a million and a quarter of dollars each secular day; while the revenue from all sources hardly exceeded one-tenth of that sum. It was necessary, therefore, to raise by loans in some form about thirty millions a month, or sixty millions every sixty days.

Careful inquiries satisfied the Secretary that the first $60,000,000 could not be had, in coin, at better rates than a dollar in bonds for eighty cents in money; and that each succeeding loan would involve submission to increasingly disadvantageous terms. To obtain the first $60,000,000 would require, therefore, an issue of bonds to the amount of $75,000,000, and, of course, an increase of the public debt by the same sum; the next $60,000,000 would require, perhaps, $90,000,000 in bonds and debt; and the next $60,000,000, if obtainable at all, would require, perhaps, $120,000,000. It was easy to see that on this road utter discredit and paralysis would soon be reached. The adoption of a plan of finance involving such consequences was not compatible with the Secretary's ideas of public duty.

There remained but one other possible way of raising money by the negotiation of bonds in the usual mode. That way was, to receive in payment of loans the notes or credits of the banks in suspension.

To ascertain what would have been the consequences of a resort to this expedient, it is necessary to remember that the bank circulation of the loyal States amounted, on the 1st day of January, 1861, to $150,000,000; that it had been reduced to $130,000,000 on the 1st day of January, 1862; and that this circulation was diffused throughout the country in all the channels of business. In these circumstances the collection by loans of sufficient amounts to meet the de-
mands upon the treasury in season for prompt payments would be extremely difficult. The negotiation of such loans to the extent required by the public exigencies, would create a demand for the notes which would involve the necessity, at first, of sacrifices not greatly inferior to those attendant on coin loans. If subsequent negotiations should become practicable at seemingly better rates, it would be because the government demand had stimulated the making and issuing of bank notes to an extent far beyond the ordinary needs of business. The increase of circulation thus stimulated would be unlimited, except by the possibility of obtaining interest on loans of it; or, in other words, by the possibility of obtaining credit for it with the community and the government. This limit, certain to be finally reached by all banks improvidently managed, would not, however, be reached immediately, or at the same time by all institutions, or by the same rate of progress in all parts of the country. But an excessive circulation would surely be thrust upon the community, forming a currency, everywhere, but irregularly depreciated, destined in part to become worthless, and certain to tax and derange, beyond measure, the business of the people, and to embarrass, if not arrest, the operations of the government. Loans negotiated in this circulation would be simply exchanges of the debts of the nation, bearing interest and certain to be paid, for the debts of a multitude of corporations, bearing no interest and certain, in part, never to be paid.

This is but a partial representation of the consequences apprehended from the receipt of bank notes for loans to the government. Their character made it impossible for the Secretary to recommend such negotiations, and wholly improbable that Congress would authorize them, if recommended.

No other mode of providing, with any tolerable degree of promptitude, for the wants of the army and navy, and the necessities of other branches of the public service, seemed likely to effect the object with so little public inconvenience and so considerable public advantage as the issue of United States notes adapted to circulation as money, and available, therefore, immediately in government payments.

It was not necessary that the Secretary should recommend this plan to Congress. In his report at the commencement of the session he had pointed out the inconveniences and dangers of a circulation of government notes, even though convertible into specie, and had dwelt especially on the probability that such a circulation would ultimately sink into an irredeemable paper currency. At that time he expected a continuance of specie payments, and hoped that a banking system would be authorized which would at once furnish a sound circulating medium and afford a firm support to the public credit. Neither the expectation nor the hope, however, had been realized; and a choice was now to be made between a currency furnished by numerous and unconnected banks in various States and a currency furnished by the government which the government could and would, except in a very improbable, not to say impossible, contingency, amply provide for and protect. With these alternatives before him, the Secretary had already declared his unhesitating
preference for a circulation authorized and issued by national authority. But the enlightened senators and representatives who composed the financial committees of the respective houses required no new statement of his views on this subject. They saw clearly the necessities created by the suspension, and at once adopted the measure demanded by them. The Secretary, concurring entirely in their judgment, had no duty to perform except that of giving such information and such aid as they called for and he could supply.

An emission of $50,000,000 had been authorized by Congress at the July session, 1861, not with the design of furnishing a general currency, but for the purpose of making good any differences between the amounts obtained by loans and the sums required by the public service. Of these notes $33,460,000 were in circulation at the time of the suspension. Up to that date every note presented for payment had been promptly redeemed in coin. After the suspension an additional emission of $10,000,000 was authorized, on the 12th of last February. Both these issues, amounting together to $60,000,000, were made receivable for all public dues, including customs.

It now became the duty of Congress, not merely to provide the means of meeting the vast demands on the treasury, but to create a currency with which, until the close of the war at least, loans and taxes might be paid to the government, debts to individuals discharged, and the business of the country transacted. Nothing less would satisfy the need of the time.

This duty Congress partially performed by authorizing an emission of $90,000,000 in United States notes, in addition to the $60,000,000 previously authorized, making $150,000,000 in all. The $90,000,000 last issued were made receivable for all national loans and dues, except customs, payment of which was required in specie or notes of the two first issues.

At a later period of the session, in view of the withdrawal of the sixty millions receivable for duties from circulation, and of the expediency of providing a permanent resource for meeting all demands upon temporary deposits in the treasury, Congress authorized a further issue of $150,000,000, of which, however, $50,000,000 were to be reserved from issue until actually required for payment of deposits.

At a still later date Congress, upon the recommendation of the Secretary, authorized the use of postage and revenue stamps as a fractional currency, preferring this expedient to metallic tokens or coins reduced in value below existing standards.

These various acts, taken together, authorized the emission of two hundred and fifty millions of dollars in United States notes, and a further emission of fifty millions, if needed, for the payment of deposits. Of these emissions, the sixty millions receivable for customs were not available as circulation, but might be replaced, as paid in, by notes of the new issues which were thus available, so that, in the end, a total circulation of two hundred and fifty millions might be reached, and, in an improbable contingency, increased by fifty millions more. An emission of fractional currency, as just stated, was also authorized.
In aid of these provisions for public payments, the Secretary recommended, and Congress, by different enactments, authorized, the receipt on temporary deposit, at an interest not exceeding five per cent., of such sums as might be offered, not exceeding, in the whole, one hundred millions of dollars, and the payment, to such creditors as might choose to receive them of certificates of indebtedness, payable in one year and bearing six per cent. interest. Congress also authorized the issue of national bonds to the amount of five hundred millions of dollars, into which the United States notes issued might be converted at the will of the holder. It was provided that these bonds should carry an interest of six per cent. in specie, and be redeemable after five and payable in twenty years. They have received the name of five-twenties or five-twenty-sixes.

These measures have worked well. Their results have more than fulfilled the anticipations of the Secretary. Had other urgent demands on the attention of Congress permitted the consideration and adoption of the suggestions which the Secretary ventured to submit in favor of authorizing the formation, under a proper general law, of banking associations, issuing only uniform notes prepared and furnished by the national government, and of imposing a reasonable tax on the circulation of other institutions, no financial necessity would, perhaps, now demand additional legislation for the current year, except such as experience might suggest for the perfecting of measures already sanctioned.

A short statement will exhibit the practical workings of the laws actually enacted.

To the 1st day of July, 1862, $57,926,116 57 had been received and were remaining on deposit. United States notes to the amount of $158,591,230 had been issued and were in circulation; $49,881,979 73 had been paid in certificates of indebtedness; and $208,345,291 86 had been paid in cash. Not a single requisition from any department upon the treasury remained unanswered. Every audited and settled claim on the government, and every quartermaster’s check for supplies furnished, which had reached the treasury, had been met. And there remained in the treasury a balance of $13,043,546 81.

The reverses of June, July, and August, affected, of course, injuriously this financial condition. The vast expenditures required by the large increase of the army, authorized by Congress and directed by the President, made exhausting demands on all available resources. The measures of Congress, however, enabled the Secretary to provide, if not fully yet almost fully, for the constantly increasing disbursements. The actual payments, other than for principal of public debt, during the quarter ending on the 30th of September, were $111,084,446 75; during the month of October they were $49,243,846 04; and during the month of November, $59,847,077 34; while the accumulation of requisitions beyond resources amounted to less than the fourth of the aggregate of these sums, namely, to $48,354,701 22.

It remains to consider what further resources for satisfying the debt now existing in the form of requisitions, and meeting other present
and prospective demands upon the treasury, may be provided under existing legislation; and what additional measures may be beneficially adopted for the improvement of the revenue and for the sure establishment of the public credit, by the discharge, with the greatest possible promptitude and punctuality, of all public obligations.

The whole power to borrow money under the act of July, 1861, to authorize a national loan is now exhausted. The only important laws under which means for meeting demands on the treasury can be had are those enacted or modified by Congress at its last session.

These are of two general classes, namely, those which provide revenue from duties and taxes, and those which authorize the obtaining of money by loans in various forms.

The laws of the first class are, (1st,) the several acts imposing duties on imports, and (2d,) the act to provide internal revenue.

The laws of the second class are, (1st,) the act authorizing the issue of United States notes, and of six per cent bonds of the United States, redeemable after five and payable in twenty years, to the amount of five hundred million of dollars; (2d,) the two acts authorizing the issue of certificates of indebtedness and the purchase of coin; (3d,) the act authorizing an additional issue of United States notes; and (4th,) the act authorizing payments in stamps.

The laws of the first class have been too recently enacted, and their practical operation and results are affected by too large a variety of circumstances, to warrant any very confident opinions either as to the particulars in which amendments may be required or the amount of revenue which may be expected from them. The year which will elapse before the next regular session of Congress will allow sufficient time for practical tests, and will doubtless suggest beneficial modifications. It seems already probable that some taxes imposed may be either repealed or reduced in rate at that session, without injury to the public service or the public credit. Possibly, also, some comparatively unimportant changes may be indicated as useful before the close of the present session.

The actual and estimated receipts under these laws for the current fiscal year, as already stated, will amount under the tariff act to $68,041,736 59, and under the internal revenue law to $85,456,303 73. The receipts for all other sources, exclusive of loans, as estimated, will reach $13,953,758 47, making a general aggregate, including $13,043,546 81, balance from last year, of $180,495,345 60, and leaving to be provided from loans, in some form, $608,063,432 02.

The laws of the second class limit the issue of United States notes, exclusive of the contingent reserve for deposits, to $250,000,000; limit the amount receivable on temporary deposit to $100,000,000; and limit the issue of five-twenty sixes to $500,000,000. The issue of certificates of indebtedness and of fractional currency is unlimited by legislation.

The amount of United States notes, including notes receivable for customs, already issued and in circulation or in the treasury to the credit of disbursing officers or of the Treasurer, was on the 1st instant $222,932,111. There yet remains, therefore, under the law
an authority to issue the further sum of $27,067,889. The amount received on deposit, including coin and estimating for the last day of November, is $79,798,650. The further sum of $20,201,350 may therefore yet be received. The issue of fractional currency has reached the sum of $3,884,800. The best lights lead to the estimate that before specie payments can be resumed not less than $40,000,000 will be required by the wants of the community. The sum of $36,115,200, not yet issued, may therefore be counted on as an additional resource. It is not easy to determine what further payments can be made in certificates of indebtedness, but it seems probable that payments in that form may be safely carried to the amount of $100,000,000. These payments have already reached $87,363,241 65. and the additional sum of $12,636,758 35 may therefore be paid in that way. What can be justly expected from conversions under the act authorizing the issue of five-twenty sixes, that is to say, from exchanges by holders of United States notes for these bonds, at par, cannot be stated with much certainty. The amount received from this source from the date of the act to the 1st instant, estimating for part of the last week in November, is $23,750,000. It may reasonably be expected that thirty-five millions will be received, if the act remains unmodified, during the remainder of the fiscal year. The aggregate of all these sums, namely, $131,021,197 35, constitutes the total of resources available for the current year under existing laws, except through sales, regarded as impracticable under the act authorizing their issue, of the five-twenties at their market value.

These credit resources, with the actual receipts from like sources, added to revenue in all forms may supply the treasury with $511,646,259 96. There remains a balance of disbursements of $276,912,517 66 to be provided for.

How?
The easiest mode doubtless would be an issue of the required amount in United States notes; but such an issue, especially in the absence of proper restrictions on corporate circulation, would, in the judgment of the Secretary, be as injurious as it would be easy. The addition of so vast a volume to the existing circulation would convert a currency, of which the benefits have thus far greatly outweighed the inconveniences, into a positive calamity. Its consequences would be inflation of prices, increase of expenditures, augmentation of debt, and, ultimately, disastrous defeat of the very purposes sought to be attained by it.

To a certain extent, however, and under certain circumstances, a limited additional issue of United States notes may perhaps be safely and advantageously made.

The Secretary does not concur in the opinion entertained by some, whose ability and experience command deserved respect, that the aggregate currency of the country, composed of United States notes and notes of corporations, is at this moment greatly in excess of legitimate demands for its employment. Much less does he concur in another opinion, not unfrequently expressed, but expressed, in his
judgment, without due consideration, that any actual excess is due to the issues of United States notes already in circulation.

It is true that gold commands a premium in notes; in other words, that to purchase a given amount of gold a greater amount in notes is required. But it is also true that, on the suspension of specie payments and the substitution for coin of United States notes, convertible into six per cent. specie bonds as the legal standard of value, gold became an article of merchandise, subject to the ordinary fluctuations of supply and demand, and to the extraordinary fluctuations of mere speculation. The ignorant fears of foreign investors in national and State bonds and other American securities, and the timid alarms of numerous nervous individuals in our own country, prompted large sacrifices upon evidences of public and corporate indebtedness in our markets, and large purchases of coin for remittance abroad or hoarding at home. Taking advantage of these and other circumstances tending to an advance of gold, speculators employed all the arts of the market to stimulate that tendency and carry it to the highest point. This point was reached on the 15th day of October. Gold sold in the market at a premium of 37½ per cent.

That this remarkable rise is not due wholly, or even in greatest part, to the increase of the currency, is established beyond reasonable doubt by considerations now to be stated:

First. The whole quantity of circulation did not, at the time, greatly, if at all, exceed the legitimate demands of payments. On the 1st day of November, 1861, the circulation of United States notes, including credits to disbursing officers and to the Treasurer of the United States, was $15,140,000. On the 1st day of November, 1862, it was, with like inclusions, $210,104,000. Of corporate notes, on the 1st of November, 1861, the circulation in the loyal States was, according to the best estimates, $130,000,000; on the 1st of November, 1862, it was $167,000,000. The coin in circulation, including the coin in banks, was probably not less, on the 1st of November, 1861, than $210,000,000. On the 1st of November, 1862, the coin had been practically demonetized and withdrawn from use as currency or as a basis for currency, and is therefore not estimated. The aggregate circulation of the loyal States, therefore, was, at the first date, $355,140,000; and at the second, only $377,104,000.

Secondly. The whole, or nearly the whole, increase in the volume of the currency which has taken place was, it is believed, legitimately demanded by the changed condition of the country in the year between the two dates. The activity in business which, at the close of that year, had taken the place of the general stagnation which marked its beginning, and the military and naval preparations and movements which had vastly augmented the number and amounts of payments to be made in money, have, it is believed, legitimately demanded nearly or quite the whole of it.

That such is the case may be reasonably inferred from the fact that the prices of many of the most important articles of consumption have declined or not materially advanced during the year. Wheat, quoted at $1 38 to $1 45 per bushel on the 1st of November, 1861, was
quoted at $1.45 to $1.50 on the 1st of November, 1862. Prime mess pork, on the 1st of November, 1861, was quoted at $15 to $15.50 per barrel, and on the 1st of November, 1862, at $12.50 to $13. Corn sold on the 1st of November, 1861, at 62 to 63 cents per bushel, and on the 1st of November, 1862, at 71 to 73 cents. A comparison between the prices of hay, beef, and some other staples of domestic produce at the two dates, exhibits similar conditions of actual depression in price or moderate rise.

Thirdly. It is, perhaps, still more conclusive against the theory of great redundancy that on the 15th day of October, when the aggregate actual circulation, national and corporate, was about $350,000,000, the premium on gold was 37½; whereas, on the 29th day of November, when the circulation had increased by more than twenty millions, the premium on gold was 29 to 30 per cent.

But if the fact of considerable redundancy in circulation be conceded, it by no means follows that it is the circulation of United States notes which is redundant.

It must be remembered that the law confines national payments and receipts to coin and notes of the United States. Officers of the treasury, officers of the army and navy, all officers of all departments, must observe and enforce this law. For all payments to be made in behalf of the United States, in case of inability to obtain coin, United States notes must be issued. It is, indeed, the duty of the legislature to see that the purchasing power of these notes is kept as nearly as possible equal to the purchasing power which gold would have had if specie payments had been maintained; but the issue and use of the notes is unavoidable, and the government can resort to borrowing only when the issue has become sufficiently large to warrant a just expectation that loans of the notes can be had from those who hold or can obtain them at rates not less advantageous than those of coin loans before suspension. The difficulty which the takers of the recent loan of $13,613,450 found in obtaining United States notes with which to meet their engagements to the treasury is very instructive on this head. It points, indeed, directly to the conclusion that loans of United States notes, in sufficient amounts to meet the disbursements of the government, could not now be obtained at rates which a due regard to the interests of the tax-payers would permit the Secretary to accept. Whatever may be said of the aggregate circulation, it cannot, then, be successfully maintained that the circulation of United States notes is excessive. When extended to the limits authorized by existing laws, it will be no larger than the wants of the people and the government imperatively demand.

If there be a considerable redundancy then; if there be a considerable real depreciation of the circulation—which is by no means admitted—what has caused the redundancy and the depreciation?

The cause of all that exists is easily found in the statements of the banking corporations. The circulation of corporate notes increased during the year ending on the 1st of November, 1862, from $130,000,000 to $167,000,000. During the same time the volume of deposits, which answer very many of the purposes of circulation, had
swelled from $264,000,000 to $344,000,000. The greater portion of this increase took place within the last seven months.

The augmentation of deposits always accompanies increase of circulation. Together they stimulate loans, and are, in turn, stimulated by the desire of the interest derived from loans. As might have been anticipated, loans increased, though not equally, with the circulation and deposits. From $607,000,000 on the 1st day of November, 1861, they had grown to $677,000,000 on the 1st day of November, 1862.

Here is an obvious and sufficient explanation of whatever undue expansion may have taken place. The Secretary has already expressed the opinion that the circulation is not greatly redundant, and that no considerable depreciation of currency has actually occurred. He thinks it sufficiently proved, however, that whatever there may of either is fairly attributable not to the increase of United States notes, but to the increase of bank circulation and deposits.

It is to be observed that no law compelled and no public necessity required any enlargement of the volume of currency by the banks. On the contrary, there are, in some of the States, positive enactments by which the increase of circulation during suspension is prohibited; and the principle embodied in them is so obviously just that well-managed institutions, when obliged to suspend, almost invariably, without the constraint of any law, reduce their circulation instead of augmenting it. In obedience to this principle, a reduction of bank circulation actually took place after the suspension in December. It was only when United States notes, having been made a legal tender, were diverted from their legitimate use as currency and made the basis of bank circulation, that the great increase of the latter began. It was purely voluntary; prompted, doubtless, by the desire of extending accommodations to business as well as by the expectation of profit. No practical limit upon this increase has as yet been proposed by the parties interested in it.

The Secretary has already shown that the case was far otherwise with the circulation of United States notes. A condition had been created by the suspension which made loans of coin impossible. Loans of corporate notes, objectionable in themselves, were positively prohibited by a law not likely to be repealed. The extension of the United States note circulation, until sufficient in amount to enable the Secretary to obtain it from holders by way of loans, was equally inevitable. A practical limit on its increase is imposed by the judicious legislation of Congress, which makes the notes receivable for loans, and requires that the interest on bonds for loans shall be paid in coin.

Under these circumstances, the path of wisdom and duty seems very clear. It leads to the support of a United States note circulation, and to the reduction of the bank note circulation. A comparatively small reduction of the latter will allow ample room for the whole increase of the former, authorized by existing laws; and as the reduction proceeds the increase may be extended, never, however, passing the point which admits the negotiation of loans at reasonable rates. The Secretary has heretofore advised the imposing of a moderate tax on corporate circulation, and now renews
the recommendation as the best means of reduction and gradual substitution. Such a tax involves no hardships. Notes circulating as money cost nothing beyond the expense of production and supervision, and yet form a highly accumulative species of property. The necessities of the war have caused the taxation of almost all forms of value. Can there be a sound reason for exempting that which costs the proprietor least and brings him most?

It may be properly added that this desirable substitution of a circulation, uniform in description and value, for a circulation varying widely in both, may, perhaps, be more easily and beneficially effected now than at any other time. The circulation of United States notes may greatly facilitate the payments to the banks through which their own notes must be withdrawn; and thus, not only protect the community from the inconveniences, but the banks from the losses which might otherwise attend reduction.

It may also be added that when the substitution shall have been accomplished, and, perhaps, if circumstances favor, at an earlier period, payments in specie of United States notes may be resumed with less cost and less injury to business than would attend a like resumption in payment of corporate notes. With comparatively trivial sacrifice, the government can, whenever its expenditures are reduced to its revenue, provide, by loan or otherwise, all the coin needed to commence and maintain the resumption.

While the Secretary thus repeats the preference he has heretofore expressed for a United States note circulation, even when issued directly by the government, and dependent on the action of the government for regulation and final redemption, over the note circulation of the numerous and variously organized and variously responsible banks now existing in the country; and while he now sets forth, more fully than heretofore, the grounds of that preference, he still adheres to the opinion expressed in his last report, that a circulation furnished by the government, but issued by banking associations, organized under a general act of Congress, is to be preferred to either. Such a circulation, uniform in general characteristics, and amply secured as to prompt convertibility by national bonds deposited in the treasury, by the associations receiving it, would unite, in his judgment, more elements of soundness and utility than can be combined in any other.

A circulation composed exclusively of notes issued directly by the government, or of such notes and coin, is recommended mainly by two considerations:—the first derived from the facility with which it may be provided in emergencies, and the second, from its cheapness.

The principal objections to such a circulation as a permanent system are, 1st, the facility of excessive expansion when expenditures exceed revenue; 2d, the danger of lavish and corrupt expenditures, stimulated by facility of expansion; 3d, the danger of fraud in management and supervision; 4th, the impossibility of providing it in sufficient amounts for the wants of the people whenever expenditures are reduced to equality with revenue or below it.

These objections are all serious. The last requires some elucida-
tion. It will be easily understood, however; if it be considered that a government issuing a credit circulation cannot supply, in any given period, an amount of currency greater than the excess of its disbursements over its receipts. To that amount, it may create a debt in small notes, and these notes may be used as currency. This is precisely the way in which the existing currency of United States notes is supplied. That portion of the expenditure not met by revenue or loans has been met by the issue of these notes. Debt in this form has been substituted for various debts in other forms. Whenever, therefore, the country shall be restored to a healthy normal condition, and receipts exceed expenditures, the supply of United States notes will be arrested, and must progressively diminish. Whatever demand may be made for their redemption in coin must hasten this diminution; and there can be no reissue; for reissue, under the conditions, necessarily implies disbursement, and the revenue, upon the supposition, supplies more than is needed for that purpose. There is, then, no mode in which a currency in United States notes can be permanently maintained, except by loans of them, when not required for disbursement, on deposits of coin, or pledge of securities, or in some other way. This would convert the treasury into a government bank, with all its hazards and mischiefs.

If these reasonings be sound, little room can remain for doubt that the evils certain to arise from such a scheme of currency, if adopted as a permanent system, greatly overbalance the temporary though not inconsiderable advantages offered by it.

It remains to be considered what results may be reasonably expected from an act authorizing the organization of banking associations, such as the Secretary proposed in his last report.

The central idea of the proposed measure is the establishment of one sound, uniform circulation, of equal value throughout the country, upon the foundation of national credit combined with private capital.

Such a currency, it is believed, can be secured through banking associations organized under national legislation.

It is proposed that these associations be entirely voluntary. Any persons, desirous of employing real capital in sufficient amounts, can, if the plan be adopted, unite together under proper articles, and, having contributed the requisite capital, can invest such part of it, not less than a fixed minimum, in United States bonds, and, having deposited these bonds with the proper officer of the United States, can receive United States notes in such denominations as may be desired, and employ them as money in discounts and exchanges. The stockholders of any existing banks can, in like manner, organize under the act, and transfer, by such degrees as may be found convenient, the capital of the old to the use of the new associations. The notes thus put into circulation will be payable, until resumption, in United States notes, and, after resumption, in specie, by the association which issues them, on demand; and if not so paid will be redeemable at the treasury of the United States from the proceeds of the bonds pledged in security. In the practical working of the plan, if sanc-

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tioned by Congress, redemption at one or more of the great commercial centres, will probably be provided for by all the associations which circulate the notes, and, in case any association shall fail in such redemption, the treasurer of the United States will probably, under discretionary authority, pay the notes, and cancel the public debt held as security.

It seems difficult to conceive of a note circulation which will combine higher local and general credit than this. After a few years no other circulation would be used, nor could the issues of the national circulation be easily increased beyond the legitimate demands of business. Every dollar of circulation would represent real capital, actually invested in national stocks, and the total amount issued could always be easily and quickly ascertained from the books of the treasury. These circumstances, if they might not wholly remove the temptation to excessive issues, would certainly reduce it to the lowest point, while the form of the notes, the uniformity of devices, the signatures of national officers, and the imprint of the national seal authenticating the declaration borne on each that it is secured by bonds which represent the faith and capital of the whole country, could not fail to make every note as good in any part of the world as the best known and best esteemed national securities.

The Secretary has already mentioned the support to public credit which may be expected from the proposed associations. The importance of this point may excuse some additional observations.

The organization proposed, if sanctioned by Congress, would require within a very few years, for deposit as security for circulation, bonds of the United States to an amount not less than $250,000,000. It may well be expected, indeed, since the circulation, by uniformity in credit and value, and capacity of quick and cheap transportation, will be likely to be used more extensively than any hitherto issued, that the demand for bonds will overpass this limit. Should Congress see fit to restrict the privilege of deposit to the bonds known as five-twenties, authorized by the act of last session, the demand would promptly absorb all of that description already issued and make large room for more. A steady market for the bonds would thus be established and the negotiation of them greatly facilitated.

But it is not in immediate results that the value of this support would be only or chiefly seen. There are always holders who desire to sell securities of whatever kind. If buyers are few or uncertain, the market value must decline. But the plan proposed would create a constant demand, equalling and often exceeding the supply. Thus a steady uniformity in price would be maintained, and generally at a rate somewhat above those of bonds of equal credit but not available to banking associations. It is not easy to appreciate the full benefits of such conditions to a government obliged to borrow.

Another advantage to be derived from such associations would be found in the convenient agencies which they would furnish for the deposit of public moneys.

The Secretary does not propose to interfere with the independent treasury. It may be advantageously retained, with the assistant
treasurers already established in the most important cities, where the customs may be collected as now, in coin or treasury notes issued directly by the government, but not furnished to banking associations.

But whatever the advantages of such arrangements in the commercial cities in relation to customs, it seems clear that the secured national circulation furnished to the banking associations should be received everywhere for all other dues than customs, and that these associations will constitute the best and safest depositaries of the revenues derived from such receipts. The convenience and utility to the government of their employment in this capacity, and often, also, as agents for payments and as distributors of stamps, need no demonstration. The necessity for some other depositaries than surveyors of ports, receivers, postmasters, and other officers, of whose responsibility and fitness, in many cases, nothing satisfactory can be known, is acknowledged by the provision for selection by the Secretary contained in the internal revenue act; and it seems very clear that the public interest will be secured far more certainly by the organization and employment of associations organized as proposed than by any official selection.

Another and very important advantage of the proposed plan has already been adverted to. It will reconcile, as far as practicable, the interests of existing institutions with those of the whole people.

All changes, however important, should be introduced with caution, and proceeded in with careful regard to every affected interest. Rush innovation is not less dangerous than stupefied inaction. The time has come when a circulation of United States notes, in some form, must be employed. The people demand uniformity in currency, and claim, at least, part of the benefit of debt without interest, made into money, hitherto enjoyed exclusively by the banks. These demands are just and must be respected. But there need be no sudden change; there need be no hurtful interference with existing interests. As yet the United States note circulation hardly fills the vacuum caused by the temporary withdrawal of coin; it does not, perhaps, fully meet the demand for increased circulation created by the increased number, variety, and activity of payments in money. There is opportunity, therefore, for the wise and beneficial regulation of its substitution for other circulation. The mode of substitution, also, may be judiciously adapted to actual circumstances. The plan suggested consults both purposes. It contemplates gradual withdrawal of bank note circulation, and proposes a United States note circulation, furnished to banking associations, in the advantages of which they may participate in full proportion to the care and responsibility assumed and the services performed by them. The promptitude and zeal with which many of the existing institutions came to the financial support of the government in the dark days which followed the outbreak of the rebellion is not forgotten. They ventured largely, and boldly, and patriotically on the side of the Union and the constitutional supremacy of the nation over States and citizens. It does not at all detract from the merit of the act that the losses, which they feared but unhesitatingly risked, were transmuted into unexpected gains. It is a solid recommendation of the suggested
plan that it offers the opportunity to these and kindred institutions to reorganize, continue their business under the proposed act, and with little loss and much advantage, participate in maintaining the new and uniform national currency.

The proposed plan is recommended, finally, by the firm anchorage it will supply to the union of the States. Every banking association whose bonds are deposited in the treasury of the Union; every individual who holds a dollar of the circulation secured by such deposit; every merchant, every manufacturer, every farmer, every mechanic, interested in transactions dependent for success on the credit of that circulation, will feel as an injury every attempt to rend the national unity, with the permanence and stability of which all their interests are so closely and vitally connected. Had the system been possible, and had it actually existed two years ago, can it be doubted that the national interests and sentiments enlisted by it for the Union would have so strengthened the motives for adhesion derived from other sources that the wild treason of secession would have been impossible?

The Secretary does not yield to the phantasy that taxation is a blessing and debt a benefit; but it is the duty of public men to extract good from evil whenever it is possible. The burdens of taxation may be lightened and even made productive of incidental benefits by wise, and aggravated and made intolerable by unwise, legislation. In like manner debt, by no means desirable in itself, may, when circumstances compel nations to incur its obligations, be made by discreet use less burdensome, and even instrumental in the promotion of public and private security and welfare.

The rebellion has brought a great debt upon us. It is proposed to use a part of it in such a way that the sense of its burden may be lost in the experience of incidental advantages. The issue of United States notes is such a use; but if exclusive, is hazardous and temporary. The security by national bonds of similar notes furnished to banking associations is such a use, and is comparatively safe and permanent; and with this use may be connected, for the present, and occasionally, as circumstances may require, hereafter, the use of the ordinary United States notes in limited amounts.

No very early day will probably witness the reduction of the public debt to the amount required as a basis for secured circulation. Should no future wars arrest reduction and again demand expenditures beyond revenue, that day will, however, at length come. When it shall arrive the debt may be retained on low interest at that amount, or some other security for circulation may be devised, or, possibly, the vast supplies of our rich mines may render all circulation unadvisable except gold and the absolute representatives and equivalents, dollar for dollar, of gold in the treasury or on safe deposit elsewhere. But these considerations may be for another generation.

The Secretary forbears extended argument on the constitutionality of the suggested system. It is proposed as an auxiliary to the power to borrow money; as an agency of the power to collect and disburse taxes; and as an exercise of the power to regulate commerce, and of
the power to regulate the value of coin. Of the two first sources of power nothing need be said. The argument relating to them was long since exhausted and is well known. Of the other two there is not room nor does it seem needful to say much. If Congress can prescribe the structure, equipment, and management of vessels to navigate rivers flowing between or through different States as a regulation of commerce, Congress may assuredly determine what currency shall be employed in the interchange of their commodities, which is the very essence of commerce. Statesmen who have agreed in little else have concurred in the opinion that the power to regulate coin is, in substance and effect, a power to regulate currency, and that the framers of the Constitution so intended. It may well enough be admitted that while Congress confines its regulation to weight, fineness, shape, and device, banks and individuals may issue notes for currency in competition with coin. But it is difficult to conceive by what process of logic the unquestioned power to regulate coin can be separated from the power to maintain or restore its circulation, by excluding from currency all private or corporate substitutes which affect its value, whenever Congress shall see fit to exercise that power for that purpose.

The recommendations, now submitted, of the limited issue of United States notes as a wise expedient for the present time, and as an occasional expedient in future times, and of the organization of banking associations to supply circulation secured by national bonds and convertible always into United States notes, and after resumption of specie payments, into coin, are prompted by no favor to excessive issues of any description of credit money.

On the contrary, it is the Secretary's firm belief that by no other path can the resumption of specie payments be so surely reached and so certainly maintained. United States notes receivable for bonds bearing a secure specie interest are next best to notes convertible into coin. The circulation of banking associations organized under a general act of Congress, secured by such bonds, can be most surely and safely maintained at the point of certain convertibility into coin. If, temporarily, these associations redeem their issues with United States notes, resumption of specie payments will not thereby be delayed or endangered, but hastened and secured; for, just as soon as victory shall restore peace, the ample revenue, already secured by wise legislation, will enable the government, through advantageous purchases of specie, to replace at once large amounts, and, at no distant day, the whole, of this circulation by coin, without detriment to any interest, but, on the contrary, with great and manifest benefit to all interests.

The Secretary recommends, therefore, no mere paper money scheme, but, on the contrary, a series of measures looking to a safe and gradual return to gold and silver as the only permanent basis, standard, and measure of values recognized by the Constitution—between which and an irredeemable paper currency, as he believes, the choice is now to be made.

No country possesses the true elements of a higher credit—no
country, in ordinary times, can maintain a higher standard of currency and payment than the United States.

The government is less costly than that of most other great powers. The expenditures of the current fiscal year, excluding those of the War and Navy Departments, can hardly equal those of the last year, which amounted to $24,511,476 66. Estimating those of these departments at double the expenditures of the last year before the rebellion, they would for the current year, had the war ended before last midsummer as was anticipated at the date of the last report, amount to the sum of $55,845,834 48. The interest on the public debt is for the current year estimated at $25,041,532 07, and will not probably go over that sum. The whole expenditures of the government for the current year, on the supposition of peace, would, therefore, not exceed $105,371,843 21. This aggregate must be increased hereafter by the addition of interest on the loans of the current and future years and by pensions, the precise amount of which cannot be foreseen. Estimate the former at fifty, and the latter at ten millions a year, and the total annual expenditures in peace will reach, omitting fractions, to $165,000,000. The expenditures of Great Britain during the year ending March 31, 1862, were $364,436,682; those of France for 1862, according to French official estimates, will reach $421,823,900, and the annual expenses of Russia, according to the best accessible information, do not fall short of $230,000,000.

To meet our annual expenditures, and to assure beyond contingency the punctual discharge of the interest of the public debt, and the creation of a sinking fund for its reduction, Congress has provided a revenue from customs even now reaching nearly seventy millions a year, and a revenue from internal duties which will not probably fall short of one hundred and fifty millions a year.

Without reckoning any other resources than those already provided, the revenue, therefore, will annually exceed the expenditures by fifty-five millions, which sum may be used for the reduction of the public debt. If, then, the war shall be continued, contrary to hope and expectation, to midsummer of 1864, and the public debt shall reach the utmost limit now anticipated of seventeen hundred and fifty millions of dollars, the excess of revenue will reduce that debt, during the first year of peace, more than three per cent.

But the American republic possesses immense resources which have not yet been called into contribution. The gold-bearing region of the United States stretches through near eighteen degrees of latitude, from British Columbia on the north to Mexico on the south, and through more than twenty degrees of longitude, from the eastern declivities of the Rocky mountains to the Pacific ocean. It includes two States, California and Oregon; four entire Territories, Utah, Nevada, New Mexico, and Washington; and parts of three other Territories, Colorado, Nebraska, and Dakota. It forms an area of more than a million of square miles, the whole of which, with comparatively insignificant exceptions, is the property of the nation. It is rich not only in gold, but in silver, copper, iron, lead, and many other valuable minerals. Its product of gold and silver during the current year will not probably fall very much, if at all, short of $100,000,000; and
it must long continue gradually, yet rapidly, to increase. If this product be subjected to a reasonable seignorage, as suggested by some, or if, as suggested by others, the mineral lands be subdivided and sold in convenient parcels, with proper reservations in favor of the miners now in occupation of particular localities, a very considerable revenue may, doubtless, be obtained from this region without hardship to the actual settlers and occupiers.

And there are other mines than those of gold or silver, or copper or iron, in the wide territory which includes the public lands of the United States. Every acre of the fertile soil is a mine, which only waits for the contact of labor to yield its treasures; and every acre is opened to that fruitful contact by the Homestead Act. When the opportunities thus offered to industry shall be understood by the working millions of Europe, it cannot be doubted that great numbers will seek American homes, in order to avail themselves of the great advantages tendered to their acceptance by American law. Every working man who comes better's the condition of the nation as well as his own. He adds in many ways, seen and unseen, to its wealth, its intelligence, and its power. It is difficult to estimate the contribution which immigration, properly encouraged by legislation and administration, will make to revenue; but, directly and indirectly, it cannot be reckoned as less than that which may be expected from the metallic products of the gold-bearing region.

With such resources at the disposal of the republic, no one need be alarmed lest the United States may become unable to pay the interest on its debt, or to reduce the principal to whatever point the public interest may indicate. The republic is passing through the pangs of a new birth to a nobler and higher life. Twice already she has paid off a national debt contracted for the defence of her rights; the obligations of that which she now incurs for the preservation of her existence will be not less sacredly fulfilled.

But while resources are thus ample, it is not the less the dictate of prudence and of good faith to a generous people that the greatest pains should be taken to reduce the public burdens to the lowest point compatible with justice to honest public creditors. Prodigality may exhaust the amplest resources and impair the firmest credit. To retrench superfluity; to economize expenditures; to adjust accurately measures to objects; to infuse resolute vigor and a just sense of responsibility into every department of public activity are not less important to credit and revenue than to general success in administration.

It has been already stated that the amount to be provided, beyond resources available under existing laws, is, for the current year, $276,912,517 66, and for the ensuing year, $627,388,183 56.

To provide these amounts loans in some form must be negotiated.

The Secretary has already expressed the opinion, with great deference to the superior wisdom of Congress, that it will be unwise, unless conditions greatly change, to authorize the increase of United States notes beyond the limit now fixed by law. Should any vacuum be created by the withdrawal of bank note circulation, that vacuum
should, doubtless, be filled by United States notes. Should Congress adopt the measures proposed by the Secretary, it is not improbable that an additional issue of fifty millions may be required for that purpose within the year, and an equal additional issue during the following year. And it may well be hoped that military successes, re-establishing the authority of the United States in large districts of the insurgent region, will call for further issues to supply the place of the worthless currency which the rebellion has forced upon the people. Should it be deemed expedient to invest the Secretary with any discretionary power, in view of these contingencies, it should be so limited as to allow no increase of aggregate circulation beyond the clear demands of real business.

A considerable additional sum may probably be obtained by removing the limit on temporary deposits. The amount of these deposits has steadily increased, notwithstanding large repayments to depositors. The treasury of the government has been made the savings bank of the people. Should the restriction be removed, there is reason to believe that twenty-five millions may be received beyond the maximum now fixed, during the year.

But the chief reliance, and the safest, must be upon loans. Without any issues of United States notes beyond the amount now authorized, it seems certain that loans for the whole amount required for the current year can be readily obtained at fair rates; and it may be confidently hoped that before its close the resources of the country will be so well understood, and the restoration of its territorial integrity so well assured, that capitalists will not hesitate to supply whatever may be needed for the subsequent year.

But in order to the advantageous negotiation of loans the action of Congress is necessary.

As an important element of facility in negotiation, the plan for banking associations has been already considered. Little direct aid is, however, to be expected from this plan during the present, nor very much, perhaps, during the next year. The operation of associations organized under it must, at first, be restricted mainly to investing United States notes in bonds; issuing a circulation based on these bonds; and transacting ordinary business. As the notes received for the bonds cannot be reissued without injurious inflation of the circulation, they must necessarily be withdrawn and cancelled. The aggregate circulation of government United States notes withdrawn will be replaced by the amount of national circulation furnished to the associations. The immediate advantage to the government will be found in the market created for bonds, and the support thereby given to the national credit. The more general advantages which have been described must attend the gradual organization of banking associations, and will only be fully apparent when the national circulation furnished to them shall become the established and sole note circulation of the country.

Other legislation is therefore needed.

The act of last session authorized the Secretary to issue bonds of the United States, already often mentioned as five-twenties, to the
amount of five hundred millions of dollars, and to dispose of them for coin or United States notes at the market value thereof. In the same act authority was given to issue $150,000,000 in United States notes, which authority was afterwards enlarged to $250,000,000; and it was provided that any holder of such notes to the amount of fifty dollars, or any multiple of fifty, might exchange them for five-twenty bonds, at par.

The effect of these provisions was to make negotiations of considerable amounts impossible; for considerable amounts are seldom taken, except with a view to resales at a profit, and resales at any profit are impossible under the law. Negotiations below market value are not allowed, and if not allowed the taker of the bonds can expect no advance, unless a market value considerably below par shall become established. The act makes advance above par impossible, by authorizing conversion of United States notes into bonds at that rate.

The Secretary respectfully recommends the repeal of both these provisions. The first imposes, it is believed, a restriction which Congress did not intend; and the second has been followed by the inconveniences which were feared, rather than by the benefits which were expected. Convertibility by exchange at will is of little or no advantage to the holder of the notes; for the clauses which secure their receivability for all loans make them practically convertible. Whenever the volume of notes reaches a point at which loans can be effected at rates fair to the country and desirable to takers, loans will, of course, be made, and ample opportunities for conversion offered.

Should Congress, however, be of opinion that these clauses should be retained, it will be necessary to provide for other loans, at rates more favorable to the takers than convertibility into five-twenties. This can be done either by authorizing bonds at longer time, or by increasing the rates of interest offered.

The Secretary cannot recommend either course except as an alternative to no provision at all.

As such an alternative he would prefer the issue of 7.30 three years bonds, convertible into five-twenty sixes at or before maturity, and of smaller notes bearing an interest of 3.65 per cent., as proposed in his first report.

A discretionary power may, perhaps, be advantageously conferred on the Secretary, to be exercised as exigencies may require or allow. He does not covet the responsibilities belonging to such a power, but would not shrink from such exercise of it as, in his best judgment, the public good would require. He believes it, however, to be unnecessary. He believes that the time and rate of the five-twenty loan authorized were judiciously determined, and he believes that if the suggested changes are made in the law, the needed supplies can be obtained through these loans. No prudent legislator, at a time when the gold in the world is increasing by a hundred millions a year, and interest must necessarily and soon decline, will consent to impose on the labor and business of the people a fixed interest of six per cent on a great debt, for twenty years, unless the necessity is far more urgent than is now believed to exist. The country has already wit-
nessed the results of such measures in the payment, in 1856, of more
than four and a half millions of dollars for the privilege of paying a
debt of less than forty-one millions, some twelve years, averaged time,
before it became due.

The general views of the Secretary may therefore be thus briefly
summed:

He recommends that whatever amounts may be needed beyond the
sums supplied by revenue and through other indicated modes be
obtained by loans, without increasing the issue of United States notes
beyond the amount fixed by law, unless a clear public exigency shall
demand it. He recommends, also, the organization of banking asso-
ciations for the improvement of the public credit and for the supply
to the people of a safe and uniform currency. And he recommends
no change in the law providing for the negotiation of bonds except
the necessary increase of amount and the repeal of the absolute re-
striction to market value and of the clauses authorizing converti-
bility at will.

If Congress shall concur in these views, the Secretary, though
conscious of the great difficulties which vast, sudden, and protracted
expenditures impose on him, ventures to hope that he may still be
able to maintain the public credit and provide for the public wants.

The report of the director of the mint contains the usual informa-
tion relative to the coinage for the past year, and makes several sug-
gestions, to which I respectfully invite your attention:

The net amount of bullion received was $45,423,231.01. The
amount coined was: of gold coins, $45,532,386.50; of silver coins,
$2,812,401.50; of cent coins, $116,000; of gold bars, $16,144,190.05;
and of silver bars, $418,680.01; making a total coinage of $65,023,658.06.

Of the bullion deposited, $26,188,863.87 was received at the assay
office in New York. Of the gold bars $16,094,768.44, and of silver
bars $415,633.57, in value, were stamped at the same office.

At the branch mint in San Francisco the gold deposits were
$16,136,622.96, and the silver deposits and purchases $749,114.14,
in value. The value of the gold coined was $15,545,000; of silver
coined, $641,700; and of silver bars, $1,278.65.

Soon after the authority of the Union was re-established at New
Orleans a special agent was appointed to examine the condition of
the branch mint in that city, and its machinery. The machinery
proved to have been greatly injured, and portions of it were found
distributed and secreted in various parts of the city. The portions
were collected and replaced in the mint, and the necessary repairs
are in progress. The operations of the branch mint, however, have
not been, and for the present, at least, will not be, resumed.

By the act of April 24, last, a branch mint was directed to be
established at Denver, in the Territory of Colorado, and an appro-
priation of $75,000 was made to carry the act into effect. A mint
had already been established there by individuals engaged in assay-
ing and stamping, on private account, the bullion produced in that
region. A commission was appointed to ascertain and report as to
the value of this establishment and the comparative expediency of purchasing it or erecting a new one; and, upon their recommendation, the existing mint, with all its apparatus, was purchased for $25,000.

The Secretary respectfully commends to the consideration of Congress the expediency of establishing an assay office or branch mint at some convenient point in Nevada Territory.

In his last report the Secretary took occasion to invite the attention of Congress to the importance of uniform weights, measures, and coins, and to the worth of the decimal system in the commerce of the world. He now ventures to suggest that the present demonetization of gold may well be availed of for the purpose of taking one considerable step towards these great ends. If the half eagle of the Union be made of equal weight and fineness with the gold sovereign of Great Britain, no sensible injury could possibly arise from the change; while, on the resumption of specie payments, its great advantages would be felt in the equalization of exchange and the convenience of commerce. This act of the United States, moreover, might be followed by the adoption by Great Britain of the federal decimal divisions of the coin, and thus a most important advance might be secured towards an international coinage, with values decimally expressed.

Under the provisions of the several acts of Congress relative to trade and commerce between the loyal States and those States and parts of States declared to be in insurrection, general regulations have been issued prescribing the conditions under which that trade and commerce, to a limited extent, may be conducted. This trade has been authorized only with sections of the country in which, since the proclamation of the President, the authority of the government has been re-established by military occupancy. No licenses or permits have been granted for commerce with inhabitants of insurrectionary districts beyond the limits of such occupancy. Under the provisions of the fifth section of the act of July 13, 1861, special agents have been appointed whose duty has been to carry out the authorized instructions of the department, and it is anticipated that the expenses of their agency will be defrayed from moderate charges for permits granted under their supervision.

The collection of cotton, rice, and other abandoned property, and the superintendence of laborers and plantations which, at the date of my last report, was committed to agents of this department, has since been transferred, as more properly belonging to his department, to the control of the Secretary of War.

The report of the Solicitor of the Treasury, and the suggestions made by him, are entitled to consideration.

During the last session the Secretary had the honor of transmitting the draft of a bill for the detection and prevention of fraudulent entries at the custom-houses, and he adheres to the opinion that the provisions therein embodied are necessary for the protection of the revenue. That invoices representing fraudulent valuations of merchandise are daily presented at the custom-houses is well known, and for the past year the collector, naval officer, and surveyor of New
York have entertained suspicions that fraudulent collusions with
some of the customs-officers existed. Measures were taken by
them to ascertain whether these suspicions were well founded. By
persistent vigilance facts were developed which have led to the
arrest of several parties and the discovery that a system of fraud
has been successfully carried on for a series of years. These investi-
gations are now being prosecuted under the immediate direction of
the Solicitor of the Treasury for the purpose of ascertaining the extent
of those frauds and bringing the guilty parties to punishment. It is
believed that the enactment at the last session of the bill referred to
would have arrested, and that its enactment now will prevent here-
after, the frauds hitherto successfully practiced.

The increased and increasing labors and responsibilities devolved
upon the collector at New York suggest the expediency of appoint-
ing an additional officer at that port, to be denominated the assistant
collector and authorized to act for the collector, during his necessary
absence, and to perform such other duties as may be prescribed or
approved by the Secretary of the Treasury. Provision should be
made that his authentication of any lawful document shall entitle it
to the same effect in the courts and elsewhere as the signature of the
collector, and that his acts shall not impair the responsibility of the
collector or of his sureties, to the government.

The Exchange building in the city of New York, leased for three
years for use as a custom-house, has been altered, and for some time
partially occupied. The complete removal to it of the customs-officers
will soon be accomplished. The whole of the old custom-house
building will be required by the assistant treasurer; and it will be
necessary, therefore, either to purchase the rented building or to
erect another for custom-house purposes. It is believed that it would
be impossible to purchase an equally eligible site and erect an equally
suitable edifice for the price fixed in the lease of the Exchange; and
it is therefore recommended that the option to purchase at that price
be availed of.

The administration of the hospital fund has been looked to with
great care, and the expense of its distribution, it is believed, reduced
to the most economical point. As has been before reported, the
number of hospitals is in excess of the legitimate requirements of
the seamen, and the Secretary repeats his recommendation of De-
cember last, that those least advantageously situated be disposed of
on the most favorable terms. During the past year all the hospitals
under the control of this department have, in whole or in part, been
placed at the disposal of the War Department for the use of sick and
disabled soldiers. This use, not originally contemplated, has been
most opportune and beneficial.

Under the act authorizing payments in stamps an arrangement was
made with the Postmaster General for a supply of postage stamps to
be distributed for use in such payments. It was soon discovered,
however, that stamps prepared for postage uses were not adapted to
the purposes of currency. Small notes of equal amounts were there-
fore substituted, and the Secretary assumed the charge of prepara-
tion and distribution. With utmost efforts it was found impossible to
keep pace with the public demand for this currency; and, although the daily issue has been rapidly increased to $100,000 and is being extended as fast as practicable to twice that amount, the supply is yet largely deficient. The whole demand, however, will be fully met as soon as possible.

With a view to test the practicability and economy of engraving and printing United States notes at the department under the act of July 11, 1861, the Secretary has contracted for paper, and has authorized the preparation of small notes as substitutes for revenue stamps, substantially like the small notes now substituted for postage stamps, and indulges the hope that results will commend his action to the approval of Congress, and that the necessary modification of the provisions relating to stamps and engraving will receive its sanction.

Some difficulties have been encountered in the practical execution of the act of last session, directing the monthly instead of quarterly rendition of disbursing officers' accounts, and their direct transmission to the accounting officers of the treasury, without preliminary examination by the chiefs of the administrative bureaus; and these difficulties, though not insuperable, may require some further legislation for their removal. But the reform sought by the act is important, and the purpose of accomplishing it should not be relinquished.

Statements in detail of the operations of the department will be found in the reports of the heads of the several bureaus, to whom the Secretary gladly acknowledges his obligations for most faithful and assiduous labors, by which the multiform business under his general charge, increased tenfold in consequence of the insurrection, has been carried on with a degree of success hardly believed to be attainable. The unprecedented increase in the volume and variety of accounts must necessarily require more clerical force and more room in order to the prompt settlement indispensably necessary to the protection of honest creditors, and to the security of the government from fraud. These great objects, it is believed, may also be promoted by a modification of the existing arrangement of the bureaus, so as to bring all the accounts of each department into one bureau instead of dividing them between several, as is now directed.

The Bureau of Internal Revenue has been organized under the act of last session, and is now actually engaged in the labors assigned to it. Collectors and assessors have been appointed in all the districts of the loyal States, and the revenue from the duties imposed by the law is steadily and rapidly increasing. In the absence of any statutory directions, he has assigned the settlement of the accounts of the bureau to the Fifth Auditor and First Comptroller.

The Secretary invites particular attention to the remarks of the Third Auditor relative to payments for property lost or destroyed in the military service. He also respectfully suggests that authority be given to the Secretary to appoint commissioners to examine and audit the claims of the several States now referred to that office for settlement.

The favorable consideration of Congress is respectfully invited to the requests of the Treasurer and of the Register of the Treasury
for the appointment of a deputy in each of their bureaus. Of the
necessity for such appointments no doubt is entertained.

The action of the supervising inspectors of steamboats, collectively
as a board, and individually in their respective districts, merits the
approval of Congress. Their report, to which the Secretary invites
attention, gives evidence of the value of their labors, while the com-
parative immunity from accidents secured by their vigilance attests
the wisdom of the act under which their work is prosecuted.

The regulations directing the examination of applicants for ap-
pointment in the revenue cutter service, and making certificates of
competency from the board of examiners pre-requisites to commis-
sions, tend manifestly to the improvement of the service, and will
be adhered to. This service has become an essential arm of the de-
partment in the execution of the laws. Its highest vigor and activity
will especially be demanded so long as the present high rates of duty
shall be required by the exigencies of the country. The Secretary
hopes to be able to place it on a footing of the utmost efficiency,
without permitting its cost to exceed appropriations already made.
The great demand by other departments for shipwrights and ma-
achinery has not, as yet, permitted advantageous contracts for the ad-
ditional revenue steamers authorized by Congress. Careful specifi-
cations, however, have been prepared, and the work will be pro-
ceeded with as soon as practicable.

Full details of the operations of the Coast Survey will appear in
the report of the Superintendent.

The services by which its great value was strikingly illustrated
during the earlier months of the rebellion have been continued with
undiminished zeal and fidelity to the present time, and its general
work has been prosecuted with as much activity and success as the
peculiar demands made upon it by the circumstances of the country
would allow.

Within the year 43,000 copies of maps and charts have been fur-
nished for naval vessels, and 2,000 to captains and pilots of govern-
ment transports on their personal application.

Its accustomed vigilant superintendence has been exercised by the
Light-house Board over the light-houses, light-ships, beacons, and
buoys on the northern and Pacific coasts, and especial attention has
been directed to the restoration of those destroyed by the rebel en-
nemies of the country. Numerous lights and beacons have been re-
established on the coast of the insurgent region, and the re-establish-
ment of others will keep pace with the progress of the fleets and
armies of the republic. A confident expectation is indulged that
along the whole coast will soon shine the old unbroken chain of lights
for the guidance of the mariner and the security of commerce.

All which the Secretary most respectfully submits to the indulgent
consideration of Congress.

S. P. CHASE,
Secretary of the Treasury

Hon. H. Hamlin,
Vice President of the United States and
President of the Senate.