REPORT

OF

THE SECRETARY OF THE TREASURY.

TREASURY DEPARTMENT,
Washington, December 4, 1865.

In conformity with law, the Secretary of the Treasury has the honor to submit to Congress his annual report.

Next in importance to the great questions involved in the restoration of the federal authority over the southern States, and the re-establishment of civil government therein under the Constitution, are the financial questions, embracing—

The currency
The public debt; and
The revenue;

all of which demand the early and careful attention of Congress.

In presenting these important subjects, with their various connexions, the Secretary is painfully conscious of his own inability properly to discuss them, difficult as they are, and involving as they do the national honor and the pecuniary interests of thirty millions of people. He will, however, offer as clearly and definitely as he can his own views in relation to them, not doubting that Congress will sustain and carry out by appropriate legislation those that are approved by their superior wisdom, and reject those which are regarded as either impracticable or unsound.

The fact that means have been raised, without foreign loans, to meet the expenses of a protracted and very costly war, is evidence not only of the great resources of the country, but of the wisdom of Congress in passing the necessary laws, and of the distinguished ability of the immediate predecessors of the present Secretary in administering them. It is hardly necessary to suggest, however, that the legislation which was proper and wise during the progress of hostilities may not be appropriate or even justifiable in a time of peace.

The right of Congress, at all times, to borrow money and to issue obligations for loans in such form as may be convenient, is unquestionable; but their authority to issue obligations for a circulating medium as money, and to make these obligations a legal tender, can only be found in the unwritten law which sanctions whatever the representatives of the people, whose duty it is to maintain the government against its enemies, may consider in a great emergency

necessary to be done. The present legal-tender acts were war measures, and while the repeal of those provisions which made the United States notes lawful money is not now recommended, the Secretary is of the opinion that they ought not to remain in force one day longer than shall be necessary to enable the people to prepare for a return to the constitutional currency. It is not supposed that it was the intention of Congress, by these acts, to introduce a standard of value, in times of peace, lower than the coin standard, much less to perpetuate the discredit which must attach to a great nation which dishonors its own obligations by unnecessarily keeping in circulation an irredeemable paper currency. It has not, in past times, been regarded as the province of Congress to furnish the people directly with money in any form. Their authority is "to coin money and fix the value thereof;" and, inasmuch as a mixed currency, consisting of paper and specie, has been found to be a commercial necessity, it would seem also to be their duty to provide, as has been done by the National Currency act, that this paper currency should be secured beyond any reasonable contingency. To go beyond this, however, and issue government obligations, making them by statute a legal tender for all debts, public and private, is not believed to be, under ordinary circumstances, within the scope of their duties or constitutional powers.

The reasons which are sometimes urged in favor of United States notes as a permanent currency are, the saving of interest and their perfect safety and uniform value.

The objections to such a policy are, that the paper circulation of the country should be flexible, increasing and decreasing according to the requirements of legitimate business, while, if furnished by the government, it would be quite likely to be governed by the necessities of the treasury or the interests of parties, rather than the demands of commerce and trade. Besides, a permanent government currency would be greatly in the way of public economy, and would give to the party in possession of the government a power which it might be under strong temptations to use for other purposes than the public good—keeping the question of the currency constantly before the people as a political question, than which few things would be more injurious to business.

But the great and insuperable objection, as already stated, to the direct issue of notes by the government, as a policy, is the fact, that the government of the United States is one of limited and defined powers, and that the authority to issue notes as money is neither expressly given to Congress by the Constitution, nor fairly to be inferred, except as a measure of necessity in a great national exigency. No consideration of a mere pecuniary character should induce an exercise by Congress of powers not clearly contemplated by the instrument upon which our political fabric was established. The government, in the great contest which has been recently closed, has not sought to increase its own powers, nor to interfere with the rightful powers of the States. The questions decided by the war are, that the Union is indissoluble; that whatever is essentially opposed to it must be removed; that the federal authority, within its proper sphere, is supreme; and that the validity of acts of Congress is not to be determined by the States, but by that tribunal which the complex character of the government made a necessity. It is the crowning glory of the Constitution that this great war has been waged and closed without the powers of the government being enlarged or its relations to the States being changed.

The issue of United States notes as lawful money was a measure expedient, doubtless, and necessary in the great emergency in which it was adopted, but this emergency no longer exists, and however desirable may be the saving of interest, and however satisfactory these notes may be as a circulating medium, these considerations will not, it is respectfully submitted, justify a departure from that strict construction of the Constitution given to it previous to the war by patriotic men of all parties, and which is essential to the equal and harmonious working of our peculiar institutions. The strength of the government has been proved by the manner in which it has carried on the greatest war of modern times; it only remains, for the vindication of its excellence and the perfection of its triumphs, that all powers exercised for its preservation, but not expressly granted by the Constitution, be relinquished with the return of peace. While, therefore, the Secretary is of the opinion that the immediate repeal of the legal-tender provisions of the acts referred to would be unwise, as being likely to affect injuriously the legitimate business of the country, upon the prosperity of which depend the welfare of the people and the revenues which are necessary for the maintenance of the national credit, and unjust to the holders of the notes, he is of the opinion that not only these provisions but the acts also should be regarded as only temporary, and that the work of retiring the notes which have been issued under them should be commenced without delay, and carefully and persistently continued until all are retired.

In speaking of the legal-tender acts, reference has only been made to those which authorized the issue of United States notes. The interest-bearing notes which are a legal tender for their face value were intended to be a security rather than a circulating medium, and it would be neither injurious to the public, nor an act of bad faith to the holders, for Congress to declare that, after their maturity, they shall cease to be a legal tender, while such a declaration would aid the government in its efforts to retire them, and is therefore recommended.

The rapidity with which the government notes can be withdrawn will depend upon the ability of the Secretary to dispose of securities. The influences of funding upon the money market will sufficiently prevent their too rapid withdrawal. The Secretary, however, believes that a decided movement towards a contraction of the currency is not only a public necessity, but that it will speedily dissipate the apprehension which very generally exists, that the effect of such a policy must necessarily be to make money scarce and to diminish the prosperity of the country.

It is a well-established fact, which has not escaped the attention of all intelligent observers, that the demand for money increases (by reason of an advance of prices) with the supply, and that this demand is not unfrequently most pressing when the volume of currency is the largest and inflation has reached the culminating point. Money being an unprofitable article to hold, very little is withheld from active use, and in proportion to its increase prices advance; on the other hand, a reduction of it reduces prices, and as prices are reduced the demand for it falls off; so that, paradoxical as it may seem, a diminution of the currency may in fact increase the supply of it.

Nor need there be any apprehension that a reduction of the currency—unless it be a violent one—will injuriously affect real prosperity. Labor is the great source of national wealth, and industry invariably declines on an inflated currency. The value of money depends upon the manner in which it is used. If it stimulates productive industry, it is a benefit, and to the extent only to which it does this is it a benefit. If, on the other hand, it diminishes industry, and to the extent to which it diminishes it, it is an evil. Even in the form of the precious metals, it may not prove to be wealth to a nation. The idea that a country is necessarily rich in proportion to the amount of gold or silver which it possesses, is a common and natural but an erroneous one, while the opinion that real prosperity is advanced by an increase of paper money beyond what is absolutely needed as a medium for exchanges of real values, is so totally fallacious, that few sane men entertain it whose judgment is not clouded by the peculiar financial atmosphere which an inflation is so apt to produce.

An irredeemable paper currency may be a necessity, but it can scarcely fail, if long continued, to be a calamity to any people. Gold and silver are the only proper measure of value. They have been made so by the tacit agreement of nations, and are the necessary regulator of trade, the medium by which balances are settled between different countries and between sections of the same country. As a universal measure of value they are a commercial necessity. The trade between different nations and between sections of the same country is carried on by an exchange of commodities, but is never equally balanced by them; and unless credits are being established, the movements of coin unerringly indicate on which side the balance exists.

If the United States buy of other nations—as they now and too generally do—more than they sell to them, it is evident that a balance is thus created which must either be settled in coin or continued as a debt.

That balances between nations should be promptly paid is the dictate of wisdom, because by prompt payment the adverse current is checked before the debtor nation becomes seriously involved; while, on the other hand, if they are permitted to accumulate, they may, when the day of payment can no longer be deferred, prove not only disastrous to the debtor, but greatly disturb the business of the creditor nation. Even with the vast increase of gold and silver which has taken place within the last quarter of a century, the specie which is possessed by commercial nations is a very inconsiderable sum in comparison with their foreign and domestic property exchanges; and no nation can afford to continue a traffic which leaves it with a heavy debt to be paid in the precious metals, unless these metals are a part of its productions, and then only to the extent that they are productions. When there are no artificial obstacles in the way, and balances between nations are promptly settled, the flow of coin from one to the other produces but little embarrassment to the debtor nation. The nation that loses coin either diminishes its purchases, or, by a reduction of the prices of its commodities which the loss occasions, becomes a more inviting market than before, and, by attracting purchasers, reverses the current and draws again to itself the coin of which it had been deprived.

All this is well understood; and if trade between nations were carried on by an exchange of products and a prompt payment of balances in specie, no nation would ever become indebted to another to an extent seriously to affect its prosperity.

All serious embarrassment growing out of commercial intercourse between the people of different nations results from failure in the prompt payment of balances, and the carrying forward of these balances by extensions of credits.

The trade between the different sections of the United States is subject to the same laws. If one section, in the course of trade, becomes a debtor to another, the balances must be carried in the form of debt—always expensive, and generally dangerous to the debtor section—or settled with money. If the measure of value is a convertible currency, and trade and exchanges are left to the natural laws that govern them, settlements take place promptly and without embarrassment to business. The banks of the debtor section are drawn upon by their depositors and note-holders for coin or exchange. This return of notes and withdrawal of deposits, if considerable in amount, produce a contraction of discounts; andthis contraction either checks overtrading, or so reduces the price of products as to increase the demand for them until the current changes and the equilibrium is restored.

This brief statement of the well-known laws of trade not only illustrates the necessity of prompt payment of balances between the United States and foreign nations and between the different sections of the United States, but the necessity of having everywhere the same standard of value.

It is admitted that on a coin basis there will be periods of expansion. Times of the greatest expansion and speculation in the United States have been, indeed, when the banks were nominally paying specie. This was the case prior to the revulsions of 1837 and 1857, the expansion of credits having, in both instances, preceded suspension; but this does not militate against the theory just stated.

The great expansion of 1835 and 1836, ending with the terrible financial collapse of 1837, from the effects of which the country did not rally for years, was the consequence of excessive bank circulation and discounts, and an abuse of the credit system, stimulated in the first place by government deposits with the State banks, and swelled by currency and credits until, under the wild spirit of speculation which pervaded the country, labor and production decreased to such an extent that the country which should have been the great food-producing country of the world became an importer of breadstuffs.

The balance of trade had been for a long time favorable to Europe and against

the United States, and also in favor of the commercial cities of the seaboard and against the interior, but a vicious system of credits prevented the prompt settlement of balances. The importers established large credits abroad, by means of which they were enabled to give favorable terms to the jobbers. The jobbers, in turn, were thus, and by liberal accommodations from the banks, able to give "their own time" to country merchants, who, in turn, sold to their customers on an indefinite credit. It then seemed to be more reputable to borrow money than to earn it, and pleasanter, and apparently more profitable, to speculate than to work; and so the people ran headlong into debt, labor decreased, production fell off, and ruin followed.

The financial crisis of 1857 was the result of a similar cause, namely, the unhealthy extension of the various forms of credit. But, as in this case the evil had not been long at work, and productive industry had not been seriously diminished, the reaction, though sharp and destructive, was not general, nor were the embarrassments resulting from it protracted.

Now, in both these instances the expansions occurred while the business of the country was upon a specie basis, but it was only nominally so. A false system of credits had intervened, under which payments were deferred, and specie as a measure of value and a regulator of trade was practically ignored. Everything moved smoothly and apparently prosperously as long as credits could be established and continued, but as soon as payments were demanded and specie was in requisition, distrust commenced, and collapse ensued. In these instances the expansions preceded and contractions followed the suspensions, but it will be recollected that while the waves were rising specie ceased to be a regulator, by reason of a credit system which prevented the use of it.

The present inflation, following the suspension of 1861, is the result of heavy expenditures by the government in the prosecution of the war and the introduction of a new measure of value in the form of United States and treasury notes as lawful money. The country, as a whole, notwithstanding the ravages of the war, and the draught which has been made upon labor, is, by its greatly developed resources, far in advance in real wealth of what it was in 1857, when the last severe financial crisis occurred. The people are now comparatively free from debt; the banks, with their secured circulation and large investments in government securities, although not in an easy condition, and doubtless too much extended, are, it is believed, generally solvent; but the same causes are at work that produced the evils referred to. There is an immense volume of paper money in circulation—under the influence of which prices, already enormously high, are steadily advancing, and speculation is increasing—which must be contracted if similar disasters would be avoided.

If the war could have been prosecuted on a specie basis, there would doubtless have been a considerable advance in the prices of those articles which were in demand by the government; but inasmuch as, in the condition of our political affairs, extensive credits could not have been established in Europe, the tendency in this direction would have been kept within reasonable check by the outflow of coin to other nations, which would have been the natural result of the advancing prices in the United States. On a basis of paper money, for which there was no outlet, all articles needed for immediate use, of which it became the measure of value, felt and responded to the daily increase of the currency; so that rents and the prices of most articles for which there has been a demand have been, with slight fluctuations, constantly advancing from the commencement of the war, and are higher now, with gold at forty-seven per cent. premium, than they were when it was at one hundred and eighty-five. Even those which were affected by the fall of gold upon the surrender of the confederate armies, or by the increased supply or diminished demand, are advancing again to former if not higher rates. The expansion has now reached such a point as to be absolutely oppressive to a large portion of the people, while at the same time it is diminishing labor, and is becoming subversive of good morals.

There are no indications of real and permanent prosperity in our large importations of foreign fabrics; in the heavy operations at our commercial marts; in the splendid fortunes reported to be made by skilful manipulations at the gold room or the stock board; no evidences of increasing wealth in the facts that railroads and steamboats are crowded with passengers, and hotels with guests; that cities are full to overflowing, and rents and the prices of the necessaries of life, as well as luxuries, are daily advancing. All these things prove rather that a foreign debt is being created, that the number of non-producers is increasing, and that productive industry is being diminished. There is no fact more manifest than that the plethora of paper money is not only undermining the morals of the people by encouraging waste and extravagance, but is striking at the root of our material prosperity by diminishing labor. The evil is not at present beyond the control of legislation, but it is daily increasing, and, if not speedily checked, will, at no distant day, culminate in wide-spread disaster. The remedy, and the only remedy within the control of Congress, is, in the opinion of the Secretary, to be found in the reduction of the currency.

The paper circulation of the United States on the 31st of October last was substantially as follows:

1. United States notes and fractional currency	$454, 218, 038 20
2. Notes of the national banks	185, 000, 000 00
3. Notes of State banks, including outstanding issues of State banks converted into national banks	65, 000, 000 00
	704, 218, 038 20

The amount of notes furnished to the national banks up to and including the 31st of October was a little over $205,000,000, but it is estimated that $20,000,000 of these had not then been put into circulation.

In addition to the United States notes, there were also outstanding $32,536,900 five per cent. treasury notes, and $173,012,140 compound interest notes, of which it would doubtless be safe to estimate that $30,000,000 were in circulation as currency.

From this statement it appears that, without including seven and three-tenths notes, many of the small denominations of which were in circulation as money, and all of which tend in some measure to swell the inflation, the paper money of the country amounted, on the 31st of October, to the sum of $734,218,038 20, which has been daily increased by the notes since furnished to the national banks, and is likely to be still further increased by those to which they are entitled, until the amount authorized by law ($300,000,000) shall have been reached, subject to such reduction as may be made by the withdrawal of the notes of the State banks.

The following is a statement of the bank note circulation of the country at various periods of highest and lowest issues prior to the war:

January, 1830	$61,324,000
" 1835	103,692,495
" 1836	140,301,038
" 1837	149,185,890
" 1843	58,564,000
" 1856	195,747,950
" 1857	214,778,822
" 1858	155,208,344
" 1860	207,102,000

It will be noticed by this statement that the bank note circulation of the United States increased from $61,324,000 to $149,185,890 between the 1st of January, 1830, and the 1st of January, 1837, in which latter year the great financial collapse took place; fell from $149,185,890 in 1837, to $58,564,000 in 1843, and rose to $214,778,822 on the 1st of January, 1857, in which year the next severe crisis occurred; falling during that year to $155,208,344, and rising to $207,102,000 on the 1st of January, 1860.

The following is a statement of bank deposits and loans in the same years:

Years.	Deposits.	Loans.
January 1, 1830	$55,560,000	$200,451,000
" 1835	83,081,000	365,163,000
" 1836	115,104,000	457,506,000
" 1837	127,397,000	525,115,000
" 1843	56,168,000	254,544,000
" 1856	212,706,000	634,183,000
" 1857	230,351,000	684,456,000
" 1858	185,932,000	583,165,000
" 1860	253,802,000	691,945,000

On the 30th of September, the date of their last quarterly reports, the deposits and loans of the national banks (the Secretary has no reliable returns of these items from the few remaining State banks) were as follows:

Deposits, individual and government		$544, 150, 194
Loans	$485, 314, 029	
To which should be added—		
Investments in United States bonds and other United States securities	427, 731, 600	
		913, 045, 629

These figures are a history in themselves, exhibiting not only the past and present condition of the country in matters of exceeding interest, but indicating unerringly the dangerous direction in which the financial current is sweeping.

On the 1st of January of the memorable year 1837 the bank note circulation of the United States was $149,185,890, the deposits were $127,397,000, the loans $525,115,000. In January, 1857, the year of the next great crisis, the circulation was $214,778,822, the deposits were $230,351,000, the loans $684,456,000. There are no statistics to exhibit the amount of specie actually in circulation in those periods, but it would be a liberal estimate to put it at $30,000,000 for 1837, and $50,000,000 for 1857.

These were years of great inflation, the effects of which have been already referred to—the revulsion of 1837 not only producing great immediate embarrassment, but a prostration which continued until 1843, at the commencement of which year the bank note circulation amounted only to $58,564,000, deposits to $56,168,000, loans $254,544,000—flour having declined in New York from $10 25 per barrel on the 1st of January, 1837, to $4 69 on the 1st of January, 1843, and other articles in about the same proportion.

The reaction in 1857 was severe, but, for the reason before stated, less disastrous and protracted.

On the 30th of September last the deposits of the national banks alone amounted to $544,150,194; their loans—estimating their national securities as a loan to the government—to $913,045,629; both of which items must have been increased during the month of October; while on the 31st of that month the circulation, bank and national, had reached the startling amount of upwards of $700,000,000. Nothing beyond this statement is required to exhibit the present inflation or to explain the causes of the current and advancing prices. If disaster followed the expansions of 1837 and 1857, what must be the consequences of the present expansion unless speedily checked and reduced?

It is undoubtedly true that trade is carried on much more largely for cash than was ever the case previous to 1861, and that there is a much greater proper demand for money than there would be if sales were made, as heretofore, on credit. It is also true that there is a larger demand than formerly for money on the part of manufacturers for the payment of operatives. But, making the most liberal allowances for the increased wholesome demand arising from these causes and from the advance of the country in business and population, it is apparent from the foregoing statements, if the advance in prices did not establish the fact, that the circulating medium of the country is altogether excessive.

Before concluding his remarks upon this subject, it may be proper for the Secretary, even at the expense of repetition, to notice briefly some of the popular and plausible objections to a reduction of the currency:

First. That by reducing prices it would operate injuriously, if not disastrously, upon trade, and be quite likely to precipitate a financial crisis.

To this it may be replied, that prices of articles of indispensable necessity are already so high as to be severely oppressive to consumers, especially to persons of fixed and moderate incomes and to the poorer classes. Not only do the interests, but the absolute necessities of the masses, require that the prices of articles needed for their use should decline.

Nor is there any reason to apprehend, by any policy that Congress may adopt, so rapid a reduction of prices as to produce very serious embarrassment to trade. The government currency can only, to any considerable extent, be withdrawn by a sale of bonds, and the demand for bonds will be so affected by the state of the market that a rapid contraction will be difficult, if not impossible, even if it were desirable. There is more danger to be apprehended from the inability of the government to reduce its circulation rapidly enough, than from a too rapid reduction of it. It is, in part, to prevent a financial crisis, that is certain to come without it, that the Secretary recommends contraction. Prices are daily advancing. The longer contraction is deferred, the greater must the fall eventually be, and the more serious will be its consequences. It is not expected that a return to specie payments will bring prices back to the standards of former years. The great increase of the precious metals and high taxes will prevent this; but this consideration makes it the more important that all improper and unnecessary influences in this direction should be removed.

Again it is urged, that a contraction of the currency would reduce the public revenues.

It is possible that this might be the immediate effect, but it would be temporary only. The public revenues depend upon the development of our national resources, upon our surplus productions; in other words, upon labor. The revenues derived from transactions based upon a false standard of value, or from interests that can only flourish in speculative times, are not those upon which reliance can be placed for maintaining the public credit. What a healthy and reliable business requires is a stable basis. This it cannot have as long as the country is inflicted with an inconvertible currency, the value of which, as well as the value of the vast property which is measured by it, is fluctuating and unreliable, and may be, in no small degree, controlled by speculative combinations.

It is also urged that the proposed policy would endanger the public credit, by preventing funding; and that it would compel the government and the people, who are in debt, to pay in a dearer currency than that in which their debts were contracted.

The Secretary is unable to perceive any substantial ground for this objection. He cannot understand how the process of funding is likely to be aided by the continuance of prices on their present high level, or how the credit of the government is to be restored by the perpetuation of an irredeemable currency, especially as that currency consists largely of its own notes. While it is hoped that early provision will be made for the commencement of the reduction of the national debt, an early payment of it is not anticipated. Nor is it understood that those who are apprehensive of the effects of contraction entertain the opinion that the present condition of things should be continued until any considerable portion of this debt shall be paid.

So far as individual indebtedness is regarded, it may be remarked that the people of the United States, if not as free from debt as they were six months ago, are much less in debt than they have been in previous years, and altogether less than they will be when the inevitable day of payment comes round, if the volume of paper money is not curtailed. A financial policy which would prevent the creation of debts and stimulate the payment of those already existing, so far from being injurious, would be in the highest degree beneficial.

It is further urged that a reduction of the government notes would embarrass the national banks, if it did not force many of them into liquidation.

To which it may be said that it is better that the banks should be embarrassed now than bankrupted hereafter. Their business and their customers are now under their control. What will be their condition in these respects if the expansion continues and swells a year or two longer it is not difficult to predict. While there has been no unhealthy expansion of credits in the United States for which the banks have not been largely responsible, there has been none by which they have not been ultimately the losers. Unless their sentiments are misunderstood by the Secretary, the conservative bankers of the country are quite unanimously in favor of a curtailment of the currency, with a view to an early return to specie payments.

Again, it is said that the excessive bank deposits have as much influence in creating and sustaining high prices as a superabundant currency. This is unquestionably true; but it is also true that excessive deposits are the effect of excessive currency, and that whenever the currency is reduced there will be, at least, a corresponding if not a greater reduction of deposits.

The last objection which will be noticed to the measure recommended is that it would, by reducing the rate of foreign exchanges, reduce exports and increase imports.

It is doubtless true that a high rate of exchange did for a time increase the exportations of our productions, and diminish the importation of foreign articles, but this advantage was much more than counterbalanced by the largely increased expenses of the government and of the people resulting from the very cause that produced the high rate of exchange. Besides, this apparent advantage no longer exists. The advance of prices in the United States, notwithstanding the continued high rate of European exchange, is now checking exports and inviting imports, and is creating a balanee in favor of Europe that is likely to be the greatest obstacle in the way of an early resumption of specie payments. Nor must it be forgotten, that while the export of our productions was stimulated by the high rate of exchange, this very high rate of exchange enabled Europe to purchase them at exceedingly low prices.

Unless an unusual demand for our products is created in Europe by extraordinary causes, it will be ascertained, by reference to the proper tables, that our imports increase, and our exports diminish, under the influence of a redundant currency. But reference to figures is hardly necessary to substantiate this proposition. It is substantiated by the statement of it. A country in which high prices prevail is an inviting one for sellers, but an uninviting one for purchasers. Such a country is unfortunately the United States at the present time. In order, however, that there may be no misapprehension on this point,

the attention of Congress is respectfully called to a clear and interesting paper from Dr. Elder, statistician of this department, accompanying this report.

Every consideration, therefore, that has been brought to the mind of the Secretary confirms the correctness of the views he has presented. If the business of the country rested upon a stable basis, or if credits could be kept from being still further increased, there would be less occasion for solicitude on this subject. But such is not the fact. Business is not in a healthy condition; it is speculative, feverish, uncertain. Every day that contraction is deferred increases the difficulty of preventing a financial collapse. Prices and credits will not remain as they are. The tide will either recede or advance; and it will not recede without the exercise of the controlling power of Congress.

The Secretary, therefore, respectfully but earnestly recommends—

First. That Congress declare that the compound interest notes shall cease to be a legal tender from the day of their maturity.

Second. That the Secretary be authorized, in his discretion, to sell bonds of the United States, bearing interest at a rate not exceeding six per cent., and redeemable and payable at such periods as may be conducive to the interests of the government, for the purpose of retiring not only compound interest notes, but the United States notes.

It is the opinion of the Secretary, as has been already stated, that the process of contraction cannot be injuriously rapid; and that it will not be necessary to retire more than one hundred, or, at most, two hundred millions of United States notes, in addition to the compound notes, before the desired result will be attained. But neither the amount of reduction, nor the time that will be required to bring up the currency to the specie standard, can now be estimated with any degree of accuracy. The first thing to be done is to establish the policy of contraction. When this is effected, the Secretary believes that the business of the country will readily accommodate itself to the proposed change in the action of government, and that specie payments may be restored without a shock to trade, and without a diminution of the public revenues or of productive industry.

At the close of a great war, which has been waged on both sides with a vigor and energy, and with an expenditure of money, without a precedent in history, the people of the United States are incumbered with a debt which requires the immediate and careful consideration of their representatives.

Since the commencement of the special session of 1861, the most important subject which has demanded and received the attention of Congress has been that of providing the means to prosecute the war; and the success of the government in raising money is evidence of the wisdom of the measures devised for this purpose, as well as of the loyalty of the people and the resources of the country. No nation within the same period ever borrowed so largely, or with so much facility. It is now to be demonstrated that a republican government can not only carry on a war on the most gigantic scale, and create a debt of immense magnitude, but can place this debt on a satisfactory basis, and meet every engagement with fidelity. The same wisdom which has been exhibited by the national councils in providing the means for preserving the national unity, will not be wanting in devising measures for establishing the national credit.

The maintenance of public faith is a national necessity. Nations do not and cannot safely accumulate moneys to be used at a future day, and exigencies are constantly occurring in which the richest and most powerful are under the necessity of borrowing. The millennial days, when nations shall beat their swords into ploughshares and their spears into pruning-hooks, and learn war no more, are yet, according to all existing indications, far in the future. Weak and defaulting nations may maintain a nominally independent existence, but it will be by reason of the jealousies, rather than the forbearance, of stronger powers. No nation is absolutely safe which is not in a condition to defend itself; nor can it be in this condition, no matter how strong in other respects, without a well-established financial credit. Nations cannot, therefore, afford to be unfaithful to their pecuniary obligations. Credit to them, as to individuals, is money; and money is the war power of the age. But for the unfaltering confidence of the people of the loyal States in the good faith of the government, the late rebellion would have been a success, and this great nation, so rapidly becoming again united and harmonious, would have been broken into weak and belligerent fragments.

But the public faith of the United States has higher considerations than these for its support. It rests not only upon the interests of the people, but upon their integrity and virtue. The debt of the United States has been created by the people in their successful struggle for undivided and indivisible nationality. It is not a debt imposed upon unwilling subjects by despotic authority, but one incurred by the people themselves for the preservation of their government—by the preservation of which, those who have been leagued together for its overthrow are to be as really benefited as those who have been battling for its maintenance. As it is a debt voluntarily incurred for the common good, its burdens will be cheerfully borne by the people, who will not permit them to be permanent.

The public debt of the United States represents a portion of the accumulated wealth of the country. While it is a debt of the nation, it becomes the capital of the citizen. The means of the merchant, the manufacturer and farmer, and also those of the workingman and the soldier, have been liberally invested in it; and it is an interesting fact—a practical evidence of the great resources of the country—that so large an amount of their wealth could be loaned by the people to the government without embarrassing industrial pursuits. Notwithstanding more than two thousand millions of dollars of the means of the people of the United States have been thus loaned, no branch of useful industry has suffered by the investment. It is undoubtedly true, that, if the wealth which has been invested in United States securities could have been employed in agriculture, in commerce, in mining and manufactures—in opening farms and the better improvement of those already under cultivation, in building railroads and ships, in working the mines, and in increasing the variety and amount of our manufactures—the nation would have been far in advance of what it now is in material prosperity. But it is also true, that, notwithstanding the large investments by the people of the United States in the securities of their government; notwithstanding, also, more than two millions of men, in the northern States alone, were, for longer or shorter periods, in the military service, and at least seven hundred thousand for a good part of the time the war continued were constantly under arms; and notwithstanding the immense waste of life, consequent upon operations so extensive and battles so sanguinary as characterized this memorable struggle, the larger part of the country has still, since eighteen hundred and sixty, progressed both in wealth and population. The loyal States have advanced in material prosperity in spite of the great drain that has been made upon them; and now that the war is closed, the Union is no longer in peril, and the men that made the armies on both sides so effective and formidable are to be again employed in profitable pursuits, the onward march of the country—even if a temporary reaction, as a result of the war, and the redundancy of the currency, shall be experienced—will be decided and resistless.

The debt is large; but if kept at home, as it is desirable it should be, with a judicious system of taxation it need not be oppressive. It is, however, a debt. While it is capital to the holders of the securities, it is still a national debt, and an incumbrance upon the national estate. Neither its advantages nor its burdens are or can be shared or borne equally by the people. Its influences are anti-republican. It adds to the power of the Executive by increasing federal patronage. It must be distasteful to the people because it fills the country with informers and tax-gatherers. It is dangerous to the public virtue, because it involves the collection and disbursement of vast sums of money, and renders rigid national economy almost impracticable. It is, in a word, a national burden, and the work of removing it, no matter how desirable it may be for individual investment, should not be long postponed.

As all true men desire to leave to their heirs unincumbered estates, so should it be the ambition of the people of the United States to relieve their descendants of this national mortgage. We need not be anxious that future generations shall share the burden with us. Wars are not at an end, and posterity will have enough to do to take care of the debts of their own creation.

Various plans have been suggested for the payment of the debt; but the Secretary sees no way of accomplishing it but by an increase of the national income beyond the national expenditures. In a matter of so great importance as this, experiments are out of place. The plain, beaten path of experience is the only safe one to tread.

The first step to be taken is, to institute measures for funding the obligations that are soon to mature. The next is, to provide for raising, in a manner the least odious and oppressive to taxpayers, the revenues necessary to pay the interest on the debt, and a certain definite amount annually for the reduction of the principal. The Secretary respectfully suggests that on this subject the expression of Congress should be decided and emphatic. It is of the greatest importance, in the management of a matter of so surpassing interest, that the right start should be made. Nothing but revenue will sustain the national credit, and nothing less than a fixed policy for the reduction of the public debt will be likely to prevent its increase.

On the 31st day of October, 1865, since which time no material change has taken place, the public debt, without deducting funds in the treasury, amounted to $2,808,549,437 55, consisting of the following items:

Bonds, 10-40's, 5 per cent., due in 1904	$172, 770, 100 00	
Bonds, Pacific Railroad, 6 per cent., due in 1895	1, 258, 000 00	
Bonds, 5-20's, 6 per cent., due in 1882, 1884, and 1885	659, 259, 600 00	
Bonds, 6 per cent., due in 1881	265, 347, 400 00	
Bonds, 5 per cent., due in 1880	18, 415, 000 00	
Bonds, 5 per cent., due in 1874	20, 000, 000 00	
Bonds, 5 per cent., due in 1871	7, 022, 000 00	
		$1, 144, 072, 100 00
Bonds, 6 per cent., due in 1868	8, 908, 341 80	
Bonds, 6 per cent., due in 1867	9, 415, 250 00	
Compound interest notes, due in 1867 and 1868	173, 012, 141 00	
7-30 treasury notes, due in 1867 and 1868	830, 000, 000 00	
		1, 021, 335, 732 80
Bonds, Texas indemnity, past due	760, 000 00	
Bonds, treasury notes, &c., past due	613, 920 09	
		1, 373, 920 09
Temporary loan, ten days' notice	99, 107, 745 46	
Certificates of indebtedness, due in 1866	55, 905, 000 00	
Treasury notes, 5 per cent., December 1, 1865	32, 536, 901 00	
		187, 549, 646 46
United States notes	428, 160, 569 00	
Fractional currency	26, 057, 469 20	
		454, 218, 038 20
		2, 808, 549, 437 55

The following is a statement of receipts and expenditures for the fiscal year ending June 30, 1865:

Balance in treasury agreeably to warrants, July 1, 1864,		$96, 739, 905 73
Receipts from loans applicable to expenditures	$864, 863, 499 17	
Receipts from loans applied to payment of public debt	607, 361, 241 68	
		1, 472, 224, 740 85
Receipts from customs	84, 928, 260 60	
Receipts from lands	996, 553 31	
Receipts from direct tax	$1, 200, 573 03	
Receipts from internal revenue	209, 464, 215 25	
Receipts from miscellaneous sources	32, 978, 284 47	
		$329, 567, 886 66
		1, 898, 532 533 24

EXPENDITURES.

Redemption of public debt		$607, 361, 241 68
For the civil service	$44, 765, 558 12	
For pensions and Indians	14, 258, 575 38	
For the War Department	1, 031, 323, 360 79	
For the Navy Department	122, 567, 776 12	
For interest on public debt	77, 397, 712 00	
		1, 290, 312, 982 41
		1, 897, 674, 224 09
Leaving a balance in the treasury on the 1st day of July, 1865, of		$858, 309 15

The following statement exhibits the items of increase and decrease of the public debt for the fiscal year 1865:

Amount of public debt June 30, 1865		$2, 682, 593, 026 53
Amount of public debt June 30, 1864		1, 740, 690, 489 49
Total increase		941, 902, 537 04

Which increase was caused as follows, by—

Bonds, 6 per cent., act July 17, 1861	$29, 799, 500 00	
Bonds, 6 per cent., act February 5, 1862	4, 000, 000 00	
Bonds, 6 per cent., act March 3, 1863	32, 327, 726 66	
Bonds, 6 per cent., act June 30, 1864	91, 789, 000 00	
		$157, 916, 226 66
Bonds, 5 per cent., act March 3, 1864		99, 432, 350 00
Bonds, 6 per cent., acts July 1, 1862, and July 2, 1864, issued to Central Pacific Railroad Company, interest payable in lawful money		1, 258, 000 00
Treasury notes, 7-30, acts June 30, 1864, and March 3, 1865, interest payable in lawful money		671, 610, 400 00
Compound interest notes, 6 per cent., act June 30, 1864	$178, 756, 080 00	
Temporary loan, 6 per cent., act July 11, 1862	17, 386, 869 96	
		196, 142, 949 96