

United States notes, acts February 25, 1862, July 11, 1862, and January 17, 1863.....	\$1,509,295 16	
Fractional currency, act March 3, 1863.....	7,363,098 85	
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Gross increase.....	1,135,232,320 63	
From which deduct for payments—		
Bonds, 6 per cent., act July 21, 1842....	\$1,400 00	
Treasury notes, 6 per cent., acts December 23, 1857, and March 2, 1861.....	158,800 00	
Bonds, 5 per cent., act September 9, 1850, (Texas indemnity).....	1,307,000 00	
Treasury notes, 7-30, act July 17, 1861..	30,212,300 00	
Certificates of indebtedness, 6 per cent., act March 1, 1862.....	44,957,000 00	
Treasury notes, 5 per cent., one and two- year, act March 3, 1863.....	111,132,740 00	
United States notes, acts July 17, 1861, and February 12, 1862.....	308,396 25	
Postal currency, act July 17, 1862.....	5,252,147 34	
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	193,329,783 59	
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Net increase.....	941,902,537 04	

In the report of the Secretary for the year 1864, there was excluded from the public debt the sum of \$77,897,347 02, which amount had been paid out of the treasury, but had not been reimbursed to the Treasurer by warrants, and was not reimbursed until after the commencement of the next fiscal year. This explains the difference between \$18,842,558 71, assumed in that report as the balance in the treasury July 1, 1864, and \$96,739,905 73, the balance according to the warrant account, as above stated.

The following is a statement of the receipts and expenditures for the quarter ending September 30, 1865:

Balance in treasury, agreeable to warrants, July 1, 1865..	\$858,309 15	
Receipts from loans applicable to expendi- tures.....	\$138,773,097 22	
Receipts from loans applied to payment of public debt.....	138,409,163 35	
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	277,182,260 57	
Receipts from customs.....	47,009,583 03	
Receipts from lands.....	132,890 63	
Receipts from direct tax.....	31,111 30	
Receipts from internal revenue.....	96,618,885 65	
Receipts from miscellaneous sources....	18,393,729 94	
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	162,186,200 55	
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	440,226,770 27	

EXPENDITURES.

For the redemption of public debt.....	\$138,409,163 35	
For the civil service.....	10,571,460 99	
For pensions and Indians.....	6,024,241 86	
For the War Department.....	165,369,237 32	
For the Navy Department.....	16,520,669 81	
For interest on the public debt.....	36,173,481 50	
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	\$373,068,254 83	

Leaving a balance in the treasury on the 1st day of Oc-
tober, 1865, of.....

\$67,158,515 44

The Secretary estimates that the receipts for the remaining three quarters of the year ending June 30, 1866, will be as follows:

Balance in treasury October 1, 1865.....	\$67,158,515 44	
Receipts from customs.....	\$100,000,000 00	
Receipts from lands.....	500,000 00	
Receipts from internal revenue.....	175,000,000 00	
Receipts from miscellaneous sources....	30,000,000 00	
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	305,500,000 00	
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	372,658,515 44	

The expenditures, according to the estimates, will be:

For the civil service.....	\$32,994,052 38	
For pensions and Indians.....	12,256,790 94	
For the War Department.....	307,788,750 57	
For the Navy Department.....	35,000,000 00	
For interest on public debt.....	96,813,868 75	
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	484,853,462 64	

Deficiency.....

112,194,947 20

The receipts for the year ending June 30, 1867, are estimated as follows:

From customs.....	\$100,000,000 00	
From internal revenue.....	275,000,000 00	
From lands.....	1,000,000 00	
From miscellaneous sources.....	20,000,000 00	
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	\$396,000,000 00	

The expenditures, according to the estimates, will be:

For the civil service.....	\$42,165,599 47	
For pensions and Indians.....	17,609,640 23	

For the War Department.....	\$39,017,416 18	
For the Navy Department.....	43,982,457 50	
For the interest on the public debt....	141,542,068 50	
		<u>\$284,317,181 88</u>
Leaving a surplus of estimated receipts over estimated expenditures, of.....		<u>111,682,818 12</u>

The debt of the United States was increased during the fiscal year ending June 30, 1865, \$941,902,537 04, and during the first quarter of the present fiscal year \$38,773,097 22. The Secretary has, however, the satisfaction of being able to state that during the months of September and October the public debt was diminished to the amount of about thirteen millions of dollars.

If the expenditures for the remaining three quarters of the present fiscal year shall equal the estimates, there will be a deficiency, to be provided for by loans, of \$112,194,947 20, to which must be added \$32,536,901 for the five per cent. treasury notes, (part of the public debt,) which become due the present month, and are now being paid out of moneys in the treasury, and all other payments which may be made on the public debt.

The heavy expenditures of the last fiscal year, and of the months of July and August of the present fiscal year, are the result of the gigantic scale on which the war was prosecuted during a portion of this period, and the payment of the officers and men mustered out of the service. The large estimates of the War Department for the rest of the year are for the payment of troops which are to remain in the service, and of those which are to be discharged, and for closing up existing balances.

The statement of the probable receipts and expenditures for the next fiscal year is, in the highest degree, satisfactory. According to estimates which are believed to be reliable, the receipts of that year will be sufficient to pay all current expenses of the government, the interest on the public debt, and leave the handsome balance of \$111,682,818 12 to be applied toward the payment of the debt itself.

By the statement of the public debt on the 31st of October, it appears that, besides the compound interest, the United States, and the fractional notes

The past-due debt amounted to.....	\$1,373,920 09
The debt due in 1865 and 1866, to.....	187,549,646 46
The debt due in 1867 and 1868, to.....	848,323,591 80

During the month of October about \$50,000,000 of the compound interest notes were funded in 5-20 six per cent. bonds under the provisions of the act of March 3, 1865.

The Secretary would be gratified if the treasury could be put at once in a condition to obviate the necessity of issuing any more certificates of indebtedness, or raising money by any kind of temporary loans; but he may, for a short period, be obliged to avail himself of any means now authorized by law for meeting current expenses and other proper demands upon the treasury.

Of the debt falling due in 1867 and 1868, \$830,000,000 consist of 7 3-10 notes. It may be regarded as premature to fund any considerable amount of these notes within the next year; but in view of the fact that they are convertible into bonds only at the pleasure of the holders, it will be evidently prudent for Congress to authorize the Secretary, whenever it can be advantageously done, to fund them in advance of their maturity.

The Secretary has already recommended that he be authorized to sell bonds of the United States, bearing interest at a rate not exceeding six per cent., for the purpose of retiring treasury notes and United States notes. He further recommends that he be authorized to sell, in his discretion, bonds of a similar character to meet any deficiency for the present fiscal year, to reduce the temporary loan by such an amount as he may deem advisable, to pay the certificates of indebtedness as they mature, and also to take up any portion of the debt maturing prior to 1869 that can be advantageously retired. It is not probable that it will be advisable, even if it could be done without pressing them upon the market, to sell a much larger amount of bonds within the present or the next fiscal year than will be necessary to meet any deficiency of the treasury, to pay the past-due and maturing obligations of the government, and a part of the temporary loan, and to retire an amount of the compound interest notes and United States notes sufficient to bring back the business of the country to a healthier condition. But no harm can result from investing the Secretary with authority to dispose of bonds, if the condition of the market will justify it, in order to anticipate the payment of those obligations that must soon be provided for.

When the whole debt shall be put in such a form that the interest only can be demanded until the government shall be in a condition to pay the principal, it can be easily managed. It is undeniably large, but the resources of the country are even now ample to carry and gradually to reduce it; and with the labor question at the south settled on terms just to the employer and to the laborer, and with entire harmony between the different sections, it will be rapidly diminished, in burden and amount, by the growth of the country, without an increase of taxation.

The following estimate of the time which would be required to pay the national debt (if funded at five per cent. and at five and one-half per cent.) by the payment of two hundred millions of dollars annually on the interest and principal, and also of the diminution of the burden of the debt by the increase of productions, may not be without interest to Congress and to tax payers.

The national debt, deducting moneys in the treasury, was, on the 31st of October, 1865, \$2,740,854,750. Without attempting a nice calculation of the amount, it may reach, when all our liabilities shall be accurately ascertained, it seems safe to estimate it, on the 1st of July, 1866, at three thousand millions of dollars. The amount of existing indebtedness yet unsettled, and the further amount that may accrue in the interval, are not now capable of exact

estimation, and the revenue of the same period can be only approximately calculated; but it will be safe to assume that the debt will not exceed the sum named.

The annual interest upon three thousand millions, if funded at five and one-half per cent. per annum, would be one hundred and sixty-five millions; but if funded at five per cent., it would be one hundred and fifty millions.

Now, if two hundred millions per annum should be applied, in half-yearly instalments of one hundred millions each, in payment of the accruing interest and in reduction of the principal funded at the higher rate of five and one-half per cent., the debt would be entirely paid in thirty-two and one-eighth years. At five per cent. per annum it would be extinguished, by the like application of one hundred millions every six months, in a little over twenty-eight years.

At the higher rate, the sum applied in the first year in reduction of the principal of the debt would be thirty-five millions of dollars; in the last or thirty-second year, when the interest would be diminished to a little over nine millions, about one hundred and ninety-one millions of the uniform annual payment would go to the reduction of the principal.

On the assumption that the debt may be funded at 5 per cent., fifty millions would be applicable to the reduction of the principal in the first year, and in the twenty-eighth or last year of the period—the interest falling to less than eight millions—one hundred and ninety-two millions of the annual payment would go to the principal.

The annual interest accruing upon seventeen hundred and twenty-five millions of the debt on the 31st of October last averages 6.62 per cent. A part of this sum is now due, another portion will be payable next year, and the balance will be due or payable, at the option of the government, in 1867 and 1868. If these seventeen hundred and twenty-five millions shall be funded or converted into five per cents by the year 1869, the average interest of the whole debt will be 5.195 per cent. In the year 1871, if the debt then maturing should be funded at the same rate, the average interest would be reduced to 5.15, and in 1881 to 5 per cent., excepting the bonds for fifty millions to be advanced in aid of the Pacific railroad at 6 per cent., which will have thirty years to run from their respective dates. The interest of these bonds, added to the supposed 5 per cents, would, in 1881, make the average rate of the entire debt five and three one-hundredths of one per cent. until the whole should be discharged.

In these calculations of the average rate of interest upon the funded debt the outstanding United States notes and fractional currency are not embraced. Whatever amount of these four hundred and fifty-four millions may eventually be funded at five per cent. per annum will proportionally reduce the average rates of interest upon the whole debt.

By the terms and conditions of some portion of the debt, the interest on the whole cannot be reduced to exactly five per cent. unless money may be borrowed at some stage of the process at a trifle below 5 per cent. A bonus of one-tenth of one per cent., paid by the bidders for five per cent. loans, would more than

cover the excess, the probability of which fully warrants the calculation submitted as to the payment of the total debt at this rate.

It must be observed, also, that the assumed principal of the debt in July, 1866, must undergo some diminution before the funding in 1867, 1868, and 1869 begins. If only one hundred millions shall be paid off in these three years, the principal, thus reduced to twenty-nine hundred millions, would be extinguished by the process already stated in twenty-nine years, if funded at $5\frac{1}{2}$ per cent., and if at 5 per cent. in something less than twenty-seven years. And it is well worthy of attention that one hundred millions less principal at the commencement of the process of payment will save four hundred millions in round numbers in the end if the rate is $5\frac{1}{2}$ per cent., and three hundred millions if 5 per cent.

The burden of a national debt is, of course, relative to the national resources, and these resources are not, strictly speaking, capital, but the current product of the capital and industry of the country. The annual product, however, is found to bear a certain ratio to capital, and this ratio may be conveniently and safely used in computing the probable resources which must in the future meet the national requirement for the payment of interest and extinguishment of the debt.

It has been estimated by one who has made this subject a study, that the products of agriculture, manufactures, mining, mechanic arts, commerce, fisheries, and forests, in the year 1850 were at 28.9 per cent. of the value of the real and personal property of the United States. A similar calculation makes the products of 1860 26.8 per cent. of the wealth of the country in that year, as fixed by the census returns. In the calculation submitted, the annual products of capital and industry are taken, for convenience, at 25 per cent. of the capital wealth of the country, and the capital of each decennial year of the thirty that our national debt may run before its extinguishment by the application of two hundred millions per annum to the payment of its principal and interest, is here estimated upon the basis of its amount and increase as given by the census of 1860. In the year 1860 the real and personal property of the Union was valued (slaves excluded) at fourteen thousand one hundred and eighty-three millions of dollars. Of this amount the States lately in insurrection held three thousand four hundred and sixty-seven millions, being an increase upon the like property in 1850 of 139.7 per cent. The property of the loyal States was valued at ten thousand seven hundred and sixteen millions, an increase of 126.6 per cent. over 1850; together, averaging a decennial increase of 129.7 per cent.

Now, taking the increase of wealth in the loyal States in the ten years from 1860 to 1870 at 125 per cent., we have, as their capital in 1870, twenty-four thousand one hundred and eleven millions; and if we put the wealth of the other States at the same figure as in 1860, without allowing anything for increase, we have a capital for 1870 of twenty-seven thousand five hundred and seventy-eight millions. This sum gives us the product of the year at six thousand eight hundred and ninety-four and a half millions, upon which a payment on the debt of two hundred millions is 2.9 per cent. If we add but 25 per cent. to the wealth of 1860 for the States lately in insurrection, as their probable

valuation in 1870, the charge of two hundred millions upon the products of that year will be 2.81 per cent. But, allowing all that can be claimed in this respect, and taking the lowest estimate for 1870 as the basis for calculating the wealth and products of the year 1880, 125 per cent. increase in this period gives a capital of sixty-two thousand and fifty millions, and a product of fifteen thousand five hundred and twelve millions, upon which sum a charge of two hundred millions falls to 1.29 per cent. In 1890, the wealth, estimated at an increase of only 100 per cent. upon that of 1880, gives the year's products at thirty-one thousand and twenty-five millions, upon which two hundred millions amounts to only 0.644 per cent., or less than two-thirds of one per cent., and in the year 1900 the tax upon the products of the year would fall to 0.322 per cent., or less than one-third of one per cent.

To this charge upon the resources of the country if there be added one hundred and forty millions of 1870 for all other expenditures, one hundred and fifty millions in 1880, one hundred and sixty millions in 1890, and one hundred and seventy millions in 1900, the estimated total expenditure will be 4.93 per cent. of the products of capital and industry in 1870, 2.26 per cent. in 1880, 1.17 per cent. in 1890, and barely seven-tenths of one per cent. in 1900. Or, in general statement, the total estimated charges of the national government for the payment of the debt in thirty years, and all other ordinary expenses, begin at less than 5 per cent. of the resources of the country, and end in seven-tenths of one per cent.

These estimates, and the basis upon which they rest, are sustained by the result of English experience upon a debt one-third larger than ours, with ordinary and extraordinary expenses at least one-half larger than ours are likely to reach, and borne through a period of much less wealth-producing power. The government charges for all expenditures fifty years ago took one pound in six of the products of Great Britain, but these charges have now fallen to one pound in nine. We commence our national burdens with resources that, in the very first year, will be required to bear an aggregate of less than 5 per cent., or one dollar in twenty.

It is true that many circumstances may occur to prevent the accomplishment of these anticipated results; but the estimates have been made upon what are regarded as reliable data, and are well calculated to encourage Congress in levying taxes, and the people in paying them.

After careful reflection, the Secretary concludes that no act of Congress (except for raising the necessary revenue) would be more acceptable to the people, or better calculated to strengthen the national credit, than one which should provide that two hundred millions of dollars, commencing with the next fiscal year, shall be annually applied to the payment of the interest and principal of the national debt. The estimates for the next fiscal year indicate that a very much larger amount could be so applied without an increase of taxes.

Before concluding his remarks upon the national debt, the Secretary would suggest that the credit of the five-twenty bonds issued under the acts of Feb-

ruary 25, 1862, and June 30, 1864, would be improved in Europe, and, consequently, their market value advanced at home, if Congress should declare that the principal, as well as the interest, of these bonds is to be paid in coin. The policy of the government in regard to its funded debt is well understood in the United States, but the absence of a provision in these acts that the principal of the bonds issued under them should be paid in coin, while such a provision is contained in the act under which the ten-forties were issued, has created some apprehension in Europe that the five-twenty bonds might be called in at the expiration of five years, and paid in United States notes. Although it is not desirable that our securities should be held out of the United States, it is desirable that they should be of good credit in foreign markets on account of the influence which these markets exert upon our own. It is, therefore, important that all misapprehensions on these points should be removed by an explicit declaration of Congress that these bonds are to be paid in coin.

In view of the fact that the exemption of government securities from State taxation is, by many persons, considered an unjust discrimination in their favor, efforts may be made to induce Congress to legislate upon the subject of their taxation. Of course, the existing exemption from State and municipal taxation of bonds and securities now outstanding will be scrupulously regarded. That exemption is a part of the contract under which the securities have been issued and the money loaned thereon to the government, and it would not only be unconstitutional, but a breach of the public faith of the nation to disregard it. It would also, in the judgment of the Secretary, be unwise for Congress to grant to the States the power, which they will not possess unless conferred by express congressional enactment, of imposing local taxes upon securities of the United States which may be hereafter issued. Such taxation, in any form, would result in serious, if not fatal, embarrassment to the government, and, instead of relieving, would eventually injure the great mass of the people, who are to bear their full proportion of the burden of the public debt. This is a subject in relation to which there should be no difference of opinion. Every taxpayer is personally interested in having the public debt placed at home, and at a low rate of interest, which cannot be done if the public securities are to be subject to local taxation. Taxes vary largely in different States, and in different counties and cities of the same State, and are everywhere so high that, unless protected against them, the bonds into which the present debt must be funded cannot be distributed among the people, except in some favored localities, unless they bear a rate of interest so high as to make the debt severely oppressive, and to render the prospect of its extinguishment well-nigh hopeless. Exempted from local taxation, the debt can, it is expected, be funded at an early day at five per cent.; if local taxation is allowed, no considerable portion of the debt which falls due within the next four years can be funded at home at less than eight per cent. The taxpayers of the United States cannot afford to have their burdens thus increased. It is also evident that the relief which local taxpayers would obtain from government taxation, as the result of a low rate of interest on the national securities, would at least be as great as the increase of

local taxes to which they would be subjected on account of the exemption of government securities; while if those securities should bear a rate of interest sufficient to secure their sale when subject to local taxes, few, if any of them, would long remain where those taxes could reach them. They would be rapidly transferred to other countries, into the hands of foreign capitalists, and thus at last the burden of paying a high rate of interest would be left upon the people of this country without compensation or alleviation.

The present system of internal revenue is one of the results of the war. It was framed under circumstances of pressing necessity, affording little opportunity for careful and accurate investigation of the sources of revenue. Its success, however, has exceeded the anticipations of its authors, and is a most honorable testimonial to their wisdom, and to the patriotism of the people who have so cheerfully submitted to its burdens.

With the restoration of peace, industry is returning again to its former channels, and a revision of the system now becomes important to accommodate it to the changed and changing condition of the country.

Every complicated system of taxation opens the way to mistakes, abuses, and deceptions. Temptations to dishonesty and fraud are placed before the revenue officers and the taxpayers, and both are often thereby demoralized. Honest men, who pay their taxes in full, are injured, if not ruined, by the ingenuity of those who successfully evade their share of the public burdens.

The multiplicity of objects at present subject to taxation is one of the most serious objections to the present system. Many of these yield little revenue, while its collection is troublesome to the collector, and irritating and offensive to the taxpayers. This multiplicity also involves as many temptations to fraud, and as many difficult questions for decision, as the objects from which large revenue is derived.

To impose taxes judiciously, so as to obtain revenue without repressing industry, is one of the highest and most difficult duties devolved upon Congress. Taxation which in one year may be scarcely felt may the next year be oppressive; and that which may not be burdensome to those who are well established in business may be fatal to those just commencing. Every branch of industry has its infancy, and ought to be encouraged by liberal legislation. Whatever of industry or enterprise is destroyed, by injudicious taxation or otherwise, is a damage to the national welfare.

Heavy taxation may drive capital from our shores, or prevent its employment in the manner most advantageous to the country, and thus prevent that demand for labor which is the best security for its proper reward.

The taxation which is now extremely productive may in a few years become unproductive, or engender a spirit of opposition and discontent which may endanger the national credit.

It is important, therefore, that our revenue system should be frequently and carefully revised, in order that it may be accommodated to the habits and character of the people, to the industry of the country, to labor and capital, to wages at home and wages abroad. It is also of the highest importance that

there should be a careful adjustment of our internal to our external revenue system.

That views somewhat similar to these were entertained by Congress, is indicated by the provision in the amendatory act of March 3, 1865, by which the Secretary of the Treasury was authorized to "appoint a commission, consisting of three persons, to inquire and report, at the earliest practicable moment, upon the subject of raising by taxation such revenue as may be necessary in order to supply the wants of the government, having regard to and including the sources from which such revenue should be drawn, and the best and most efficient mode of raising the same."

This subject received the early attention of the Secretary, and under the authority of the act, after careful deliberation, a commission was organized, consisting of Messrs. David A. Wells, Stephen Colwell, and S. S. Hayes, representing, to a certain extent, different sections and interests, and also different political sentiments. The commission was fully organized in June, and has since then been actively engaged in the prosecution of its labors.

An investigation of the character of the revenue, contemplated by the act authorizing this commission, necessarily involves a careful and comprehensive inquiry into the condition of every industry, trade, or occupation in the country likely to be affected by the national revenue system, and, in the absence of nearly all previously compared and exact data, must necessarily be protracted and laborious. From a preliminary report made to the Secretary by the commission, he has reason to infer that enough has already been accomplished by them to indicate the value of an investigation like that in which they are now engaged, and to demonstrate the necessity of the accumulation of a correct and accurate knowledge, properly digested and presented, as a basis for our future revenue legislation.

The plan pursued by the commission has been, to take up, specifically, those sources of revenue which our own experience, and the experience of other countries, have indicated as likely to be most productive under taxation and most capable of sustaining its burdens. In pursuance of this plan, a large number of witnesses have been examined, and much valuable testimony put upon record.

It is understood to be the opinion of the commissioners that it would be inexpedient at once to make any radical and violent changes in the nature and working of the present revenue system, and that we should rather seek, through experience and study, to perfect the present system by degrees, so as to gradually adapt it to the industrial habits and fiscal capacity of the people. The Secretary is also informed by the commissioners that it seems certain to them that, without any increase in the rate of taxation, but by the enactment of some modifications and amendments of the present law, coupled, positively, even with some reduction in the rates, an increase of revenue from comparatively few sources to the extent of some fifty or sixty millions of dollars per annum over and above that now obtained, may be confidently relied on. If this should be the case, an early repeal of a multitude of small taxes which,

from the inquisitorial character of their method of collection, have become extremely odious and objectionable, will be advisable.

Although the work of the commission has been thus far mainly directed to the sources likely to be most productive of revenue, the consideration of the subject of the administration of the law has not been omitted by them; and in this department it is believed that some valuable recommendations will be submitted for the consideration of Congress.

As a gratifying feature of their work, the commission report a most cheerful and prompt co-operation on the part of nearly all the representatives of the industrial interests of the country in the procurement of exact information, and a universal expression of ready acquiescence in any demands upon them which the future necessities of the government may require, united, at the same time, with a request that the government should, on its part, seek to equalize, so far as practicable, and fairly distribute the apportionment of its requirements.

In view of the fact that the revision of the whole revenue system has been committed to this commission, the Secretary does not consider it proper for him to present his views upon this important subject in advance of their final report, which it is hoped will be made early in the session.

There are some subjects, however, presented in the report of the Commissioner of Internal Revenue which require the attention of Congress before the report of the commission is received, and in relation to which there should be early action.

In putting into operation the system of internal revenue in the recently rebellious States, it became necessary for the Secretary to decide whether or not an effort should be made to collect the taxes which accrued prior to the establishment of revenue offices therein. After giving the subject due consideration, the Secretary, in view of the facts that there were no federal revenue officers to whom payment of taxes could be made, that the people (many of them involuntarily) had been subject to heavy taxation by the government which was attempted to be established in opposition to that of the United States, and had been greatly exhausted by the ravages of war, issued a circular, under date of the 21st of June, declaring "that, without waiving in any degree the right of the government in respect to taxes which had before that time accrued in the States and Territories in insurrection, or assuming to exonerate the taxpayer from his legal responsibility for such taxes, the department did not deem it advisable to insist, at present, on their payment, so far as they were payable prior to the establishment of a collection district embracing a territory in which the taxpayer resided."

For substantially the same reasons that induced the Secretary to issue this circular, he deemed it to be his duty to suspend all further sales under the direct tax law. Tax commissioners, however, have been appointed for each State, and collections have been made, as far as it has been practicable to make them, without sales of property. Some sales had, however, been previously made in many of the States, and large amounts of property had been purchased

for the government. In South Carolina a portion of the lands thus purchased have since been sold under the 11th section of the act of August, 1863.

During the war the laws in regard to stamps have been, of course, in the insurrectionary States, entirely disregarded; and, as a consequence, immense interests are thereby imperilled.

In view, therefore, of the recent and present condition of the southern States, the Secretary recommends—

First. That the collection of internal revenue taxes which accrued before the establishment of revenue offices in the States recently in rebellion be indefinitely postponed.

Second. That all sales of property in those States, under the direct tax law, be suspended until the States shall have an opportunity of assuming (as was done by the loyal States) the payment of the tax assessed upon them.

Third. That all transactions in such States, which may be invalid by the non-use of stamps, be legalized as far as it is in the power of Congress to legalize them.

What action, if any, should be taken for the relief of persons in those States, whose property has been sold under the direct tax law, and is now held by the government, it will be for Congress to determine. The Secretary is decidedly of the opinion that liberal legislation in regard to the taxes which accrued prior to the suppression of the rebellion will tend to promote harmony between the government and the people of those States, will ultimately increase the public revenues, and vindicate the humane policy of the government.

The Secretary is happy in being able to state that the affairs of the Bureau of Internal Revenue are being satisfactorily administered, and the working of the system throughout the country is being gradually improved.

For want of proper accommodations in the Treasury building the bureau has been removed to the large and commodious building on Fifteenth street, which has been secured for such time as the government may require its use, at an annual rent of \$23,000.

The reciprocity treaty with Great Britain will expire on the 17th of March next, and due notice of this fact has been given by circulars to the officers of customs on the northern frontier.

There are grave doubts whether treaties of this character do not interfere with the legislative power of Congress, and especially with the constitutional power of the House of Representatives to originate revenue bills; and whether such treaties, if they yield anything not granted by our general revenue laws, are not in conflict with the spirit of the usual clause contained in most of our commercial treaties, to treat each nation on the same footing as the most favored nation, and not to grant, without an equivalent, any particular favor to one nation not conceded to another in respect to commerce and navigation.

It appears to be well established that the advantages of this treaty have not been mutual, but have been in favor of the Canadas. Our markets have been strong, extensive, and valuable; theirs have been weak, limited, and generally far less profitable to our citizens. The people of the Canadas and provinces

have been sellers and we buyers of the same productions for which we are often forced to seek a foreign market. It is questionable, in fact, whether any actual reciprocity, embracing many of the articles now in the treaty, can be maintained between the two countries. Even in regard to the fisheries, it is by no means certain that, instead of equivalents having been acquired under the treaty, more than equal advantages were not surrendered by it. But, whatever the facts may be, this subject, as well as that of inter-communication through rivers and lakes, and possibly canals and railroads, are proper subjects of negotiation, and their importance should secure early consideration.

It is certain that, in the arrangement of our complex system of revenue through the tariff and internal duties, the treaty has been the cause of no little embarrassment. The subject of the revenue should not be embarrassed by treaty stipulations, but Congress should be left to act upon it freely and independently. Any arrangement between the United States and the Canadas and provinces, that may be considered mutually beneficial, can as readily be carried out by reciprocal legislation as by any other means. No complaint would then arise as to subsequent changes of laws, for each party would be free to act at all times, according to its discretion.

However desirable stability may be, an irrevocable revenue law, even in ordinary times, is open to grave objections, and in any extraordinary crisis is likely to be pernicious. The people of the United States cannot consent to be taxed as producers while those outside of our boundaries, exempt from our burdens, shall be permitted, as competitors, to have free access to our markets. It is desirable to diminish the temptations now existing for smuggling, and if the course suggested, of mutual legislation, should be adopted, a revenue system, both internal and external, more in harmony with our own, might justly be anticipated from the action of our neighbors, by which this result would be most likely to be obtained.

The attention of Congress is again called to the importance of early and definite action upon the subject of our mineral lands, in which subject are involved questions not only of revenue, but social questions of a most interesting character.

Copartnership relations between the government and miners will hardly be proposed, and a system of leasehold, (if it were within the constitutional authority of Congress to adopt it, and if it were consistent with the character and genius of our people,) after the lessons which have been taught of its practical results in the lead and copper districts, cannot of course be recommended.

After giving the subject as much examination as the constant pressure of official duties would permit, the Secretary has come to the conclusion that the best policy to be pursued with regard to these lands is the one which shall substitute an absolute title in fee for the indefinite possessory rights or claims now asserted by miners.

The right to obtain a "fee simple in the soil" would invite to the mineral

districts men of character and enterprise; by creating homes, (which will not be found where title to property cannot be secured,) it would give permanency to the settlements, and, by the stimulus which ownership always produces, it would result in a thorough and regular development of the mines.

A bill for the subdivision and sale of the gold and silver lands of the United States was under consideration by the last Congress, to which attention is respectfully called. If the enactment of this bill should not be deemed expedient, and no satisfactory substitute can be reported for the sale of these lands to the highest bidder, on account of the possessory claims of miners, it will then be important that the policy of extending the principle of pre-emption to the mineral districts be considered. It is not material, perhaps, how the end shall be attained, but there can be no question that it is of the highest importance, in a financial and social point of view, that ownership of these lands, in limited quantities to each purchaser, should be within the reach of the people of the United States who may desire to explore and develop them.

In this connexion it may be advisable for Congress to consider whether the prosperity of the treasure-producing districts would not be increased, and the convenience of miners greatly promoted, by the establishment of an assay office in every mining district from which an annual production of gold and silver amounting to ten millions of dollars is actually obtained.

The attempts at smuggling, stimulated by the high rates of duties on imports, have engaged the attention of the department, and such arrangements have been made for its detection and prevention as seemed to be required by the circumstances, and available for that purpose.

It is quite apparent, however, that, with our extensive sea-coasts and inland frontier, it is impracticable entirely to prevent illicit traffic, though checks at the most exposed points have, doubtless, been put to such practices.

In this connexion it may be remarked that the revenue cutters are diligently and usefully employed in the preventive service, within cruising limits so defined as to leave no point of sea and gulf coasts unvisited by an adequate force.

A similar arrangement will be extended to the lakes on the reopening of navigation, the cutters built for that destination not having been completed in time to be put in commission before its close.

The cutters are an important auxiliary to the regular customs authorities, in the collection and protection of the public revenue, by the examination of incoming vessels and their manifests of cargo; affording succor to vessels in distress; aiding in the enforcement of the regulations of harbor police, and otherwise preventing or detecting violations or evasions of law. A service of this description is unquestionably useful, if not indispensable, to the administration of the revenue system of a maritime and commercial country with such extensive sea, lake, and gulf coasts as our own.

There are now in the service twenty-seven steamers and nine sailing vessels. Of the steamers, seven are of the average tonnage of 350 tons, and draw nine feet of water. These large vessels were constructed during the progress of the late rebellion, and were designed for the combined purpose of a naval force