REPORT

OF THE

SECRETARY OF THE TREASURY.

The Secretary of the Treasury, in obedience to law, submits the following report to Congress:

The general principles by which, as the Secretary conceives, the administration of the public finances should be regulated, with a view to insure the desirable results of efficiency, economy, and general prosperity, were set forth, with as much clearness and plainness as he is capable of, in his report made to Congress on the 4th day of July last. In that report, also, the Secretary submitted to the consideration of the Legislature the measures by which, in his opinion, the pecuniary means, necessary to the speedy and effectual suppression of the gigantic rebellion set on foot by criminal conspiracy against the Government and the people of the United States, might be most certainly and most economically obtained. The estimates of the several departments then laid before Congress by the Secretary contemplated an aggregate expenditure, during the fiscal year to end on the 30th June, 1862, of $318,519,581 87.

To provide this sum the Secretary proposed such modifications of the tariff and such internal taxes as would, in his judgment, produce the sum of eighty millions of dollars, and such loans, in various forms, not exceeding in their aggregate two hundred and fifty millions of dollars, as would yield the required residue. Without adopting all his recommendations in regard to customs and internal taxes, Congress made such provisions for both as was deemed necessary to secure the sum proposed to be derived from those sources, and authorized loans, in the mode and to the extent proposed by the Secretary, for obtaining the additional sum required by the estimates. It now becomes his duty to give some account of the executive and practical operation of these measures; and in the performance of it he solicits, first, the attention of Congress to that part of them relating to loans. The act authorizing loans provided—

First. For a National Loan of one hundred millions of dollars, or any larger sum, not exceeding the whole amount authorized, in bonds or treasury notes, bearing 7 30 per cent. interest, payable three years after date, and convertible at or before maturity into twenty years' six per cent. bonds.

Secondly. For a loan in Europe, or in the United States, at the discretion of the Secretary, of one hundred millions of dollars, payable twenty years after date, and bearing interest not exceeding seven per cent.

Thirdly. For the issue, in payments to public creditors, or in exchange for coin, of treasury notes payable one year after date, bearing an interest of 3 65 per cent., and convertible into the three years' 7 30 bonds or treasury notes.

Fourthly. For the issue of notes, payable on demand and receivable for all public dues, to be used as coin in payments and exchanges.

The aggregate of notes of the last two descriptions was limited to fifty millions of dollars, in denominations less than fifty, but not less than five dollars. A further authority was conferred by the act to issue treasury notes of any of the specified denominations, bearing six per cent. interest and payable not over twelve months from date, to an amount not exceeding twenty millions of dollars. To provide for immediate exigencies was the first duty of the Secretary, and he performed it by proceeding under authorities conferred by various acts, for payments to public creditors or for advances of cash, $14,019,641 66 in Treasury notes, payable within years, and bearing 6 per cent. interest, and $12,877,750 in Treasury notes, bearing the same rate of interest, but payable sixty days after date. His next care was to provide for the regular and continuous disbursements of the war, under the acts of the July session; and with this view, he carefully examined the various powers conferred on him; compared the probabilities of the American and European markets for capital; and considered the relative advantages and disadvantages of the several forms of loan authorized.

His reflections led him to the conclusion that the safest, surest and most beneficial plan would be to engage the banking institutions of the three chief commercial cities of the seaboard to advance the amounts needed for disbursement in the form of loans for three years' 7 30 bonds to be reimbursed, as far as practicable, from the proceeds of similar bonds, subscribed for by the people through the agencies of the National Loan; using, meanwhile, himself, to a limited extent, in aid of these advances, the power to issue notes of smaller denominations than fifty dollars, payable on demand. Upon this plan he hoped that the credit of the people might be so combined with the credit of the government, in a proper provision for necessary expenditures, as to give efficiency to administrative action, whether civil or military, and competent support to public credit. The result thus far has fulfilled that hope.

Representatives from the banking institutions of the three cities, responding to his invitation, met him for consultation in New York, and, after full conference, agreed to unite as associates in money, in support to the Government, and to subscribe at once a loan of fifty millions of dollars, of which five millions were to be paid immediately to the Assistant Treasurers, in coin, and the residue, also in coin, as needed for disbursement. The Secretary, on his part, agreed to issue three years, 7.30 bonds or treasury notes, bearing even date with the subscription, and of equal amount; to cause books of subscription to the national loan to be immediately opened; to reimburse the advances of the banks as far as practicable from this national subscription; and to deliver to them 7.30 bonds or treasury notes for the amount not thus reimbursed. It was further understood that the Secretary of the Treasury should issue a limited amount of United States notes, payable on demand, in aid of the operations of the Treasury, and that the associated institutions, when the first advance of fifty millions should be expended, would, if practicable, make another, and when that should be exhausted, still another advance to the Government of the same amount, and on similar terms.

The objects of this arrangement were (1st.) to place at the command of the Government the large sums immediately needed for the payment of maturing Treasury notes, and for other disbursements, ordinary and extraordinary; (2d.) to secure to the people equal opportunity, with the banks, for participation in the loan; (3d.) to avoid competition between the Government and the associated institutions in the disposal of funds; (4th.) to facilitate and secure further advances to the Government by the associates, if required; and (5th.) to insure, if possible, the maintenance of payments in specie, or its actual equivalents and representatives. All these objects were, happily, accomplished. Fifty millions of dollars were immediately advanced by the banks. The Secretary caused books of subscription to be opened throughout the country, and the people subscribed freely to the loan. The amount thus subscribed were reimbursed to the banks; and the sum reimbursed, though then covering but little more than half the amount, enabled those institutions, when a second loan was required, to make a new advance, and the first issue of bonds bears date on the 19th of August; the second on the 1st of October, 1861. On the 16th of November a third loan was negotiated with the associated institutions under the authority given to the Secretary to borrow a sum not exceeding one hundred millions, in Europe or the United States at a rate of interest not exceeding seven per cent. As no reasonable prospect appeared of obtaining terms equally advantageous by advertisement, and as it was manifestly for the interest of the Government to negotiate at home, rather than incur the expense and hazard of negotiating abroad, the Secretary, under the authority of the seventh section of the act of August 5, 1861, arranged this third loan, also, with the associates, by agreeing to issue them fifty millions of dollars in six per cent. bonds, at a rate equivalent to par for the bonds bearing seven per cent. interest authorized by the act of July 17th.

This negotiation, though less advantageous to the Government, considered under the light of a simple money transaction, than the two prior loans, was, in some respects at least, more so. It was coupled with no arrangement for reimbursement, and entailed no immediate expense on the Treasury, beyond that of preparing and issuing the bonds. It was coupled, also, with an understanding in the form of an option to the associates, that on or after the first of January, a fourth advance of fifty millions should be made, on the same terms with the first and second, if practicable and required by the Secretary. In addition to the loans thus made, the Secretary has issued United States notes, payable on demand, in denominations of five, ten, and twenty dollars, of which there were in circulation, according to the last returns, on the 30th day of November, 1861, $21,165,229; and there remained in the Treasury at the same date, $2,385,165. The amount thus issued, so far as it enters into the circulation of the country, may be regarded as a loan from the people, payable on demand, without interest.

A brief recapitulation will exhibit the general result:

There were paid to creditors, or exchanged for coin at par, at different dates in July and August, six per cent. two years' notes, to the amount of	$14,019,641 66
There was borrowed, at par, in the same months, upon sixty days' six per cent. notes, the sum of	12,877,750 00
There was borrowed, at par, on the 19th of August, upon three years' 7.30 bonds, issued for the most part to subscribers to the National Loan	50,000,000 00
There was borrowed, on the 1st of October, upon like securities	50,000,000 00
There was borrowed, at par for seven per cent., on the 10th of November, upon twenty years' six per cent. bonds, reduced to the equivalent of sevens, including interest	45,795,478 48
There have been issued, and were in circulation and on deposit with the Treasurer, on the 30th of November, of United States notes, payable on demand	21,550,225 00
Making an aggregate, realized from loans in various forms, of	197,242,595 14

While success thus complete was so far attended the measures relating to loans, the Secretary regrets to say that the receipts of revenue from duties have not, as yet, fulfilled the expectations indulged at the date of his July report. The act modifying the rates of duties which received the final sanction of Congress, differed, in several respects, from the measure which he had the honor of submitting to their consideration. In most of these particulars, especially in the diminished duties on tea, coffee, and sugar, and in the exemption from the operations of the act, of goods in warehouse and on shipboard, the difference, however, warranted by considerations of general policy, was certainly disadvantageous to the revenue; while another, and perhaps more potential cause of reduced receipts, may be found in the changed circumstances of the country, which have proved, even beyond anticipation, unfavorable to foreign commerce.

At the date of his report, the Secretary counted on a revenue from customs, for the financial year 1862 of fifty-seven millions of dollars, but the circumstances to which he has just adverted, now constrain him to reduce this estimate to $32,198,692 55. The receipts from customs for the first quarter, ending on the 30th of September, were $7,198,692 55, while the receipts for the three remaining quarters cannot be safely estimated at more than $25,000,000, making the aggregate for the year the sum just mentioned of $32,198,692 55. The estimate of the receipts from lands and miscellaneous sources must also be reduced from $3,000,000 to $2,351,062 81, of which $234,062 80 were received during the quarter ending 30th September, 1861, and $2,000,000 are the estimated receipts of the three remaining quarters. The only other source of revenue which promises an addition to the resources of the year is the direct tax authorized by Congress, from which, if increased to the limit proposed by the Secretary and assumed by the States, the further sum of $20,000,000 may be expected. The aggregate of revenue from all sources may, therefore, be estimated at $54,552,755 44, which is less by $25,417,334 56, than the estimate of July.

This reduction, however, though large, would not have compelled the Secretary to ask any additional powers for the negotiation of loans, beyond those asked for in his July report, had appropriations and expenditures been confined within the estimates then submitted. These estimates, it will be remembered, contemplated expenditures in all departments, and for all objects, to the amount of $318,519,581 87. Of this sum $153,296,397 79 were for additional appropriations required by the Department of War; and $17,652,105 00 for appropriations already made to that department. The basis of the estimates for these additional appropriations, was the understanding that it would be necessary to bring into the field, for the suppression of the rebellion, two hundred and fifty thousand volunteers, in place of the seventy five thousand drafted militia originally called out, and to increase the regular army by the addition of eleven new regiments, making a total force, including the regular army already organized, of about three hundred thousand men. After estimates for this force had been furnished to the Secretary, in accordance with law, and his own report, founded upon them, had been closed, the President thought it expedient, in order to make the contest short and decisive, to ask Congress to place at the control of the Government, at least four hundred thousand men, and four hundred millions of dollars.

In the number thus called for the regulars were included. Congress, animated by the same desire for a short and decisive contest, went beyond this recommendation of the President, and authorized the acceptance of volunteers in such numbers, not exceeding five hundred thousand, as he might deem necessary. Congress also authorized the whole increase of the regular army estimated for by the Department, and provided further for additional companies and for new officers in several branches of the military service. The action of Congress, therefore, contemplated the employment, if necessary, of a force, including the existing regular army, of about five hundred and fifty thousand men. To insure its efficiency, the President was authorized to appoint any number of Major-Generals and Brigadier-Generals he might think necessary, and to increase the staff of Major-Generals in the field by discretionary appointments of aids-de-camp, with various rank, from Captain to Colonel.

This large increase of the army in men and officers, and the liberal additions made by Congress to pay and rations, has augmented, and must necessarily augment, expenditure far beyond the limit indicated by the original estimates; and the limit must be still further extended by the additional sums required for the increase of the navy, and for other objects. To meet these increased demands, arising almost wholly from the increase of the army and navy, and the increase of pay and rations beyond the original estimates, large additional appropriations have been and will be necessary. Of these additional appropriations $147,955,569 61 were authorized by acts of the last session, and $105,339,927 76 are now asked for, making an aggregate increase, including $22,787,933 31 for indefinite appropriations and redemption of temporary debt, beyond the estimate of July of $253,901,427 68.

To provide the large sums needed for the disbursements of the current year, and the large sums which the exigencies of the succeeding year may require, will necessarily engage the most serious attention of Senators and Representatives. The first great object of reflection and endeavor, in the judgment of the Secretary, should be the reduction of expenditure within the narrowest practicable limits. Retrenchment and reform are among the indispensable duties of the hour. Contracts for supplies to the army and navy, as well as for public work of all descriptions, should be subjected to strict supervision, and the contractors to rigorous responsibility. All unnecessary offices should be abolished, and salaries and pay should be materially reduced. In these ways the burdens of the people, imposed by the war, may be sensibly lightened; and the savings thus effected will be worth more in beneficial effect and influence than the easiest acquisition of equal sums even without cost or liability to repayment.

While thus recommending retrenchment and the prevention of abuses, the Secretary feels himself constrained to renew the suggestion heretofore submitted by him, that the property of rebels should be made to pay, in part at least, the cost of rebellion. Property of great value in loyal States is held by proprietors who are actually or virtually engaged in that guilty attempt to break up the Union and overthrow its government, which has brought upon our country all the calamities we now endure. That property is justly forfeited to the people, and should be subjected, with due regard for all rights and interests concerned, to sequestration or confiscation, and the proceeds should be applied to the satisfaction of claims arising from the war. Property of rebels in rebel States should be treated in like manner. Rights to services, under State laws, must, of necessity, form an exception to any rule of confiscation. Persons held by rebels, under such laws, to service as slaves may, however, be justly liberated from their constraint, and made more valuable in various employments, through voluntary and compensated service, than if confiscated as subjects of property.

Whatever may be saved by retrenchment, however, or exacted from rebellion, large sums must remain to be provided for by taxation and loans.

Already in a former report the Secretary has had the honor of stating the principles by which, as he conceives, the proportions of taxations and loans should be determined. Reflection has only confirmed his opinion that adequate provision by taxation for ordinary expenditures, for the prompt payment of interest on the public debt, existing and authorized, and for the gradual extinction of the principal, is indispensable to a sound system of finance. The idea of perpetual debt is not of American origin, and should not be naturalized. If, at any time, the exacting emergencies of war constrain a temporary departure from the principle of adequate taxation, the first moments of returning tranquillity should be devoted to its return, to establishment in full supremacy over the financial administration of affairs.

It is now even more apparent than at the date of the July report that duties on imports cannot be relied upon as a source of revenue sufficient for the proper objects of taxation. Some modification may, perhaps, be judiciously made of the existing tariff, and some increase of revenue may in this way be probably obtained.

But existing circumstances are not propitious to a wise and permanent adjustment of imposts to the various demands of revenue, commerce, and home industry. The most sacred duty of the American people at this moment requires the consecration of all their energies and all their resources to the speedy establishment of Union on the permanent foundations of justice and freedom; and while other nations look with indifferent or unfriendly eyes upon this work, sound policy would seem to suggest not the extension of foreign trade, but a more absolute reliance, under God, upon American labor, American skill, and American soil. Freedom of commerce is, indeed, a wise and noble policy, but to be wise or noble, it must be the policy of concordant and friendly nations.

In accordance with these views the Secretary begs leave to recommend that the duties on tea, coffee, and sugar be increased to the rates heretofore proposed; that is to say, to two and one-half cents per pound on brown sugar, to three cents on clarified sugar; to twenty cents per pound on green tea, and to five cents per pound on coffee, and that no other alteration of the tariff be made during the present session of Congress, unless further experience or changed circumstances shall demonstrate the necessity or expediency of them. All considerations of prudence and patriotism seem to concur in favor of giving to the existing tariff a full and fair trial, and of reserving the work of revision, modification, and permanent settlement for more propitious days.

It has been already remarked that the receipts of revenue from duties, during the first two quarters of the current year, have not equalled expectation. It is highly probable, however, that the revenue of the two last will very considerably exceed that of the two first quarters of the year. A considerable improvement in the condition of trade and industry is clearly perceptible, and promises to be permanent. An increase of the revenue from customs may therefore be reasonably anticipated.

It is quite clear, however, that no anticipation of revenue from imports, will be sufficient in amount for the various demands of ordinary and extraordinary expenditure, can be wisely indulged, so long, at least, as the existing contest shall be prolonged; nor is it probable, should the debt created in the suppression of the rebellion reach very large proportions, that the customs revenue will suffice for those demands during the first years after the restoration of peace.

It becomes the duty of Congress, therefore, to direct its attention to revenue from other sources, to consider the character and extent of the provision made at its last session, and the expediency of further provision of a similar character.

The provision made at the last session was of two descriptions; first, a direct tax of $20,000,000, of which $14,816,018 was apportioned to States and Territories acknowledging their obligations to the Union, and $5,152,982 to States the citizens of which repudiate those obligations and are in open rebellion; and, secondly, an internal duty of three per centum on all annual incomes, with certain exceptions and deductions.

As it is highly desirable to avoid, as long as practicable, introduction into the States of Federal agencies for the assessment and collection of taxes, the Secretary, relying on assurances from Governors of various States that the amounts apportioned to them respectively will be assumed, collected and paid through existing State agencies, has hitherto refrained from advising the application of any portion of the direct tax to States which have refused or shall refuse to make such provisions. Conditions which can only be ascertained for the purposes of the income tax, after the first day of January, and for the purposes of the direct tax after the first day of April next.

The Secretary is acquainted with no statistics which afford the means of a satisfactory estimate of the amount likely to be realized from the income tax. Considering, however, how large a proportion of incomes, after the deductions sanctioned by law, will fall within the exemption limit of $800 a year; and considering also what numerous questions will certainly perplex its assessment and collection, he respectfully submits to the consideration of Congress whether the probable yield will be a sufficient reason for putting in operation, at great cost, a machinery of the act, with a view, should the States assume the direct tax, to the collection of the income tax alone.

The prudent forecast which induced Congress to postpone to another year the necessity of steps for the practical enforcement of the law, affords, happily, the opportunity of revision and modification. It affords, also, the opportunity of comparing the amount of needed revenue of so shaping legislation as to secure, beyond doubt, the sums essential to the fulfilment of national credit.

In the judgment of the Secretary, it will be necessary to increase the direct tax so as to produce from the loyal States alone a revenue of at least twenty millions of dollars, and to lay such duties on stills and distilled liquors, on tobacco, on bank notes, on carriages, on legacies, on paper evidences of debt and instruments for conveyance of property, and other like subjects of taxation, as will produce an equal additional sum. The existing provision for an income tax, just in its principles, inasmuch as it requires largest contributions from largest means, may, possibly, and if somewhat modified will, probably, produce ten millions of dollars more. The aggregate taxation will thus amount to fifty millions of dollars.

The Secretary is aware that the sum is large; but seeing, as he does, no probability that the revenue from ordinary sources will exceed forty millions of dollars during the current year, and knowing, as he does, that to meet even economized disbursements, and pay the interest on the public debt, and provide a sinking fund for the gradual reduction of its principal, the appropriation of ninety millions of dollars will be necessary, he feels that he must not shrink from a plain statement of the actual necessities of the situation.

But if the sum is large the means of the people are also large; and the object to be attained by a consecration of a portion of them to the public service is priceless. The real property of the loyal States is valued, in round numbers, at seven and a half thousands of millions; the personal property at three and a half thousands of millions; and the annual surplus earnings of the loyal people at not less than three hundred millions of dollars. Four mills on each dollar, or two fifths of one per cent on the real and personal property of the loyal States, will produce forty-four millions of dollars; to which sum the proper income tax will probably add ten millions. The whole sum will be little more than one sixth of the surplus earnings of the country. Certainly such a tax cannot be paid without inconvenience; doubtless the legislature which imposes such a tax must take care that the money thus raised be used economically, prudently and honestly. But can any one hesitate about such or even greater contributions when the Union and the popular institutions which it guards are put in peril by rebellion, and the public faith pledged to our own citizens, who, in many instances, have placed the whole earnings of industrious lives in the hands of the Government for its suppression, asks support?

It will be seen at a glance that the amount to be derived from taxation forms but a small portion of the sums required for the expenses of the war. For the rest, the reliance must be placed on loans.

Already, beyond the expectations of the most sanguine, the country has responded to the appeals of the Secretary. The means adopted for securing the concurrence of all classes of citizens in financial support to the Government have been already explained. It remains only to be added here that, while the action of the banking institutions in assuming the immediate responsibility of the whole advances hitherto required, as well as the final responsibility of much the largest portion of them, merits high eulogium, the prompt patriotism with which citizens of moderate means and working men and working women have brought their individual offerings to the service of their country, must command even warmer praise. It should be the constant care of the National Legislature and of the National Government in all its departments that the generous confidence reposed by the poor, as well as by the rich, in the public faith, be never disappointed.

It must not be concealed, however, that the condition of the national finances, when the present Secretary entered upon the duties of his office, though somewhat improved during the able and upright, though brief, administration of his immediate predecessor, was such as to make disadvantageous rates inevitable in the negotiation of loans. It affords just occasion of gratulation that, under most embarrassing circumstances of shaken credit and immense demands, loans have been effected at home, without resort to any foreign market, to the amount of one hundred and ninety-seven millions of dollars, with a virtual engagement for fifty millions more, at his average rate, considering the conversion of the three years' 7.30 bonds into twenty years' six per cent. bonds as certain, of somewhat less than six and a half per cent.

This rate of interest is, however, higher than the United States, with their vast and constantly accumulating resources, ought to pay. No doubt reasonably exists that after the re establishment of union and order the five per cent. bonds of the United States will command a premium in the markets of the world, unless the national debt be, meantime, augmented beyond necessity or reason. The wealth and power of the country, manifested in the suppression of rebellion, will demonstrate the absolute safety of investments in United States stocks; and foreign capitalists, restricted to the lower interests and the inferior security of public debt in other countries, will be attracted by the superior advantages offered by the loans of the Union.

To enable the Government to obtain the necessary means for prosecuting the war to a successful issue, without unnecessary cost, is a problem which must engage the most careful attention of the Legislature.

The Secretary has given to this problem the best consideration in his power, and now begs leave to submit to Congress the result of his reflections.

The circulation of the banks of the United States, on the 1st day of January, 1861, was computed to be $232,090,767. Of this circulation $150,000,000, in round numbers, was in States now loyal, including West Virginia, and $50,000,000 in the rebellious States. The whole of this circulation constitutes a loan without interest from the people to the banks, costing them nothing except the expense of issue and redemption and the interests on the specie kept on hand for the latter purpose; and it deserves consideration whether sound policy does not require that the advantages of this loan be transferred, in part at least, from the banks, representing only the interests of the stockholders, to the Government, representing the aggregate interests of the whole people.

It has been well questioned by the most eminent statesmen, whether a currency of bank notes, issued by local institutions under State laws, is not, in fact, prohibited by the National Constitution. Such emissions certainly fall within the spirit, if not within the letter, of the constitutional prohibition of the emissions of bills of credit by the States, and of the making by them of anything except gold and silver coin a legal tender in payment of debts.

However this may be, it is too clear to be reasonably disputed that Congress, under its constitutional powers to lay taxes, to regulate commerce, and to regulate the value of coin, possesses ample authority to control the credit circulation which enters so largely into the transactions of commerce, and effects in so many ways the value of coin.

In the judgment of the Secretary the time has arrived when Congress should exercise this authority. The values of the existing bank note circulation depends on the laws of thirty four States, and the character of some sixteen hundred private corporations. It is usually furnished in greatest proportions by institutions of least actual capital. Circulation, commonly, is in the inverse ratio of solvency. Well founded institutions, of large and solid capital, have, in general, comparatively little circulation; while weak corporations almost invariably seek to sustain themselves by obtaining from the people the largest possible credit in this form. Under such a system, or rather lack of system, great fluctuations, and heavy losses in discounts and exchanges are inevitable; and not unfrequently, through failures of the issuing institutions, considerable portions of the circulation become suddenly worthless in the hands of the people.—The recent experience of several States in the valley of the Mississippi painfully illustrate the justice of these observations, and enforces by the most urgent practical arguments the duty of protecting commerce and industry against the recurrence of such disorders.

The Secretary thinks it possible to combine with this protection a provision for circulation, safe to the community and convenient for the Government.

Two plans for effecting this object are suggested. The first contemplates the gradual withdrawal from circulation of the notes of private corporations and for the issue in their stead of United States notes, payable in coin on demand, in amounts sufficient for the useful ends of a representative currency. The second contemplates the preparation and delivery, to institutions and associations, of notes prepared for circulation under national direction, and to be secured as to prompt convertibility into coin by the pledge of United States bonds and other needful regulations.

The first of these plans was partially adopted at the last session of Congress, in the provision authorizing the Secretary to issue United States notes, payable in coin, to an amount not exceeding fifty millions of dollars.—That provision may be so extended as to reach the aver age circulation of the country, while a moderate tax, gradually augmented, on bank notes, will result in national from the competition of local circulation. It has been already suggested that the substitution of a National for a State currency, upon this plan, would be equivalent to a loan to the Government without interest, except on the fund to be kept in coin, and without expense, except the cost of preparation, issue and redemption; while the people would gain the additional advantage of a uniform currency, and relief from a large portion of the burden in the form of interest on debt. These advantages are worthy of considerable, and if a scheme can be devised by which such a circulation will be certainly and strictly confined to the wants and needs of the people, and kept constantly equivalent to specie by prompt and certain redemption in coin, it will hardly fail of legislative sanction.

The plan, however, is not without serious inconveniences and hazards. The temptation, especially great in times of pressure and disaster, to issue beyond the adequate provision for redemption; the ever-present liability to be called on for redemption beyond means, however carefully provided and managed; the hazard of panics, resulting from doubts of the ability to redeem on a few points and a single fund; the risk of a depreciated, depreciating, and, finally, worthless paper money; the immeasurable evils of dishonored public faith and national bankruptcy; all these and other consequences of the adoption of a system of Government circulation may be said, and perhaps truly, that they are less deplorable than those of an irredeemable bank circulation. Without intending to draw a close comparison, the Secretary contents himself with observing that, in his judgment, these possible disasters, so far outweigh the probable benefits of the plan that he feels himself constrained to forbear recommendation of its adoption.

The second plan suggested remains for examination. Its principal features are (1st) a circulation of notes bearing a common impression and authenticated by a common authority; (2d) the redemption of these notes by the associations and institutions to which they may be delivered for issue; and (3d) the security of that redemption by the pledge of United States stocks, and an adequate provision of specie.

In this plan the people, in their ordinary business, would find the advantages of uniformity in currency, of uniformity in security; of effectual safeguard, if effectual safeguard is possible, against depreciation; and of protection from losses in discounts and exchanges; while in the operations of the Government the people would find the further advantage of a large demand for Government securities, of increased facilities for obtaining the loans required by the war, and of some alleviation of the burdens on industry through a diminution of the rate of interest, or a participation in the profit of circulation, without risking the perils of a great money monopoly.

A further and important advantage to the people may be reasonably anticipated from the increased security of the Union, springing from the common interest in its preservation created by the distribution of its stocks to associations throughout the country as the basis of their circulation.

The Secretary entertains the opinion that if a credit circulation in any form be desirable, it is most desirable in this. The notes thus issued and secured would, in his judgment, form a currency which this country has ever enjoyed, while they would furnish for all Government dues, except customs, would make them, wherever payable, of equal value, as a currency, in every part of the Union. The large amount of specie now in the United States, reaching a little more than two hundred and seventy-five millions of dollars, will easily support payments of duties in coin, while these payments and ordinary demands will aid in retaining this specie in the country as a solid basis for a currency of circulation and loans.

The whole circulation of the country, except a limited amount of foreign coin, would, after the lapse of two or three years, bear the impress of the nation whether in coin or notes; while the amount of the latter, always easily ascertainable, and, of course, always generally known, would not be likely to be increased beyond the real wants of business.

He expresses an opinion in favor of this plan with the greater confidence, because it has the advantage of recommendation from experience. It is not an untried theory. In the States of New York and in one or more of the other States it has been subjected, in the most essential parts, to the test of experiment, and has been found practicable and useful. The probabilities of success will not be diminished but increased by its adoption under national sanction and for the whole country.

It only remains to add that the plan is recommended by one other consideration, which, in the judgment of the Secretary, is entitled to much influence. It avoids almost, if not altogether, the evils of a great and sudden change in the currency by offering, rather, inducements to it by the immunity of the union. Thus, through no voluntary action of the existing institutions, added by wise legislation, the great transition from a currency heterogeneous, unequal, and unsafe, to one uniform, equal and safe, may be specifically and almost imperceptibly accomplished.

If the Secretary has omitted the discussion of the question of the constitutional power of Congress to put this plan into operation, it is because no argument is necessary to establish the proposition that the power to regulate commerce and fix the value of coin includes the power to regulate the currency of the country, or the collateral proposition that the power to effect the end includes the power to adopt the necessary and expedient means.

The Secretary entertains the hope that the plan now submitted, if adopted with the limitations and safeguards which the experience and wisdom of Senators and Representatives will doubtless suggest, may import such value and stability to Government securities that it will not be difficult to obtain the additional loans required for the service of the current and the succeeding years at fair and reasonable rates; especially if the public credit be supported by prudent and certain provision for the payment of interest and ultimate redemption of the principal.

To obtain a clear understanding of the amount for which it will become necessary to resort to further loans, it is requisite to review the financial movement of the Treasury during the whole of the last, and the first quarter of the current fiscal year, and compare somewhat more closely than has already been done the probable wants and probable resources of the Government for the remaining three quarters of the current, and the whole of the following year.

In the July report the Secretary submitted a detailed statement, in part estimated, showing the receipts for the last fiscal year, ending on the 30th June, 1861, including the balance in the Treasury at its commencement, to be $48,372,893 81; and the expenditures to have been $84,577,238 66; and the balance to be carried to new account, to be $3,795,655 21. Actual returns show that the receipts, including balance, were $50,835,900 27; the expenditures $84,578,834 47, and the balance $2,257,065 80.

For the first quarter of the current fiscal year, commencing 1st July, 1861, the receipts and expenditures are ascertained, and for the remaining three quarters ending 30th June, 1862, are estimated as follows:

For the 1st quarter, the actual receipts from customs, lands, and miscellaneous sources, including the balance of $2,257,065 80, were	$9 809,731 54
For the 2d, 3d and 4th quarters the estimated receipts are	27,000,000 00
To these sums must be added the amount realized from loans in all forms prior to Dec. 1, 1861, as already stated	197,242,588 14
And there must be added also the amount to be realized from additional loans already authorized	75,410,675 00
And there must be added also the amount anticipated from the direct tax	20,000,000 00
Making the total of receipts	329,501,994 68
On the other hand—	
For the 1st quarter the actual expenditures were	93,229,223 09
For the 2d, 3d and 4th, the estimated expenditures, under appropriations already made for public service, including civil list, Interior, War and Navy Departments, and public debt and interest, are	202,655,761 21
And the estimated expenditures under the additional appropriations now asked for are—	
For civil service and increased interest	$5,166,458 00
And for the War and Navy Departments	137,964,488 77
Making a total of actual and estimated expenditures under existing and asked appropriations of	143 130 947 77
From which deduct actual and estimated receipts, as above stated	329,501,994 68
Making an apparent amount for which recourse must be had to loans of	$213,994,427 68

The total may be stated in round numbers at six hundred and forty-two millions of dollars.

A tabular statement will accompany this report, showing somewhat more in detail the actual and estimated receipts and expenditures of the financial years 1861, 1862, and 1863.

It only remains, in order to complete the view of the financial situation, to submit a statement of the public debt as it was on the 1st day of July, 1861, and will be, according to the estimates now presented, at the same date in each of the years 1862 and 1863.

The statement, in brief, is as follows:

On the 1st day of July, 1860, the public debt was	$64,769,703 06
On the 1st day of July, 1861, the public debt was	90,867,828 63
On the 1st day of July, 1862, the public debt will be	517,372,802 93
On the 1st day of July, 1863, the public debt will be	897,372,802 93

The particulars of which the debt consists, and the portions which have been or will be paid or contracted in each year, will appear fully in a table, which will be submitted with this report to Congress. Another table will be submitted, showing the amount of the public debt in each year, from 1791 to 1861, inclusive.

The Secretary, believing that the frankest is the wisest policy for nations as well as individuals, has thought it his duty to submit to Congress this plain statement of the financial condition of the country. That it imposes considerable burdens is not to be denied or disguised. It is consoling to know that the energies and resources of the people are not insufficient for them. The public debt on the 1st of July, 1863, if the war be protracted until that time, on the scale of expenses contemplated by the estimates, will be, in round numbers, nine hundred millions of dollars. The amount of the public debt in the year 1816 was $127,334,933 74, and in twenty years it was paid off by the people. The country, even if the loyal States only are regarded, can sustain and pay off in thirty years the debt to which rebellion now exposes us with hardly greater proportional contributions from increased and increasing resources than that debt made necessary.

It will be for the wisdom of Congress to determine how far the annual and the aggregate burdens of the people shall be diminished by retrenchment, by economy, by prudent yet vigorous adjustment of means to ends, and by just contributions from Rebel property. Nothing more certainly enhances credit and improves resources than the distribution of wants and wise energy in administration.

The Secretary forbears making any recommendation concerning the authorities with which it may be expedient to invest him in respect to future loans. He begs leave to refer this matter either to the better judgment of Congress, suggesting only that, whatever discretion it may be thought prudent to give him in other respects, the rate of interest be limited by law.

Turning now from the more immediate consideration of the public finances, the Secretary solicits the attention of Congress to some other topics connected with the administration of the Treasury Department.

SUPPRESSION OF COUNTERFEITING.

By the act of Congress of July 17, 1861, commercial intercourse with States declared to be in insurrection by the President was prohibited, and the Secretary of the Treasury was authorized to establish such rules and regulations as the public interest might demand or require, which, under license from the Department, a restricted trade might be conducted. Upon full consideration of the whole subject, it has not been deemed advisable as yet to establish any general rules and regulations for such a trade.—In a few instances special licenses have been granted to convey particular articles of property into insurrectionary States, and to carry on a limited trade with parts of the State of Virginia inhabited by loyal people; but with these considerable exceptions, it has been hitherto thought best to enforce the prohibition to the full extent of the act. As the act itself, however, does not seem to contemplate the forfeiture of property, unless used for the purposes of the rebellion, or found in transit to or from insurrectionary States, its execution has not been extended beyond that intent.

To avoid, as far as possible, the practical inconvenience and pecuniary expansion of commerce, the Secretary, with the approbation of the President, has established regulations, in accordance with which cotton, rice, and other property will be collected and cared for by agents of the Department in insurrectionary districts occupied by the troops of the Union, and will be forwarded to New York. All sales will be made for account of the Government, and the proceeds paid into the National Treasury, subject to the claim of loyal citizens. This arrangement is, of course, temporary in its nature. As a general rule, in the judgment of the Secretary, commerce should follow the flag; and whenever the authority of the Union is fully restored in districts sufficiently extensive for the re-establishment of legal State government, affair long disturbed from their proper channels and patriotism, the Secretary thought himself warranted in advising the several States, upon certificates of the State officers to the general correctness of the accounts, and on condition that no further claim should be made on account of the expenses contemplated by the act, and the final settlement upon vouchers, the sum of forty per centum of their respective tonnage; and he has accordingly paid to the States of Illinois, Indiana, Iowa, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, Ohio, Pennsylvania, Rhode Island and Wisconsin, the aggregate sum of $14,146,878 51.

As the law did not seem to contemplate the continued action of State officers for Federal objects, that portion of the appropriation made by it to expenses incurred, long after the date of the act, to be incurred to the action of Federal officers within their respective spheres of duty, the Secretary has not thought himself authorized to settle in the unusual mode provided by the act, except for advances actually made, or at least contracted for prior to its passage. All other claims are, and will be referred to the War Department for sanction and requisition, unless Congress shall be pleased to direct otherwise.

An act of the last Congress authorized the payment of claims allowed for certain services and expenses in Oregon and Washington to be made by the Secretary of the United States, bearing six per cent. interest, and payable twenty years after date. The Secretary most respectfully asks the attention of Congress to the injurious influences of authorizing such issues for such purposes. Claims are easily allowed when payment is to be made otherwise than in money, and bonds issued for claims are apt to come into the market in competition with bonds issued for loans, to the serious prejudice of the public credit. That no important injury has resulted from the act just referred to is to be attributed to the faithful vigilance of the Third Auditor in the examination of the claims made upon the Treasury, and the comparatively small amount of bonds, not exceeding, probably, two millions eight hundred thousand dollars in all, issued or to be issued in payment of them.

The attention of Congress is respectfully directed to the observations of the Fifth Auditor in respect to the abuses which have been tolerated in the consular system, and the expediency of authorizing the appointment of a Consul General for the Coast and Islands of the Pacific.

In disregard of repeated warnings of impending danger in December last, the Secretary of the Treasury in office at the time neglected to take the necessary measures to secure the vessels and other movable property connected with the light-house establishments. This property, therefore, became the easy prey of insurrectionary violence. Acts of rapine and plunder followed each other in quick succession as the rebellion spread, until the lights of commerce were extinguished along the whole coast—except at Key West and some neighboring points protected by the power of the Union—from the capes of the Chesapeake to the western limits of Texas. In other parts of the country the light houses have been extended and improved, until it is surpassed in aids and benefits to navigation and commerce by that of no other country. Under the direction of the Secretary also, as the rebellion has been suppressed in district after district, the lights have been rekindled.—Already from the coasts of the Chesapeake, from the banks of Hatteras, from the Island of Fort Royal entrance, and from Chandeleur Island in the Gulf, they shine once more as the safeguards and symbols of fraternal commerce and peaceful civilization. May we not hope that the time is near at hand when every extinguished light shall be in like manner restored amid the rejoicings of a reunited people?

The Secretary respectfully invites legislative attention to the condition of the marine hospitals constructed or in process of construction. The number has been increased far beyond necessity or utility, and to the serious prejudice of the fund for sick and disabled seamen, derived from the hard earnings of the meritorious class to which they belong. At present, indeed, some of these hospitals are made available for the benefit of the troops, but this use must necessarily be partial and temporary. Of these, therefore, as well as those not thus used, the Secretary recommends that those least advantageously situated and employed be disposed of on the most favorable terms, and that no new structures be undertaken except in cases of the clearest expediency or necessity.

The great value of the Coast Survey has been strikingly attested by recent events. The knowledge gained by its operations during past years, the experience and skill of naval and military officers acquired in its service are now available in the operations of the army and the navy; and the ready aid now afforded by it, in examinations and surveys of harbors and inlets, to the forces of the Union in their movements upon the coast, demonstrate, beyond question, the wisdom of the policy which originated and has