upon the question of the abatement of taxes, the present industrial position and recent progress of the country, the prices of labor and of raw material at home and abroad, the revision of the internal revenue system, both as respects administration and specific taxation, and the relations of the present tariff to revenue and domestic industry. This report, and that of the Commissioner of Internal Revenue, which presents his views in regard to what is needed to relieve the excise from some of its most burdensome features, and secure greater efficiency in the administration of the law, will be found to be so able and complete as to make it quite unnecessary, as before suggested, for the Secretary to do more than to commend them to the attention of Congress.

While the amount of revenue to be raised by internal taxes must continue to be large, it is evident that many articles, now taxable, must be relieved from taxation, in order that the number of revenue officers may be reduced, duplication of taxes avoided, and the system rendered less obnoxious to tax-payers. It is also evident that the administration of the law must be more efficient than it is at present if the service is to escape utter demoralization. The internal revenues of the past year would have largely exceeded the estimates but for the failure of the revenue officers to collect the taxes upon distilled liquors. This failure is well known to the country, and has been the cause of deep regret and not a little humiliation to the Secretary as well as to the Commissioner.

The duty upon distilled liquors is so high that there has been a temptation to avoid its payment, which has, to a great extent, demoralized both the manufacturers and the officers of the revenue. A tax of $2 per gallon upon an article which can be made for thirty cents would be a difficult tax to collect, even in a small country, where appointments to revenue positions depend upon merit alone, and where dishonesty is promptly and severely punished. It is especially difficult in a country so vast as the United States, where politics are apt to influence, if not to control, selections for office, and where skill in evading the requirements of revenue laws is not among the least decided characteristics of the people. The Secretary is not of the opinion that this tax cannot be collected, but he does not hesitate to say that even if the meter which has been adopted, and is intended to be brought into general use, shall accomplish what is expected from it, the collection of so heavy a tax with thoroughness will be impossible, unless a higher standard of qualification for revenue officers than now exists shall be established. The views of the Revenue Commissioners on this point are worthy of especial consideration.

The necessity of economy in the public expenditures in the present financial condition of the country is so apparent, that no suggestions from the Secretary are needed to impress it upon the attention of Congress. Taxation is weighing heavily upon the people, and they have a right to demand, and they are demanding, that their necessary burdens shall not be increased by unnecessary expenditures. Public economy is, in all nations, a rare virtue, and it is a singular truth that nations which are mostly deeply in debt, and whose affairs ought, therefore, to be most prudently managed, are the very nations where the least economy is observed. This truth, so interesting and instructive to the people of the United States at the present time, is largely attributable to the well-known facts that the contracting of large public debts is unavoidably attended with imprudent if not reckless expenditures, and that when those intrusted with or possessing governing power have once enjoyed the luxury of using or expending freely the moneys under their control, (and this is always the case during the progress of expensive wars,) proper economy is afterward exceedingly difficult to be enforced. Thus, national debts become chronic, and efforts to reduce them are rarely successful. The debts of nations the most heavily burdened, instead of being stationary, or on the increase, might be in the process of rapid extinction if the same economy were practiced now that was practiced before their debts came into existence. It is of the last importance that the debt of the United States should not, like that of most other nations, be perpetuated by habits formed during the period of its creation. It is large, but fortunately it has not yet become chronic. It was incurred under the pressure of a war so vast and so momentous, that economy was, in a large degree, lost sight of in the absorbing public interest which it excited. It is undeniably formidable in amount, but the experiences of the past two years, during which, under the most unpropitious circumstances, it has been largely diminished, must satisfy the least sanguine that the reduction of it can be continued, and that, even with diminished taxation, it can be totally extinguished within the present century if a rigid economy, which perhaps could not be practiced during the war, and unfortunately has not been practiced since, is hereafter faithfully enforced in all branches of the public service. Extravagance in the administration of the Government has not become so fixed as to be beyond correction. There is no substantial difficulty in the way of public economy now, but there may be a few years hence. It is not proper, perhaps, for the Secretary of the Treasury to advise in regard to the precise manner in which this economy shall be enforced, but he ventures to suggest: That the army, at the earliest practicable moment, be reduced to the minimum required to garrison forts, and preserve the peace on the frontiers and along the lines of the Pacific roads; that the expenses of the navy be reduced, as far as can be done consistently with the protection of our commerce and the maintenance of our reputation as a maritime power; that retrenchment be introduced into all branches of the civil service; that there be no payments of damages which were the unavoidable incidents of war; that there be no additional grants to railroads, and no considerable donations of any character unless, in connection with the appropriation, a special tax shall be levied for their payment.

But the public faith does not depend alone upon adequate revenue laws, nor upon economy in the administration of the Government. It rests also upon the observance of contracts in the spirit as well as in the letter. In fact, without this there will be neither efficient administration of revenue laws nor economy in expenditures. Nothing but absolute insolvency will save from the infamy of repudiation a nation that does not pay its debts according to the understanding at the time they were contracted; and when a nation voluntarily violates this understanding, it will soon be unable, from the very effects of its own example, to enforce its revenue laws, and its expenditures will be wrecked by its inability to collect. How much of the demoralization which exists in the revenue service of the United States is attributable to the failure of the Government to redeem the legal-tender notes according to their tenor, would be an interesting subject of inquiry, but barely appropriate in a communication like this. In his report for the year 1865, the Secretary used the following language in regard to the National debt:

"The maintenance of public faith is a national necessity. Nations do not and cannot safely accumulate money to be used at a future day, and exigencies are constantly occurring in which the richest and most powerful are under the necessity of borrowing. The all-bountiful days, when nations shall beat their swords into plowshares and their spears into pruning-hooks, and learn war no more, are yet, according to all existing indications, far in the future. Meanwhile, nations must defend themselves, or take a seemingly inferior position among the nations of the earth. Public credit is a material, as well as moral, element in the strength and resources of a nation. It is a means which can be used without impoverishing the people, or impairing the material resources of the country, in the most trying emergencies, when life and liberty are at stake, and when, without the ability to avail themselves of this resource, they would be crushed by more powerful nations, who can avail themselves of it. Public credit is a species of property, which, when once created, should be carefully husbanded, and kept from all impairment, except in the last extremity. It is a species of property which, when once impaired, can not be restored except by the slow process of time and the exercise of the highest political virtues. Public credit, when used to the extent of the ability of a people to lend, is a source of strength to a government, and a source of wealth to the people, when it is not used to the extent that it impairs the ability of the people to lend to their Government, or when it is not used in such a manner as to impair the ability of the Government to use it in the future. The Government of the United States has never yet been in a condition to use its credit except at a ruinous sacrifice. Its credit has been used to the extent of its ability to lend, and its use has been so managed as to preserve the credit of the people of the United States in the good faith of the Government. In the late rebellion, would there have been a success, and this great nation, so rapidly becoming again united and harmonious, would it have been broken into weak and belligerent fragments.

But the public faith of the United States is higher even than these, for its support rests upon the material interests of the people, and upon their intelligent and virtuous patriotism. The debt of the United States has been created by the people in their successful struggle for undivided and indivisible nationality. It is not a debt imposed upon unwilling subjects by despotic authority, but one incurred by the people themselves, for the preservation of their Government—for the preservation of which those who have been fighting together for its overthrow are to be as really benefited as those who have been its defenders for four years. It is a debt voluntarily incurred for the common good, its burdens will be cheerfully borne by the people, who will not permit them to be permanent.

Now, to what is the United States pledged in regard to the public debt? Is it not that it shall be paid according to the understanding between the Government and the subscribers to its loans at the time the subscriptions were solicited and obtained? And can there be any question in regard to the nature of this understanding? Was it not that, while the interest-bearing notes should be converted into bonds or paid in lawful money, the bonds should be paid, principal as well as interest, in coin? Was not this the understanding of the Congress which passed the loan bills and of the people who furnished the money? Did any member of the House or of the Senate, prior to 1864, in the extensive discussions of these bills, ever intimate that the bonds to be issued in accordance with their provisions might be paid, when redeemable, in a depreciated currency? Was there a single subscriber to the five-twenty bonds or to the seven and three-tenth notes, which by their terms were convertible into bonds, who did not believe, and who was not given to understand by the agents of the Government, that both the principal and interest of the bonds were payable in coin? Does any one suppose that the people of the United States, self-sacrificing as they were in the support of the Government, would have sold their stocks, their lands, the products of their farms, of their factories and their shops, and invested the proceeds in five-twenty bonds and seven three-tenth notes, convertible into such bonds, if they had understood that these bonds were to be redeemed after five years from their respective dates in a currency of the value of which they could form no reliable estimate? Would the Secretary of the Treasury, or would Congress—when the fate of the nation was trembling in the balance, and when a failure to raise money for the support of the Federal Army would have been success to the rebellion and ruin to the Union cause—have dared to attempt the experiment of raising money on bonds redeemable at the pleasure of the Government after five years, in a currency the convertible value of which might not depend upon the solvency of the Government, but upon the amount in circulation? No such understanding existed, and fortunately no such experiment was tried. The bonds were negotiated with the definite understanding that they were payable in coin, and the seven and three-tenth notes with an equally definite understanding that they were convertible at the option of the holder into bonds or a similar character or payable in lawful money. The contracts were made in good faith on both sides, a part of them when the Government was in imminent peril and needed money to preserve its existence, the balance when its necessities were scarcely less urgent, for the payment of its just obligations to contractors and to the gallant men by whom the nation had been saved. Good faith and public honor, which, to a nation, are of priceless worth, require that these contracts should be complied with in the spirit in which they were made. The holders of our bonds at home and abroad, who understand the character of the people of the United States and the greatness of the national resources, ought not to need an assurance that they will be so complied with.

Here remarks upon a subject which it ought not to be necessary to discuss might be closed, but the great interest and alarm excited by the doctrines recently promulgated seem to justify a reference to the debates when the act of February 25, 1862, in some respects the most important of the loan bills, was under consideration, in order that the action and intention of Congress in regard to the legal tender notes and to the bonds which it authorized the issue of may be understood.

This act authorized an issue of $150,000,000 of United States notes, which were made receivable for all Government dues, except duties on imports, and of all claims against the United States, except for interest upon bonds and notes, which was to be paid in coin. It also authorized the issue of $500,000,000 of bonds, redeemable at the pleasure of the Government after five years from date. The purpose for which these bonds were to be issued was stated to be "to enable the Secretary of the Treasury to fund the Treasury notes and floating debt of the United States," and he was authorized to dispose of them "at the market value thereof, for coin of the United States or for any Treasury notes issued under any former act of Congress, or for the United States notes that might be issued under this act." Regarding only the act itself, it is not impossible that Congress intended to provide for funding the floating debt in bonds which might, at the expiration of five years, be called in and paid in the very notes which, with the Treasury notes, were thus to be funded. These bonds, like all others since and previously issued, were intended to be a part of the funded debt of the United States, the right to redeem them after five years having been reserved by the Government, not that they might be called in and paid in a depreciated currency, but in order that bonds bearing a lower rate of interest might be substituted for them, if it should so happen that before their maturity money could be borrowed on more favorable terms. The act provides that the United States notes of which it authorized the issue shall be receivable in payment "of all claims and demands against the United States, of every kind whatsoever, except interest upon bonds and notes, which shall be paid in coin." It is not said that they shall not be receivable for the principal of the bonds, for the very obvious reason that they were expected to be but a temporary circulation. A provision that these notes—intended only to meet a temporary emergency—should not be received for the payment of the principal of bonds which were not redeemable for five years, would, if it had been advocated and insisted upon, have been quite likely to have prevented its insertion. The public judgment had not then been perverted by an irredeemable currency, and a proposition that indicated a long-continued departure from the specie standard would have found few supporters in Congress or among the people.

But, if the intention and understanding of Congress are not sufficiently indicated by the language of the act, all doubts must be removed by a reference to the debates in the House while it was under consideration. From these debates it is clear that the issue of the legal-tender notes was expected to be limited to $150,000,000. On this point one of the Representatives from the State of New-York spoke as follows:

"Then the whole secret of our financial success lies simply in borrowing $500,000,000, or rather in funding the fleeting indebtedness convertibly represented by the Treasury notes, so that their issue need never exceed that authorized by this bill, and which is conceded to be the extreme limit consistent with safety to private interests and public credit. Nobody has proposed to rely upon this currency beyond that amount, but, on the contrary, the idea of any further similar issue has been expressly repudiated by every supporter of this bill."

One of the Representatives from Massachusetts put to the distinguished Chairman of the Committee of Ways and Means the following question:

"Let me ask the gentleman from Pennsylvania whether he now expects in managing these financial matters to limit the amount of these notes to $150,000,000. Is that his expectation?"

To which question he received the following reply:

"It is. I expect that is the maximum amount to be issued."

Later in the debate, the same distinguished gentleman used the following language:

"When this question was discussed before, the distinguished gentleman from Kentucky (Mr. Crittenden) asked me whether it was the intention or expectation of the House to go on and issue more than $150,000,000 of legal-tender notes—a pertinent question, which I saw the full force of at the time. I told him that it was my expectation that no more would be issued by the Government; that they would be received and funded in the twenty-year bonds."

It is clear from these quotations, and the whole tenor of the debate, that it was the intention of Congress that $150,000,000 should be the limit of the legal-tender circulation; and that it was confidently expected that this circulation would soon be converted into the five-twenty bonds, known as the bonds of 1862, and which are now redeemable according to their tenor. This of itself is a sufficient explanation of the fact that it was deemed unnecessary to provide that these notes should not be receivable for the principal of the bonds. As the amount to be issued was limited to $150,000,000, a provision that they should not be receivable for the principal of $500,000,000 of bonds, to be issued under the same act, in which they were expected to be funded, and which were not to be subject to the control of the Government for five years, would certainly have been regarded as being as singular as it would have been unnecessary. But this is not all. The same gentleman who, as Chairman of the Committee of Ways and Means, was the exponent of the views of the House upon this question, in speaking of these bonds, remarked as follows:

"A dollar in a miner's safe, unproductive, is a sore disturbance. Where could they invest it? In United States loans at six per cent., redeemable in gold in 20 years—the best and most valuable permanent investment that could be desired."

Would he have regarded these bonds a most valuable permanent investment if he had supposed that they might be redeemed in a depreciated currency at the expiration of five years from date? Again, he said: "But widows and orphans are interested and in tears lest their estates should be badly invested. I pity no one who has money invested in the United States bonds, payable in gold in 20 years, with interest semi-annually."

In these debates very little was said upon the subject of the payment of the principal of the bonds, apparently for the reason that no one supposed that they would or could be paid in anything else than the heretofore recognized constitutional currency of the country. The same may be said in regard to the debates upon the bills authorizing subsequent issues. The acts of March 3, 1863, and March 3, 1864, are the only acts which state expressly that the bonds to be issued under them shall be payable in coin; and this provision in these acts, if not accidental, attracted no attention at the time, either in Congress or with the public. Under the former act $75,000,000 of 20-years 6 per cent bonds (part of those known as bonds of 1881) were issued, and under the latter act nearly $200,000,000 of 5 per cent bonds, known as ten-forties; and the fact that these six per cent bonds have had no higher reputation than other bonds of the same class, and that the five per cent bonds never were a popular security, and have, in the market, until very recently, scarcely possessed a value corresponding with the six per cent five-twenties, shows conclusively that dealers in Government securities, and the people generally, have not regarded this provision as placing them on a different footing, as to the kind of money in which they are to be paid, from the bonds issued under acts containing no such provision. There was nothing in the condition of the country when these acts were passed that required an unusual provision, in order that the loans authorized by them might be successfully negotiated; on the contrary, the national credit was better than at the periods when other loan bills were passed; nor was there any intimation by any member of Congress, nor was it ever thought by the officers of the Treasury Department, that the bonds authorized by them were of a different character from those issued under other acts. It is unreasonable to suppose that it was the intention of Congress that the bonds authorized by the acts of February 25, 1862, and June 30, 1864, might be paid in legal-tender notes, while those authorized by the acts of March 3, 1863, and March 3, 1864, could be paid only in coin. The various issues of bonds, constituting the national funded debt, stand upon the same footing, and all should be paid in coin, if any are so paid.

National debts are subject to the moral law of the nations. Whenever there is no expression to the contrary, coin payments in such obligations are honorably implied. The policy of the Government of the United States in regard to the payment of its debts has been uniform and consistent. Prior to 1861-62, there was in the United States no lawful money but specie, consequently its Treasury notes, and its bonds previously issued, were payable in the same currency. Subsequently all interest-bearing notes were made payable in lawful money, but no change was made in the form of the obligation of the bonds. Thus the seven and three-tenth notes issued after that date, the five per cent notes, and the compound interest notes, were made payable in lawful money, while the bonds not being so made payable have ever been recognized by Congress, by the Treasury Department, and by the people, as payable only in coin. These different classes of securities were negotiated with the distinct understanding—an understanding which is as binding upon the honor of the nation as if it were explicitly stated in the statutes. It is true that the bonds, and notes convertible into bonds issued after the passage of the first legal-tender act, were paid for in depreciated currency, and were therefore, in fact, sold at a discount; but it is not denied that they were sold fairly, and that every one had ample opportunity to subscribe for them. Agencies were established, and subscriptions solicited, in every part of the country; and liberal subscriptions were regarded as evidence of loyalty. That they were paid for in a depreciated currency was not the fault of the subscribers. They were sold at the highest price that could be obtained for them—not chiefly to the capitalists of the cities, but to men of moderate means throughout the country, who subscribed for them, not for speculation, but to aid the Government in its struggles with a gigantic rebellion; and it is a significant fact that, with rare exceptions, the complaints that they were sold at a discount come from those who, doubtful of the result of the conflict, declined to invest in them. How would the Government of the United States stand before the world—how would it stand in the estimation of its own people, if it should decline to pay, according to agreement, the money it borrowed when its very existence was in peril, and without which it could not have prosecuted the war, on the ground that the lenders took advantage of its necessities and purchased its securities at less than their value?

But if the honor of the nation were not involved in the question, the inquiry arises, in what shall the bonds be paid if not in coin? Some $515,000,000 of 5-20 bonds are now redeemable according to their tenor. No one certainly would propose that some of them shall be called in and paid in a currency now worth 70 cents on the dollar, while the remainder are retained until the currency shall be still more depreciated by additions to its volume or appreciated by contraction. The holders of these bonds stand on the same footing; if any are to be paid before maturity in a depreciated currency, the whole should be so paid, and in a currency of equal value. But the Government has no United States notes in the Treasury, and as the annual receipts are not likely hereafter to be much in excess of the expenditures, and as a new loan to raise money for the purpose of violating an agreement under which a previous loan was negotiated would be impracticable, there would be no way in which the bonds now redeemable could be paid as has been proposed, except by putting the printing presses again at work, and issuing more promises, which must themselves eventually be paid in coin, converted into coin bonds, or repudiated. This process of making money seems an easy one, but our own experience, and the experience of every other nation that has tried it, proves it to be neither judicious nor profitable. As the paper circulation of the country is already redundant, it would be lessened in value by every addition to it, and, by the distrust thus created, its depreciation will doubtless be in a greater ratio even than the additions would bear to the volume to which they would be added. It is not too much to say, that an additional issue of $500,000,000 of United States notes would reduce the $700,000,000 of paper money now in circulation to one-half their present value; so that a legal-tender note or a National Bank note, now worth seventy per cent in coin, would not be worth more than thirty-five per cent, even if the apprehension of further issues did not place it on a par with Confederate notes at the collapse of the Rebellion. The bonds would of course decline in value with the currency in which they would be payable. Can any one seriously propose thus to depreciate, if not to render valueless, the money and securities of the people? Can any one, knowing the effect which such an issue would have upon the Government bonds, upon the currency now afloat, upon business, upon credit, upon the public morals, seriously advocate such a measure, not as a matter of necessity, but to anticipate the payment of debts due many years hence? The statement of the proposition exposes its wickedness. When fairly considered, it cannot fail to be stamped with universal condemnation. It is a proposition that the people of the United States, who own four-fifths of the national obligations, shall, by their own deliberate act, rob and ruin themselves, and at the same time cover the nation with inexpressible and ineffaceable disgrace.

In opposition to all such expedients for paying, or rather for getting rid of, the public debt, is the upright, world-honored *economical* policy of paying every obligation of the Government according to the understanding with which it was created—the policy of appreciating the paper dollar until it shall represent a dollar in coin, of giving stability to business and assurance to enterprise, and wiping from the country the reproach that rests upon it by reason of the low price of its securities in the great marts of the world. That this is the policy which will be sustained by the people and their representatives, the Secretary has the fullest confidence. There may hereafter be nations which, ignoring their honorary obligations, may look only to their own statutes for the measure of their liabilities. If there shall be such nations, the Republic of the United States will not be found among them. It has essentially suffered by the actual repudiation of some of the States and the virtual repudiation of others; it is still suffering from the same cause, although more than a quarter of a century has elapsed since this stigma was fixed upon American credit. It is suffering also from the fact that Massachusetts and California alone, of all the States, have continued to pay the interest on their bonds in coin. But although it has suffered, and is still suffering, from the bad faith or false economy of some of its members, its own financial honor is unsullied. It has committed the mistake of making its inconvertible promises a legal tender, but it has never taken advantage of its own legislation to lessen in the hands of the holders the value of its securities or violate its engagements by covert repudiation. In the darkest hours of the Rebellion it faltered not in the observance of its contracts. Shall it falter now when its ability to pay to the uttermost farthing, even without oppressive taxation, cannot be questioned?

The importance of the restoration of the Southern States to their proper relations with the Federal Government cannot be overestimated. A curtailment of the currency and the maintenance of the public faith are not all that is required to restore the country to perfect financial health. We need, in addition to these, a united country—united in fact as well as in name. It may not be proper for the Secretary in this report to discuss the measures regarded by him as best calculated to bring about this most desirable result. This, however, he feels it to be his duty to say, as he substantially said in his last year's report, that the question of reconstruction, as a purely financial question, is, in his judgment, second in importance to none that Congress will ever be called upon to consider. The great staples of the South have for many years constituted a large portion of our exports. But for the cotton held in that section at the close of the Rebellion, the foreign exchanges would have been so largely against the United States that a commercial revulsion would have been imminent, if not unavoidable. Even in the deplorable condition of these States, last year more than two-thirds of our exports consisted of their productions, and it is the crop of the present year—small though it may be—that is to save us from ruinous indebtedness to Europe. It is of the greatest moment, therefore, that the productive power of the Southern States should be restored as rapidly as possible. Little progress has been made in this direction during the past two years, and no real progress will be made until their political condition is determined by their restoration to the Union with all the rights and privileges of other States under the Constitution. The Secretary does not allude to this subject for the purpose of calling the attention of Congress to it. This is unnecessary. It is absorbing the public attention, and the further action of Congress in relation to it will be watched by the people with intense solicitude. Upon the judicious settlement of it depends, in a great degree, the national prosperity. The views presented by the Secretary, upon this subject, in his last report, are equally appropriate at the present time.

In his report for the year 1865, the Secretary used the following language in regard to taxation by the States of Government obligations:

"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 was authoritative when they were issued. 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 uncontitutional, 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 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 tax-payer 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 payment of the principal, by exchanges almost 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 tax-payers of the United States cannot afford to have their burdens thus increased. It is also evident that the relief which local tax-payers would secure from Government taxation, as the result of the exemption of their 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 exempt on 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. The result would be rapidly transferred to other countries to invest the funds 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 views of the Secretary, thus expressed, have undergone no change, but the exemption from taxation of any kind of property, by which special privileges are, or seem to be, granted to any class of citizens, is odious to the heavily-burdened masses in all countries, and is especially so in a Republic like ours. Local taxes in all the States are heavy, and no matter what the law may say upon the subject, no matter what the contract may have been under which they were negotiated, there is a general sentiment among tax-payers that the exemption of Government bonds from local taxation is not exactly right, and that it ought to be in some way avoided in future issues. The Secretary has no hesitation in admitting that he is in sympathy with this sentiment. The difficulty in the way, however, as has been suggested, arises from the fact that if bonds hereafter to be issued were to be subject to local taxation, very few would be held where taxes are high, and there would be a constant tendency to a concentration of them in States and counties and cities where taxes are low, or in foreign countries, where they would escape taxation altogether. This is a matter of great importance that the Government bonds should be a desirable investment in all parts of the country, and it is obvious that the States should be in some manner compensated for the right they denied of taxing them, as other kinds of property are taxed. After giving the subject careful consideration, the Secretary can suggest no better way of doing it than by an issue of bonds to be known as the Consolidated Debt of the United States, bearing six per cent interest, and having twenty years to run, into which all other obligations of the Government shall as rapidly as possible be converted—one-sixth part of the interest at each semi-annual payment to be reserved by the Government and paid over to the States, according to their population. By this means, all the bonds, wherever held, would be taxed alike, and a general distribution of them be secured. State taxes, including the levies for county and municipal purposes, now, as a general thing, exceed one per cent; but when the debts incurred for the payment of bounties are paid (and in most of the States they are already in the process of rapid extinction) and economy is again practiced in the administration of State affairs, the indirect assessment will be quite likely to equal the tax assessed upon other property. If the debts to be funded shall amount to $1,500,000,000, the amount to be reserved and paid to the States annually in gold would be $90,000,000, which would give to each of the States, in gold, as nearly as can now be estimated, the following sums, to be reduced, of course, with the reduction of the debt:

Maine	$335,609 76	Louisiana	$458,840 73
Massachusetts	749,618 43	Texas	429,777 40
New-Hampshire	196,411 17	Alabama	500,312 57
Vermont	186,026 09	Mississippi	471,752 28
Connecticut	282,418 01	Georgia	618,215 98
Rhode Island	107,174 16	Florida	96,270 68
New-York	2,351,595 89	South Carolina	431,905 13
New-Jersey	412,466 92	North Carolina	626,634 28
Pennsylvania	1,783,647 12	Virginia	750,662 50
Ohio	1,349,359 58	West Virginia	219,098 11
Indiana	826,727 81	Maryland	421,580 33
Michigan	472,099 32	Delaware	68,873 42
Illinois	1,386,992 56	Kansas	156,873 80
Wisconsin	321,854 49	Nebraska	33,716 85
Iowa	493,159 19	California	288,753 14
Minnesota	117,840 91	Nevada	24,048 75
Missouri	775,881 79	Oregon	46,000 26
Kentucky	760,208 47		
Tennessee	687,147 55	Total	$20,000,000 00
Arkansas	267,259 95		

The advantages to be derived from this plan are so obvious as not to require discussion. It would secure, as has been already stated, such a distribution of the bonds throughout the States, and counties, and cities, as could not be expected if local taxes should be imposed upon them. It would create an interest in the bonds in States the people of which are justly responsible for the debt, but whose early and complete restoration to the Union is so desirable and important, and would give to them needed aid in their efforts to build up again their own prostrate credit. It would put an end to all discussions and doubts in regard to the kind of currency in which the bonds are to be paid, to all complaints of exclusive privileges, and place the public credit on a basis worthy a nation whose resources, young as it is, are second to those of no other nation, and of whose future resources the present are but an indication.

The bonds, the issue of which is thus recommended, would be six per cents to the Government and five per cents to the holders, which is as low a rate of interest as can be expected to prevail in the United States for many years to come. Of the practicability of converting the outstanding obligations of the Government into this consolidated debt at early day, at no considerable expense, the Secretary entertains no doubt.

It is therefore respectfully recommended that the act of March 3, 1865, be so amended as to authorize the Secretary of the Treasury to issue six per cent gold-bearing bonds, to be known as the Consolidated Debt of the United States, having twenty years to run, and redeemable if it may be thought advisable at an earlier day, to be exchanged at par for any and all other obligations of the Government—one-sixth part of the interest on which, in lieu of all other taxes, at each semi-annual payment, shall be reserved by the Government and paid over to the States according to population.

The following is a statement of the public debt on the 1st of July, 1867:

DEBT BEARING COIN INTEREST.		
5 per cent bonds	$198,431,350 00	
6 per cent bonds of 1867 and 1868	15,181,141 50	
6 per cent bonds, 1881	283,716,350 00	
6 per cent 5-20 bonds	1,197,810,800 00	
Navy pension fund	13,000,000 00	
		$1,707,690,641 50
DEBT BEARING CURRENCY INTEREST.		
6 per cent bonds	$14,762,000 00	
3-year compound interest notes	122,334,480 00	
3-year 7-30 notes	488,647,425 00	
		625,803,905 00
Matured debt not presented for payment		8,997,599 50
DEBT BEARING NO INTEREST.		
U. S. notes	$371,992,020 00	
Fraction currency	28,307,523 52	
Gold certificates of deposit	19,207,520 00	
		419,507,072 52
Total debt		$2,762,199,219 12
Amount in Treasury, coin	$108,419,638 02	
Amount in Treasury, currency	71,979,563 77	
		180,399,201 79
Amount of debt, less cash in Treasury		$2,511,800,013 33

The following is a statement of the public debt on the 1st of November, 1867:

DEBT BEARING COIN INTEREST.		
5 per cent bonds	$198,845,350 00	
6 per cent bonds of 1867 and 1868	14,690,941 50	
6 per cent bonds, 1881	283,676,500 00	
6 per cent 5-20 bonds	1,207,898,100 00	
Navy pension fund	13,000,000 00	
		$1,718,110,991 50
DEBT BEARING CURRENCY INTEREST.		
6 per cent bonds	$18,042,000 00	
3-year compound interest notes	62,558,940 00	
3-year 7-30 notes	354,607,700 00	
3 per cent certificates	11,500,000 00	
		426,768,640 00
MATURED DEBT NOT PRESENTED FOR PAYMENT.		
3-year 7-30 notes, due Aug. 15, 1867	$3,371,100 00	
Compound interest notes, matured June 10, July 15, Aug. 15, and Oct. 15, 1867	9,316,100 00	
Bonds, Texas indemnity	262,000 00	
Treasury notes, acts July 17, 1861, and prior thereto	163,661 64	
Bonds, April 15, 1842	64,061 64	
Treasury notes, March 3, 1863	868,240 00	
Temporary loan	4,168,375 55	
Certificates of indebtedness	34,000 00	
		18,237,538 83
DEBT BEARING NO INTEREST.		
United States notes	357,164,844 00	
Fractional currency	30,706,633 39	
Gold certificates of deposit	14,514,200 00	
		402,385,677 39
Total debt		$2,625,502,848 02
Amount in Treasury, coin	111,540,317 35	
Do. do. Currency	22,458,080 67	
		133,998,398 02
Amount of debt, less cash in Treasury		$2,491,504,450 00

The following is a statement of receipts and expenditures for the fiscal year ending June 30, 1867:

Receipts from Customs	$176,417,810 88	
Lands	1,163,575 76	
Direct Tax	4,200,233 70	
Internal revenue	266,027,537 49	
Miscellaneous sources	42,824,852 59	
		$490,634,010 27
Expend'res for civil service	51,110,027 27	
Pensions and Indians	25,579,083 48	
War Department	95,224,415 63	
Navy Department	31,034,011 04	
Interest on Public Debt	143,781,521 91	
		346,729,129 23
Loans paid	746,350,525 94	
Receipts from loans	640,426,910 29	
		105,923,615 65
Reduction of loans		

The following is a statement of receipts and expenditures for the quarter ending September 30, 1867:

Receipts from Customs	$48,081,307 61	
Lands	287,460 07	
Direct Tax	647,070 83	
Internal revenue	53,784,027 49	
Miscellaneous sources	18,361,462 62	
		$121,161,228 62
Expend'res for civil service	13,152,348 03	
Pensions and Indians	10,484,476 11	
War Department	36,537,056 85	
Navy Department	5,579,704 67	
Interest on public debt	88,515,640 47	
		93,269,226 18
Loans paid	200,176,368 34	
Receipts from loans	135,103,282 00	
		65,073,086 34
Reduction of loans		

The Secretary estimates that the receipts and expenditures for the three-quarters ending June 30, 1868, will be as follows:

Receipts for Customs	$115,300,000 00	
Lands	700,000 00	
Internal revenue	155,000,000 00	
Miscellaneous sources	25,000,000 00	
		$296,000,000 00

The expenditures for the same period, according to his estimates, will be:

For the civil service	$37,000,000 00	
For pensions and Indians	22,000,000 00	
For the War Department, including $24,500,000 for bounties	100,000,000 00	
For the Navy Department	22,000,000 00	
For the interest on the public debt	114,000,000 00	
		295,000,000 00
Leaving a surplus of estimated receipts over estimated expenditures of		$1,000,000 00

The receipts and expenditures for the next fiscal year, ending June 30, 1869, are estimated as follows:

Receipts from Customs	$145,000,000 00	
Internal revenue	265,000,000 00	
Lands	1,000,000 00	
Miscellaneous sources	30,000,000 00	
		$381,000,000 00

The expenditures for the same period are estimated as follows:

For the civil service	$31,000,000 00	
For pensions and Indians	35,000,000 00	
For the War Department, including $25,500,000 for bounties	120,000,000 00	
For the Navy Department	36,000,000 00	
For the interest on the public debt	130,000,000 00	
		$372,000,000 00
Leaving a surplus of estimated receipts over estimated expenditures of		$9,000,000 00

The foregoing estimates are made on the general average of the receipts and expenditures for the past nine months. The Secretary is hopeful, however, that Congress will take measures to largely reduce expenditures in all branches of the service, so that a steady reduction of the debt may be continued.

In regard to the national debt, and the necessity of commencing at once the payment of it, the Secretary, in his report of 1865, remarked:

"We need not be concerned that future generations shall share the burden with us. We are the men who fought, and paperty will have enough to do to take care of the debts of their own creation."

"In a matter of so great importance as this, experiments are not of place. The plain, beaten path of experience is the only safe one to tread."

"It is of the greatest importance, in the management of a matter of so extended interest, that no false step should be made. Nothing but perfected credit can carry us through our national crisis; and nothing less than a fixed policy for the reduction of the public debt will be likely to prevent its increase."

The right start in the direction suggested has been made. Since the 1st day of September, 1865, the debt has been reduced $[illegible] 43. Now, if such a reduction could be made while the industry of one-third part of the country, by reason of the war and the unsettled state of its political affairs, has been exceedingly depressed, and the other two-thirds have, by no means, exerted their full productive powers; if such a reduction could be made, notwithstanding the liberal miscellaneous appropriations of Congress, the payment of bounties, and the great expense of maintaining large military forces upon the frontier and in the Southern States, can there be any good reason why the reduction, if so successfully commenced under the most unfavorable circumstances, should not be continued steadily and without interruption until every dollar of it is extinguished? The Secretary indulges the hope that the policy which has been inaugurated, and which, in his judgment, is so essential to the national credit, if not to the preservation of republican institutions, will not be abandoned. Old debts are hard to pay, and the longer they are continued the more onerous do they become. If the present generation should throw the burden of this debt upon the next, it will be quite likely to be handed down from one generation to another—a perpetual, if not a constantly increasing burden upon the people. Our country is full of enterprise and resources. The debt will be lightened every year with great rapidity by the increase of wealth and population. With a proper reduction in the expenses of the Government, and with a revenue system adapted to the industry of the country and not oppressing it, the debt may be paid before the expiration of the present century. The wisdom of a policy which shall bring about such a result is vindicated in advance by the history of nations whose people are burdened with inherited debts, and with no prospect of relief for themselves or their posterity. In the appendix to this report there will be found