THE NATION'S REVENUE.

Report of Special Commissioner Wells.

The Causes of the Existing Commercial Depression.

Important Suggestion Relative to the Whiskey, Tobacco and Cotton Taxes.

The law establishing the office of Special Commissioner of the Revenue requires that he shall investigate the sources of national revenue, the best methods of collecting revenue, the administration of existing revenue laws and the relations of foreign trade to domestic industry.

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COMMERCE AND NAVIGATION.

In the department of commerce and navigation the Commissioner reports an increase of tonnage upon the Northern lakes and other inland waters in excess of that of any former period, the increase of tonnage engaged in commerce upon the lakes during the past year being estimated at fully fifteen per cent, or about forty thousand tons (exclusive of vessels of small capacity). According to the returns of the Chicago Board of Trade the increase, under the new classification, in vessels and tonnage upon the lakes for the year ending March 31, 1867, over the corresponding period in 1864 was as follows:—

	Vessels.	Tonnage.
1864	648	202,304
1866	997	281,077

The American commerce employed upon the ocean has also recovered in a degree, during the past year, from its recent extreme depression.

The returns of the leading railroads of the country for the ten months ending October 31, 1867, also indicate an increase of commercial movement over the corresponding period of 1866; the absolute increase in the net earnings of seventeen of the principal lines having been equal during this period to eleven dollars per mile, or to 1.28 per centum. The month of October, 1867, is reported as probably the most prosperous of any recorded month in the history of American railroads.

The aggregate business of the country for the fiscal year 1867, as measured by the returns of the Internal Revenue, from the taxes on sales and special taxes (licenses), does not, moreover, indicate any falling off as compared with the preceding year, but on the contrary a slight increase.

The aggregate amount of the business transacted in the leading commercial cities of the country, by wholesale and retail dealers in merchandise and liquors, and by auctioneers and merchandise brokers, during the fiscal year ending June 30, 1867, as deduced from the returns of taxes on "sales" and licenses" was approximately as follows:—

New York	$1,976,565,000	Pittsburg	$76,240,000
Philadelphia	616,697,000	Louisville	72,949,000
Boston	646,407,000	Brooklyn	61,448,000
Baltimore	307,076,000	Milwaukee	58,165,000
New Orleans	367,591,000	Cleveland	56,117,000
St. Louis	234,891,000	Mobile	54,291,000
Cincinnati	180,753,000	Buffalo	51,783,000
Chicago	174,245,000	Detroit	50,471,000
San Francisco	161,225,000	Charleston	36,574,000
Providence	78,904,000	Newark	34,396,000

In Europe, some measure of the prosperity of the people can, it is believed, be obtained by noting the rise or fall in the consumption of certain articles, which cannot be considered as belonging wholly to the catalogue of necessities—such as tea, coffee and sugar. If we now apply this standard to the present condition of the United States, the result obtained is certainly not discouraging. Thus, the consumption of coffee for the eleven months ending November 30, 1867, as indicated by the distribution from the five principal Atlantic ports, was 18,628,064 pounds as compared with 14,782,208 pounds for the corresponding period of 1866, and 11,795,616 pounds for that of 1865; while the average monthly consumption of imported sugars for the year 1867, deduced from the same data, has been 7,088,480 pounds, as compared with a monthly average of 5,862,050 pounds for the preceding five years.

Omitting any reference in detail to the marked increase in the number of houses erected during the past year—estimated by good authorities to be greater than in any former year of our national existence—or to the increase in the manufacture of agricultural implements, salt, paper, edge tools, cutlery, chains and a variety of other articles, we will cite but one other illustration, drawn from domestic sources, of the financial strength of the country. As has been already shown, the national expenditures, exclusive of appropriations for the redemption of the public debt and for interest, attained during the five years from 1861 to 1866 the extraordinary average of over seven hundred and twelve million of dollars per annum; to which must also be added the great increase during the same period of State and local expenditures. Now, while by far the largest portion of the money represented by this expenditure was borrowed, it must nevertheless be borne in mind that the average annual money statement for the years specified, is in a great degree, if not entirely, the measure of the labor annually furnished to the government in the form of commodities or services rendered in the army or navy; for the war, in the main, was conducted by means of the services of the soldiers rendered at the time, and by means of the food, clothing, and material of war raised or made during the period of hostilities, and for which money or an acknowledgment of indebtedness was given. It therefore appears that during the years from 1861 to 1866 labor and commodities were continually withdrawn from the productive employments of peace to the destructive occupations of war, and that the measure of this unproductive diversion was in excess of seven hundred and twelve millions per annum; and yet during the continuance of all this drain the Northern and Pacific States did not cease to make a real progress in the creation of substantial wealth. Thus, the aggregate of the Northern crops, measured in bulk or quantity, and not in money, did not decrease, but increased; the area of territory placed under cultivation was continually enlarged; railroads continued to be built, mines to be opened, and mills, stores and dwellings to be erected. But hostilities have now ceased and peace has returned; and with such a change in the condition of affairs this question becomes both pertinent and suggestive—If a portion of the country could contribute of its surplus labor and capital an annual value of $21 07 per capita for destructive purposes, will it not be easy for the whole country, with its labor and capital restored to productive employments, to contribute $8 73 per capita for the payment of interest, expenses and the reduction of the debt? And yet the payment of this sum will meet at present an annual expenditure of one hundred and forty millions of ordinary expenses, one hundred and thirty millions for interest and fifty millions for the reduction of the principal of the debt; and if the same rate of per capita taxation be continued for the future, it will extinguish the entire principal of the debt in less than twenty years, even if it shall become necessary to add to the above estimate of one hundred and forty millions for ordinary expenses a sum equal to $2 per head on the average annual increase of population, which average increase may be expected to augment the population of the United States, by the year 1884, to nearly sixty millions (60,000,000). Furthermore, this proposed rate of $8 73 per capita, which is only about three-fourths of the rate of taxation paid in 1866, after reducing the rate of that year to gold, can be obtained without recourse to any of the internal taxes which materially impede production, as will be elsewhere demonstrated; and as all past experience shows that the wealth of this country increases in a much more rapid ratio than population, the burden of the uniform rate of $8 73 per capita will become annually less and less onerous.

But notwithstanding this exhibit, there are many persons both in public and private stations who, either intimidated by their own apprehensions or misled by their own lack of information, consider it to be their present mission to magnify the burden of the national, State and local debts of the country, and to predict for the nation an inability to either carry or extinguish them. The data presented sufficiently proves, however, that so far as the material strength and development of the country are concerned, these gloomy anticipations have little or no foundation; and in respect to the largest absolute debt of any one of the States, viz., that of New York, which has recently been discussed in an official report in such a manner as tends to create distrust and impair credit, the Commissioner would call attention to the fact that the estimated present average annual value of the apples alone sent to market from eight of the sixty counties of that State, viz., four and a half to five millions of dollars, is sufficient to pay the interest on the entire debt, and add about two millions annually to the sinking fund; or, in other words, if all other forms of industry or production in the State of New York should cease to contribute to the State debt, but the apple trees in the eight counties referred to should continue to grow and produce, their annual product, if devoted to this purpose through the patriotism of their owners, would in less than ten years extinguish the whole debt, including the present unliquidated cost ($15,000,000) of the Erie Canal.

THE EXISTING COMMERCIAL DEPRESSION.

In presenting a picture so full of encouragement in respect to our financial and industrial future the Commissioner does not need to be reminded of the depressed condition of commercial, mercantile and industrial affairs, for a reference to his former reports will prove that much of what has of late occurred was both foreseen and predicted. An analysis of the causes, immediate and direct, which have led to this depression, will, however, show that they are in no small degree general, and not local, in their character; confined to no one country, and the result of a natural and not unexpected reaction from a period of high prices, speculation and over production. In fact, the people of the United States have great cause of congratulation that the wave of commercial depression which, since the termination of their war, has swept over the commercial centres of the whole civilized world has brought so little of disaster to their interests, inasmuch as there is not to-day a country in Europe in which the paralysis of industry is not greater, the failures more numerous and the prospect of an early return of commercial prosperity and activity less encouraging than in the United States.

In his previous report the Commissioner, as the result of a carefully instituted and conducted inquiry, was led to refer the abnormal and unsatisfactory condition of the producing interests of the country mainly to three agencies, viz.:—Scarcity of skilled labor, an irredeemable paper currency and unequal and heavy taxation—the general resultant of all which was seen in an unnatural condition of high prices for both labor and commodities. Subsequent and continued investigations have afforded no ground for questioning the accuracy of these conclusions; but at the same time it must be apparent to even the most casual observer that things have not remained stationary.

During the past year the supply of labor, disturbed by the war, has more and more returned to its accustomed avocations, and prices in many departments of industry, especially those in which no high degree of skill is requisite, have gradually receded. With cheaper food supplies, consequent upon a more abundant crop of cereals than was really harvested, this reduction would have been even more decided than at present. As it is, the scale of wages reported as generally paid for mining, for the puddling and rolling of iron, for the ordinary labor in the manufacture of machinery, and especially for the manufacture of textiles, has been very considerably reduced. On the other hand, the fall in the price of many staple commodities has been even more marked and significant. Thus, for example, the fall in the price of "middling" cotton in the New York market has been from thirty-five cents per pound in September, 1866, to sixteen cents in November, 1867; of cotton fabrics, during the past year, from 30 to 33 per cent; of domestic wool, average coarse and fine, from 25 to 33 per cent, or to lower prices, in gold, than the average in any one year since 1827; of ordinary woollens, domestic, from 25 to 30 per cent, foreign, from 35 to 40 per cent; of lumber, coarser qualities, 15 per cent, finer, 20 per cent; of coffee (good Rio), 11 per cent; of tea (Oolong), 12 per cent; of copper (ingot), 22 per cent; of sheet iron (American), 20 per cent; of printing paper, 22 to 25 per cent, and of anthracite coal, at tide water, from $9 93 per ton in October, 1865, to $5 50 in October, 1866, and $4 50 in October, 1867.

Reviewing the events of the past year, it would seem that, so far from there having been any adverse influence exerted upon prices through a contraction of the currency, the tendency, in truth, has been entirely in the opposite direction, for it cannot be doubted that a fall of prices equivalent, on the whole business of the country, to at least ten per cent, must have been equivalent to a large addition to the machinery of exchange before existing. What the practical increase of the currency effected indirectly in this manner has amounted to cannot be definitely stated, but in the opinion of the Commissioner it has not been less, during the last twelve months, than $100,000,000.

The true theory of legislation under the present condition of affairs would seem to be, not to suspend or delay recovery—painful though it may be—from abnormal prices and over-production by further inflation, but that relief should be afforded to the greatest extent possible by the removal of taxes which impede production—taxes which, when first imposed, were drawn from profits, and were, therefore, to a certain extent justified, but which with the present reduction of values fall mainly upon capital.

The Commissioner also would call attention in this connection to the fact that while the material abatement or entire removal of internal revenue taxes from particular articles or classes of articles made by the Thirty-ninth Congress has proved of substantial benefit, and has brought to the revenue system something of simplification, yet the relief experienced by the whole country has not been proportioned to the amount of revenue abandoned, or to what the relief probably would have been had an equivalent reduction been made in the form of a uniform percentage on all the so-called industrial taxes. The reason for this undoubtedly is, that the continued imposition of taxes on the great majority of products has been used as a pretext or a cover for refusing to make abatement in the prices of those which were entirely exempted or favored, and in proof of this some instances could be referred to in which the reduction of taxation on particular articles was almost immediately followed by an enhancement of their price, and of many in which the price remained nearly stationary.

It cannot, however, be now doubted that a removal of all the internal taxes which materially impede production, with, possibly, some slight modifications of the tariff, will be followed by an immediate and great revival of domestic industry, inasmuch as evidence of the most conclusive character has been presented to the Commissioner showing that the decision respecting the continuance or removal of taxes on certain leading branches of industry will of itself alone determine whether manufacturing at current prices shall be carried on at an actual loss, or with a small margin of profit.

DISTILLED SPIRITS.

Of the various available sources of internal revenue that of distilled spirits ranks first in importance. The attempt, however, thus far to collect any legitimate revenue from this source has, as is well known, proved a most lamentable failure, and for the following obvious reasons: First—The tax has been placed at such a rate as to constitute in itself so great a temptation to fraud that average human nature, as it exists in the United States, is not able to resist it. And secondly—The system under which the officers have been selected to collect the tax and supervise the manufacture has not, thus far, recognized honesty, intelligence and business capacity as the first, only and essential qualifications for appointment.

The Commissioner does not propose to enter into any argument to prove the truth of these statements, for the experience of the last two years has made them, as it were, self-evident; but he would ask attention briefly to what may be regarded as the positive facts of the case.

The amount of distilled spirits produced in the United States immediately prior to the year 1861, undoubtedly approximated to one hundred millions of gallons per annum. After that year the production greatly declined; first, by reason of the substitution of the cheaper distillates of petroleum in the place of burning fluid for illuminating purposes; and secondly, on account of the tax, which, by greatly enhancing the price of alcohol, largely diminished its uses for industrial, scientific and medicinal purposes. The imposition of the tax, in the first instance, probably diminished, in some degree, the consumption of cheap spirits for drinking; but this influence was only temporary in its duration, and all the evidence obtainable is to the effect that the consumption for drinking purposes is now greater than at any former period.

The present production of distilled spirits in the United States theoretically available for assessment and revenue is undoubtedly about fifty millions of proof gallons per annum; and although statements implying a larger annual production and consumption are continually put forth, and are made to some extent the basis of financial reasoning, they are supported by no evidence, and are entirely unworthy of credence.

The largest amount of revenue collected in any one year, since the imposition of the present tax of two dollars, has never been in excess of thirty millions of dollars ($29,482,078 in 1866, and $29,164,409 in 1867), or, in other words, the government has thus far succeeded in collecting the tax on somewhat less than one gallon of proof spirits to every three gallons that have been manufactured.

The tax thus evaded has not, however, through the enhanced price of spirits, enured, to any considerable extent, to the benefit of the consumer; which enhancement, if not on an average equal to the cost of manufacture, plus the government tax, has been sufficient to afford an annual aggregate of profit to the illicit dealers of at least thirty millions of dollars; which sum, moreover, may be taken as the measure of the present inducement to evade and defeat the law. Under these circumstances the practical question which presents itself is this: What can be done to draw from a source, which all are agreed should contribute largely to the expenses of the government a greater amount of revenue?

As the failure to collect the revenue from distilled spirits has been due, in no small part, to the fraudulent complicity and incompetency of the revenue officials is a fact that cannot be questioned, the first step, therefore, in the way or reform would seem to be to provide for the immediate enactment of a new and different administrative system. The success of such a measure, however, judging from the little favor given in the Forty-ninth Congress to the so-called "Civil Service bill," is, at least, doubtful; and in case the reform under consideration should now be ordered by Congress some considerable time would inevitably elapse before the new system could be made effective.

But even accepting the question of reform as settled, it is certain, in the opinion of the Commissioner, that its influence would only in degree compass the end desired. The states of Central Europe, with a dense population and thoroughly organized police, have also provided a civil service administration, which insures the highest degree of integrity and capacity in its officers; and yet in Austria, Prussia, Belgium, Holland and the smaller German States the idea of collecting any large amount of revenue from a high tax on distilled spirits has been practically abandoned. In France, furthermore, the recent advancement of the tax on spirits from sixty-six cents to about ninety cents per gallon has brought no considerable increase of revenue, and the measure, financially, is reported to the Commissioner as a practical failure. In Russia, the government secures a large revenue from spirits only by monopolizing the business of distilling all domestic liquors and selling the products. In Great Britain alone is the collection of a high tax on spirits (ten shillings per gallon) in any degree successful; but here, contrary to general assumption, the tax is not in excess of that adopted in the United States, but somewhat less (viz., 7s. 4d. = $1 83), being levied on the imperial gallon and on a different standard of proof. In Great Britain, moreover, a mixture of alcohol is allowed to be used for industrial purposes duty free, under certain circumstances; and the Commissioners of Inland Revenue, in their annual report for 1865, assert "that if this mixture had not been devised for the relief of our manufacturers, it would have been almost impossible to maintain the present high rate of duty."

In discussing during the past season the expediency of a high rate of duty with the leading officers of the British Excise, the opinion was also expressed to the Commissioner that were the system to be commenced de novo in Great Britain a collection of the present tax, even with their almost perfect revenue administration, would be found very difficult. It should be also noted that in Ireland, where the conditions of population and police are somewhat different, the tax on spirits is resisted to a much greater extent than in England or Wales; the present average number of arrests in Ireland for illicit manufacture being nearly three thousand per annum, which ratio applied to the population of the United States, would be equivalent to upward of nineteen thousand per annum.

But, while admitting the results of European and domestic experience in this matter, the opponents of a reduction in the rate of taxation will undoubtedly again present, as they have heretofore, the argument that all the reasons to be given in favor of the reduction of the rate of $2 will apply equally well to almost any lower rate that can be practically adopted; or, in other words, that the manufacturer who will cheat with the tax at $2 will continue to do so at fifty cents, and that the removal of all extraordinary inducements to fraud will be equivalent to abandoning all idea of raising from spirits any considerable amount of revenue. To this it may be said:—

First—That, in determining the tax, there is certainly some line of demarkation between moderation and excess, and that $2 per gallon is excessive and higher than is imposed by any other nation.

Second—That the inducement of the great profit to be obtained from evading a $2 tax undoubtedly tempts many to engage in illicit manufacture who would be unwilling to do so with a certainty of realizing a much smaller rate of profit. This proposition, although almost seemingly self-evident, finds a striking confirmation in the fact that the number of distilleries in certain sections of the country has increased just in proportion as the tax on spirits has been augmented. Thus, for example:—In the Eighth Collection district of the State of New York there was before the Internal Revenue law went into operation in 1862 but one distillery; when the tax of twenty cents was imposed, some five or six additional distilleries were started. When at sixty cents about tone dozen were in operation; but this number under the $2 tax increased to about forty. Furthermore, the tax collected in one distillery in this same district in one month in 1864, under the sixty cents tax, was one-third more than was paid in the aggregate by thirty distilleries in the eight months succeeding November 4, 1866, when the tax was $2; or, in other words, one distillery in one month in 1864 paid $58,819 at sixty cents per gallon, while thirty distilleries in eight months of 1866-7 paid at $2 per gallon only $33,664.

Third—The reduction of the tax to fifty cents per gallon would entirely prevent the extensive and increasing smuggling of distilled spirits on the northern frontier, as the tax in the British provinces would then be in correspondence with or in excess of our own, and thus cut off all margin for profit. It would also greatly diminish or entirely destroy the illicit manufacture of spirits from molasses in the seaboard cities, as this article (mainly imported) could not, by reason of its greater cost, be used to advantage as a substitute for grain. The extent to which legitimate industry is burdened by the continuance of the present tax was fully discussed in the report of the Revenue Commission in 1865; but one striking illustration, growing out of the events of the past year, may be adverted to. In the spring of 1867 the Drug Exchange of Philadelphia passed a resolution that in order to assist the government in the collection of the tax on distilled spirits they would in no instance buy or become parties, either directly or indirectly, to the sale of any spirits for less than the average cost of production, plus the government tax. These resolutions have, it is believed, been faithfully adhered to, and the result is that the manufacturing druggists and chemists of Philadelphia have experienced a great decay in certain branches of their business, which have been attracted elsewhere by the competition of the more unscrupulous.

The Commissioner would therefore recommend, as he has done in his previous reports, that the attempt be no longer persisted in on the part of the government to collect a tax which all experience shows cannot be collected, and whose continuance is utterly demoralizing in its influence and in a high degree injurious to industry, but that the rate be reduced to fifty cents per gallon as a maximum.

Whether any loss of revenue would occur from any such reduction may well be doubted, especially when it is remembered that the government has thus far received but a small additional revenue in any one year from a tax of two dollars per gallon over and above what it did for the fiscal year ending June 30, 1864, when the tax was from twenty to sixty cents per gallon.

In order, however, to insure against any loss of revenue, but rather to make its increase certain, the Commissioner would propose a new system, based on the plan of dividing the collection of the tax between the manufacture of the spirit and its sale, and making both a part of one and the same system. The leading features of this system are as follows:—

First—To reduce the tax to fifty cents per proof gallon as a maximum, and make its collection obligatory at the place of manufacture; abolish all bonded warehouses for the storage of spirits, except possibly a temporary wareroom at the distillery, and forbid all transportation of spirits in bond. Recognizing, also, the fact that any legislation which is certain to bring relief to and promote the industrial interests of the whole country is sufficient to warrant the disregard of the interests of a comparatively small number of individuals, the special tax or license to be imposed upon distillers, now $100, should be advanced to at least $1,000, and that the same should be made applicable to rectifiers.

The impracticability of the plan of collecting the tax through what is called the "capacity" system has been so completely demonstrated by the Commissioner of Internal Revenue in his recent report that any further reference to it is unnecessary.

Some one of the recently invented spirit meters may, however, afford such additional safeguards against fraud as to render its obligatory use most desirable. It should, however, be borne in mind that the use of a meter will only prove effective against fraud in the case of distilleries which are known and recognized; and that it is the secret distilleries, working illicitly, that are likely to prove hereafter the most difficult to manage. It is not probable that even an effective reform of the administrative system would do much towards breaking up the very large number of illicit stills which are believed to be in continual operation in the remote and sparsely settled sections of our country; but for these a reduction of the tax is the only remedy, for illicit whiskey, on the average, costs at least fifty per cent more than that produced legitimately, on a large scale, with the most economical forms of apparatus.

In estimating the probable amount of revenue to be derived from a tax of fifty cents per gallon on proof spirits it should also be remembered that there would be with this reduction a very large increase in the use of alcohol for industrial purposes—which increase good authorities have estimated at from eight to ten millions of gallons per annum. Such a result, furthermore, would bring with it this additional advantage—that it would lead to an increased market for several million bushels of Western grain; and that much of the grain which would thus be made applicable for use, being damaged by overheating, is of little value for any other purpose than the production of alcohol. On an estimated increased annual product of from fifty-five to sixty millions of gallons of proof spirits, and through the increase recommended in the "license" or "special" tax on distillers and rectifiers, the Commissioner is of opinion that a tax of fifty cents per gallon would yield a revenue of over twenty-five millions of dollars per annum.

Second—The special tax annually imposed on retail dealers in liquors is now $25, and is at present yielding a revenue of about three millions of dollars per annum. With the reduction of the tax on the manufacture of proof spirits to fifty cents per gallon, this special tax might be advanced to $100, thereby increasing the aggregate revenue from this source to from ten to twelve millions of dollars per annum.

Third—The special or license tax imposed on wholesale dealers in liquors is $100 when the annual sales are not in excess of $50,000, and one-tenth of one per cent on the amount in excess of that sum. The revenue obtained during the last fiscal year from these taxes was, respectively, $982,135 and $114,715, making a total of $1,096,850. The special tax imposed upon rectifiers is $25 for each 500 barrels produced, and yielded the last fiscal year the sum of $80,470. The total amount received from both wholesale dealers in liquors and rectifiers was $1,177,320.

The Commissioner would propose that the special taxes referred to under this head shall be repealed, and that a tax of from two to three per cent be imposed on all spirits sold at wholesale, to be paid monthly, and a tax of ten cents per gallon on all spirits rectified, to be paid weekly. A tax of two and a half per cent on sales and ten cents on spirits rectified will, in the opinion of the Commissioner, yield a revenue, which cannot be easily evaded, of at least $20,000,000 per annum, making a total amount of annual revenue which can probably be derived from the tax on distilled spirits, under the proposed system, of from $50,000,000 to $60,000,000.

The demoralizing influence of great gain from a successful evasion of the law in the production of distilled spirits being also in a degree taken away by a reduction of the tax in the first instance, a large indirect gain of revenue from other sources might also be reasonably anticipated. As indicating in a degree the extent of the traffic in spirituous liquors in the United States, and therefore of the probable success of the proposed new system, the Commissioner would call attention to the following aggregate amount of sales (including cigars and other articles) by the retail dealers in liquors in the principal commercial cities of the country during the fiscal year ending June 30, 1867, as deduced from the receipts of internal revenue:—

New York	$91,341,540	Louisville	$18,177,780
Cincinnati	59,627,250	Brooklyn	18,012,900
Philadelphia	58,181,120	Cleveland	17,793,040
New Orleans	50,118,110	Buffalo	17,447,760
Chicago	40,617,230	Mobile	15,730,120
Baltimore	38,600,490	San Francisco	14,656,110
St. Louis	33,318,750	Providence	13,645,660
Albany (county)	31,648,030	Boston	13,260,340
Detroit	19,077,720	Charleston	11,405,300
Milwaukee	18,669,160	Pittsburg	9,912,860
Newark	18,659,890		
Total			$609,900,160

FERMENTED LIQUORS.

The continued increase of the revenue from the tax on fermented liquors is gratifying; yet the amount received from this, in common with all other sources of internal revenue, is undoubtedly much less than what is legitimately due to the government. An annual increase of about $700,000 since the method of collecting the tax by means of stamps was adopted indicates that the new plan has not been unsuccessful, though a part of the increase noted is undoubtedly due to a legitimate increase of production and consumption, especially of lager beer.

The amount of revenue that may be relied on from this source during the next fiscal year is about six millions of dollars. The statistics obtained relative to the erection of additional breweries and malting houses furthermore indicate that the production and consumption of malt liquors, and theoretically of revenue, is now increasing at the rate of from ten to fifteen per cent per annum. Were the proposed reforms in the administration of the civil service to be effected, an immediate increase of revenue from this source to seven millions of dollars per annum might, in the opinion of the Commissioner, be safely anticipated. As an additional safeguard against fraud, it has been proposed to the Commissioner to substitute for the present paper stamp a species of metallic stamp, secured to the barrel by a simple and ingenious device, in such a way that the stamp can be attached without trouble, and yet not removed without such defacement as to make its further use almost impracticable. If, as seems probable, it may be found for the interests of government to adopt this new method, it is desirable that the power already given to the Commissioner of Internal Revenue to prescribe stamps or change any now in use, should be further increased by the addition of authority to change the mode of cancellation to some other than that now prescribed by law; and for this purpose it is recommended that section 53 of the act of July 13, 1866, be amended by adding after the word "cancelled" the following:—"or shall be cancelled in such manner as the Commissioner of Internal Revenue shall deem best."

TOBACCO.

As a source of internal revenue tobacco ranks next in importance to distilled spirits. The collection of a legitimate revenue from tobacco is, however, environed with even more difficulties than is experienced in the case of distilled spirits; while the frauds perpetrated in the manufacture of tobacco are, in the opinion of the Commissioner, comparatively greater. Some of the principal methods, reported to the Commissioner, by which these frauds are accomplished will be briefly stated.

First—The chief and most extensive agency by which the revenue is successfully evaded grows out of the complicity or incompetency of officials. In fact, the present method of collecting the revenue is made so far dependent upon individual inspectors, that when honesty is wanting, the check derived through inspection becomes almost worthless.

Second—The use of counterfeit or illegal inspection brands. Each inspector furnishes his own brands in whatever style he chooses, and there is no uniformity in the method of inspection. In some districts the brand "smoking" appears on the casks or packages which have been inspected and branded as such; while in other districts this word is omitted, thus enabling "chewing" tobacco to often escape with a fifteen cent tax, when by law it is required to pay forty cents. Inspectors are frequently removed; but when this is the case they retain their brands, and there is nothing but general vigilance to prevent inspection in large quantities, either by themselves or others, after their removal. Stencil cutters, in executing an order from an inspector, may make any number of *fac similes* and dispose of them to manufacturers; or any dexterous person can imitate a branding-plate so closely as to prevent the counterfeit markings from being readily detected.

Third—The continuous use of inspected packages, and the collection of the inspected heads and portions of packages once used to be used again in the construction of new ones.

Fourth—Having a large quantity of smoking tobacco inspected and afterward removing it and substituting chewing tobacco—charged with a higher tax—in its place.

Fifth—In some districts it is customary, in order to facilitate business, to allow small packages or bundles, of from one to ten or more pounds each, to be sold without inspection marks; the manufacturers simply entering into a small book the amounts, to be added up occasionally by the inspector. In this manner no inconsiderable proportion of "fine cut," sold in rolls or foil, escapes taxation.

Sixth—An irresponsible person may rent a cheap building, purchase some old machinery, hire motive power, obtain a license, and give bonds for $3,000 for the purpose of manufacturing smoking tobacco. He may obtain his leaf from another interested party, or buy it daily, and dispose of his goods as fast as made. Under the present law he can continue this business for sixty days, have his tobacco properly and faithfully marked and branded, and become a debtor to the government, on account of the taxes on his product, from $20,000 to $25,000. Before the expiration of the sixty days he disappears, leaving to the government his machinery and bond—if that happens to be good—amounting in all to, perhaps, a value of $5,000. The manufacturer in question, thus disappearing, appears again under another name, in another locality, and again successfully perpetrates the same system of evasion.

Seventh—The use of hand cutting machines in families throughout the country.

Eighth—The abuse of the bonding system.

Under these circumstances it is not surprising that an inquiry into the state of the tobacco trade should reveal the following anomalous results:—

Smoking tobacco, marked as properly inspected, is reported as being extensively sold at from sixteen to twenty cents per pound, when the elements of its cost are as follows:—Raw material, seven to eight cents per pound; cost in manufacturing, one and a half to two cents; tax, fifteen cents; making a total net cost of about twenty-four cents. Fine cut chewing tobacco is also largely sold at much less than its proper net cost, supposing the tax to have been paid upon it.

The result of such transactions is, that legitimate manufacturers are struggling to do business in the face of a ruinous competition, while the unscrupulous are rapidly accumulating large fortunes. Respectable dealers also gradually yield to the apparent necessities of the case, and purchase their tobacco, without question, where it is offered the cheapest.

A letter addressed to the Commissioner by one of the leading tobacco manufacturers of the West says:

> It is a fact that frauds on the revenue, in respect to tobacco, are becoming so common that it is regarded by a large portion of the community as a venial offence, and it may be taken for granted that manufacturers of tobacco pay only a portion of the tax.
>
> It is no sure evidence, moreover, because a house reports a large tax that it is strictly honest—for if a portion of the tax is evaded they can undersell others, and thus greatly increase their business.
>
> We also find through the country new and unknown men in the business, who, by their low prices, are taking the trade.

The Commissioner would also state that the books of some of the largest tobacco manufacturers in this country show that their aggregate sales of smoking tobacco for the whole of the last year have not been in excess of the average of sales which, before the imposition of the tax were effected in a single week.

The interests of the government require, and the people expect that a large revenue shall be collected from tobacco, but by what method of law and procedure the difficulties which attend the collection of the taxes imposed on this article can be best overcome it is not easy to say. In truth the subject has never yet received from any officer of the government that thorough investigation and study which its importance demands, and which have been given to other specialities of taxation. A very slight investigation, however, would seem to establish the fact that in this, as in nearly every other department of the revenue, the main cause of the present discreditable condition of affairs may be referred back directly to the imperfect administration of the law, growing out of the manner in which the inspectors are selected and appointed. Remedy this and the difficulties which now attend the enforcing of the law and the collection of the taxes will, in a great degree, be removed.

In addition to such reform, the "trade" very generally, as the result of their experience during the past few years under the Internal revenue, have united in a recommendation that the taxes on tobacco of all kinds be collected and paid by means of stamps, elaborately engraved, and representing specific quantities. The exact method in which the stamps shall be used is, however, to some extent, a matter of disagreement among the advocates of the proposed new system.

By some it is proposed that there shall be no restriction upon the method of packing tobacco, but that stamps shall, by requirement of law, be affixed to every package, including foil and roll; and that all packages in excess of three pounds in weight shall have, in addition to the stamp, the brand of an inspector. The portion of the trade referred to also recommend—First—That the tax be reduced from forty to twenty cents on chewing, and from fifteen to ten cents per pound on smoking tobacco; and that in such case the prepayment of stamps be made compulsory; or, that in case the tax be not reduced, the bonds of all manufacturers of chewing and smoking tobacco be largely increased, and the issue of stamps on credit by the collector be limited to fifty or seventy-five per cent of the amount of the bond. Other representatives of the tobacco trade, not less influential and intelligent than the former, recommend that the law be so amended as to require the sale of all chewing and smoking tobacco to be made in packages to which a stamp is affixed; that the maximum weight of package shall not exceed one pound; that all smaller packages shall be some multiple of a pound in ounces; that for convenience and simplicity in calculation the taxes be fixed at 16 cents per pound (or 1 cent per ounce) for smoking tobacco and 32 cents per pound (or 2 cents per ounce) on chewing tobacco, in place of the present rates of 15 and 40 cents; that prepayment of the taxes be made in all cases obligatory; and that all packages of tobacco offered or held in possession for sale without the requisite stamp affixed and cancelled thereon be forfeited.

The taxed production of tobacco for the fiscal year 1867 was 45,635,000 pounds. With the adoption of the stamp system and the requirement of sale in packages the Commissioner, from data furnished to him by the trade, is of the opinion that taxes, as a minimum, could be collected from sixty million pounds of chewing tobacco and from thirty to forty million pounds of smoking tobacco—thus greatly increasing the revenue at present derived from this article.

Furthermore, the trade all unite in recommending that the use of hand machines for cutting tobacco for family use or other purposes be strictly prohibited, or made subject to a heavy special tax or license; that all brands now in use by inspectors be cancelled and destroyed, and that new ones, of uniform and elaborate design be prepared and issued to inspectors by the Treasury Department at Washington, and that the return of the same to the Commissioner of Internal Revenue, when worn out or broken, or at the expiration of office, be made obligatory.

It is also recommended that it be made hereafter a penal offence for any stencil cutter or other person, unless employed by the department of the Treasury, to cut or make any plate for the branding of tobacco.

In these recommendations and suggestions of the trade the Commissioner generally concurs and is further of the opinion that the adoption of the stamp system, coupled with the requirement as to the sale of chewing and smoking tobacco in packages with prepayment of tax, will be found most to the interest of the revenue. The details of the plan which does not propose any restriction as respects the sale in packages, drawn up by a committee of the trade in the form of a law, will be found in an appendix to this report, marked D.

The plan of collecting the tax from cigars, by means of a small stamp of thin paper attached to the "cut" or "light" end, has been often proposed, and would seem to be not impracticable. If such a plan could be adopted and carried out, and the tax fixed at one cent on each cigar, a very large additional revenue might be derived from this article and at a very small expense for collection. As the present consumption of cigars, domestic and foreign, in the United States is estimated at from one thousand to twelve hundred millions per annum, a tax of one cent for each cigar on this consumption would theoretically afford an annual revenue of from ten to twelve millions of dollars; while the receipts from this source during the last fiscal year were less than three and two-thirds millions.

The total revenue derived during the fiscal year ending June 30, 1867, from the internal taxes on cigars and tobacco was $19,705,827. From this source during the next fiscal year, with the present method of collection remaining unchanged, a receipt of twenty millions may be reasonably anticipated; but with reform in administration, and the use of stamps upon tobacco, as indicated, this revenue might probably be increased to $30,000,000 as a minimum.

INCOME TAX.

A considerable falling off in the revenue to be derived from the income tax, for the present and succeeding fiscal years may be expected, both from the reduction of the tax under the act of March 2, 1867, and also from the losses recently experienced through the shrinkage in the value of commodities. The amount, in the opinion of the Commissioner, which may be anticipated from this source for the next fiscal year will be about thirty-five millions of dollars.

Under the present law imposing an income tax the exemption of $1,000 from taxation is allowed unqualifiedly to all persons returning an income. The allowance of an exemption of this character in the original framing of the law was undoubtedly founded upon an English precedent, which exempts from taxation incomes of less than £100, allows an abatement of £60 on all incomes of £100 a year and under £200, but does not allow any deduction from incomes in excess of £200; the object being not to favor the recipient of large or ample revenues, but only those whose incomes are sufficient to meet the most moderate expenditures. In the United States the same good purpose has been recognized, and its attainment secured by an income exemption of double the amount allowed in Great Britain; but the original object of the exemption would appear to have been entirely lost sight of in making the exemption absolute and unqualified; for what in the one case is an allowance to necessity becomes in the other a mere increase of abundance. The Commissioner therefore recommends that the law be so amended that the exemption shall apply only to incomes which are not in excess of $1,500 or $2,000.

There would also appear to be another curious anomaly in the law imposing an income tax, which allows on the one hand an unqualified deduction from income of the amount paid for rent, and on the other hand does not consider as income in any degree the rental value of property held and enjoyed by its possessor. In this there is no little of inconsistency; for while in all other departments of the revenue it is accepted as a fundamental principle that luxuries especially should be taxed, in this they are especially exempted. Thus, under ordinary circumstances, a house and a portion of land are regarded as a necessity; but it may be made a luxury—so much so that the term palace or palatial, as applied to a residence, is used figuratively to express the highest degree of luxury. There would seem, therefore, no good reason, when a sufficient and proper sum is exempted in the first instance from an income tax, why this exemption should be further increased by the addition of rentals or rental values; and, in any event, it seems right that if an individual chooses to employ his wealth by occupying tenements and ornamental lands, whose rental value is the representative of large property, that all such rental in excess of a certain amount should be considered as a luxury, and taxed accordingly.

STAMPS.

The revenue from stamps, during the last fiscal year, was $16,094,718; and as the receipts from this source are likely to increase, under almost any circumstances, an estimate of $17,000,000 for the next fiscal year—1868-9—must be considered as moderate. The present legitimate revenue from stamps ought to be at least twenty-five millions of dollars, and would be, were not the tax evaded by omission to use stamps in accordance with the requirements of the law, and by non-cancellation and reuse of them. These two methods of fraud may be greatly checked by providing for a closer and more effective inspection; and by requiring that henceforth all revenue stamps shall be printed in fugitive inks (water colors)—as is the general practice in Europe—and that some common and effective method of cancellation be made obligatory for all stamps exceeding twenty-five cents in value, at least as regards brokers, bankers, lawyers, notaries and commercial men, having a fixed place of business. Recognizing the necessities of the department in this latter particular, several most ingenious inventions and devices, mechanical and chemical, have been submitted, and it seems probable that, at no distant, some plan can be adopted by the Treasury which will render the successful reuse of a stamp once cancelled all but impossible.

As the law now stands receipts for the payment of any sum of money or debt exceeding $20 in amount are liable to a stamp of the value of two cents; but the law does not prescribe definitely whether the stamp shall be affixed or cancelled by the maker or receiver of the receipt. It is believed that if the obligation was made definite and imperative upon the maker some increase of revenue would accrue, and some cause of misunderstanding be obviated. As a tax of this character, moreover, is not onerous, does not in any degree impede industrial production, and yields considerable revenue, the Commissioner, with a view of increasing the revenue, would recommend that the law be so amended as to make all receipts in excess of $10, in place of $20, liable to stamp duty.

And in recommending these several augmentations of taxes the Commissioner would take occasion to say that his object in so doing is not a desire to absolutely increase the internal revenue but to insure to the government such an amount of revenue from a few unobjectionable sources as will allow of the removal of those taxes which are unquestionably impediments in the development of the country.

LEGACIES AND SUCCESSIONS.

The receipts of revenue from taxes on legacies and successions ($1,861,429) have increased during the past year about $700,000; but it is clear that the government does not as yet collect from these sources more than one-half of the amount to which it is rightfully entitled. With a view of insuring a more perfect collection of these taxes, the appointment of special officers charged with the execution of this portion of the Internal Revenue act would seem to be desirable, as an intelligent and careful supervision of the transactions on which these taxes are based is necessary to secure a legitimate revenue. For the next fiscal year a revenue of $2,000,000 may be safely counted upon from these sources.

TAXES ON GROSS RECEIPTS, BANKS, SALARIES AND MISCELLANEOUS.

The revenue derived during the last fiscal year from the above several sources was as follows:—

From taxes on gross receipts (under which head are included the receipts of telegraph, express and insurance companies, the passenger receipts of railroads, steamboats and stages, of lotteries and theatres and formerly of advertisements	$7,444,719
From bank dividends, circulation and deposits	9,990,358
From tax on salaries	1,029,992
From Miscellaneous taxes, viz.: from billiard tables, carriages, watches, &c., also from passports	2,033,369
From fines, penalties and forfeitures	1,459,171
Total	$21,957,609

Making an allowance for the repeal of the tax on advertisements, and some other possible deficiencies, it will not be unreasonable to expect that substantially the same amount will continue to be drawn from these sources in the immediate future.

The whole amount collected from theatres, museums, opera and concert halls, on account of the special tax of $100 imposed on the same, during the last fiscal year, was $18,146; which amount would indicate the existence of about one hundred and eighty establishments of this character in the United States. The amount received from the tax of two per cent on the gross receipts of such establishments was $194,039. By substituting in place of this latter tax a fixed sum for each performance, to be paid by means of permits sold by the collectors of the several district, under proper restrictions, or by increasing the tax on gross receipts to four per cent, the annual revenue from this source could, it is believed, be considerably increased.

TAX UPON RAW COTTON.

As the cotton tax and the reasons in favor of its repeal have been considered in a recent special report, any further detailed reference to this subject is here omitted. If the Commissioner, however, in now advocating the repeal of a tax, for the imposition of which he was formerly earnest, should seem to have exposed himself to the charge of inconsistency, he would say in reply, first—that it is of much greater importance that he should be ultimately right than that he should have been consistent; and, secondly, that the argument which was legitimate in favor of the tax when cotton was from thirty to fifty cents per pound, and the tax constituted but a fraction of the planters' profit, entirely fails of application when the price of cotton has become so greatly reduced that the tax necessarily falls upon capital.

RECAPITULATION OF INTERNAL REVENUE RECEIPTS AS ESTIMATED.

It will be remembered that, according to the estimates heretofore presented of expenditures and receipts from customs, there remained to be provided for, from internal revenue sources, the sum of $170,000,000. Of this amount it is believed that the sources above referred to in detail may be relied on to furnish $152,000,000 under almost any contingency, without the necessity of the further continuance of a single one of the so-called industrial taxes.

The receipts from these several sources may be recapitulated as follows, viz.:—

From distilled spirits (new system)	$50,000,000
From fermented liquors	6,000,000
From tobacco and its manufactures	20,000,000
From income	35,000,000
From stamps	17,000,000
From legacies and successions	2,000,000
From banks, railroads, &c.	10,000,000
From salaries	1,000,000
From gross receipts	7,440,000
From miscellaneous (schedule A, &c.)	2,100,000
From fines, penalties, &c.	1,460,000
Total	$152,000,000

Accepting the above estimates as correct, there then remains to be provided for from some other sources a deficiency of eighteen millions ($18,000,000) necessary to make up the required sum of one hundred and seventy millions, with such additional amount as may be provisionally required to meet unexpected or extraordinary contingencies.

SPECIAL OR LICENSE TAXES.

To meet such deficiency, the so-called "special" or "license" taxes and the taxes on sales, which have not been included in the above estimates, may be relied on; and if it should be thought desirable they may be modified, with little trouble and inconvenience to the business interests of the country, in such a way as to afford a large additional revenue. In fact, this class of taxes are so readily manageable and admit of such an indefinite expansion without directly impeding industry or production that they may be considered in the light of a revenue reserve.

The amount derived from the special taxes (licenses) for the last fiscal year was $18,186,446 50; and from sales, auctioneers, and brokers, including sales by wholesale dealers in excess of $50,000, $4,114,075 47; making a total of $22,300,521 97.

Deducting from this aggregate the receipts from the special taxes on distillers, rectifiers, and wholesale and retail dealers in liquors—which it is proposed to make hereafter a part of the new system for collecting a revenue from distilled spirits—there remains the sum of $18,156,518.

It is, however, recommended, in the event of the entire removal of the so-called industrial taxes, to place the manufacturers and the wholesale dealers on a corresponding basis, and impose upon them a special tax of $100, when the value of their annual sales is not in excess of $50,000, and an additional tax of $2 for every additional $1,000 in excess of $50,000. This modification of the law will, it is believed, be generally acceptable to the industrial interests of the country and will produce an additional revenue, over what is now obtained from the taxes on wholesale dealers, of about $11,000,000.

REFORM IN REVENUE ADMINISTRATION.

We come, next, to the consideration of a subject which is daily becoming one of increasing importance—so much so, that if it does not soon receive, voluntarily, the practical attention of the legislative department of the government it will of itself ultimately, and at no distant day, compel that attention to the exclusion of every other subject; inasmuch as the necessity involved imperils not only the revenue and consequently the public credit, but even the very existence and maintenance of republican institutions. We refer to the pressing necessity which exists for a complete reform and reorganization of the administrative part of the national revenue system. What a spectacle is to-day presented to the country of the law in repeated instances breaking down and demanding for itself additional safeguards in the nature of mechanical expedients; of a large proportion of the assessed internal revenue taxes remaining uncollected, or collected for the benefit of some other recipient than the national Treasury; and of fraud and incompetency in official position, becoming daily more apparent and disastrous in their consequences! But in this exhibit, painful as it is, the case is only half stated. The demoralizing influence of successful evasion of the revenue and the accumulation of profit thereby has penetrated deeply into the community, and public sentiment has become influenced to such an extent that no serious disgrace attaches to transactions in which government is a party, which, if committed against individuals, would be universally branded as infamous.

The extent of the revenue frauds and of the manner, in part, in which they are effected, have been already referred to in this and previous reports; but, notwithstanding the illustrations thus afforded, and the further fact that the whole subject has for some time past formed a theme of general discussion, it is not probable that the public as yet fully appreciate the magnitude of the frauds or the degree to which "cheating the government" has been reduced to a science. Thus, for example, the fraudulent transactions involved in the manufacture and sale of distilled spirits are popularly supposed to transcend all others; and yet, if the whole truth could be revealed, it would, in the opinion of the Commissioner, be found that the frauds in tobacco and cigars have been comparatively greater than in whiskey, and that those in coal oil, in proportion to the amount invested, have not been much inferior to those in either whiskey or tobacco.

For the continuance of this state of things there is, in the first place, no necessity, and secondly an efficient remedy. It does not exist in Great Britain, France, Belgium, Holland and the German States; and what does not exist there ought not to be recognized as a necessity here. The response made to a question put by the Commissioner during the past summer to a leading official of one of the States above referred to, as to the extent to which the revenues of his government suffered through the frauds or incompetency of officials, was, "that he doubted whether the losses experienced from such causes during the previous ten years had been equal, in the aggregate, to the sum of fifty francs per annum."

Now this same high tribute of praise might also, it is believed, be awarded to the officers of the regular army and navy of the United States, as a class, in respect to their financial transactions with the government; and if the assumption be true then the remedy for the evils referred to is most obviously to be found in placing the officers who are to manage the revenues on substantially the same basis, as regards selection, education, tenure of office and promotion as the officers of the army and navy; and this, in a few words, is the system which secures efficiency and honesty in the civil service of Europe.

The report on the civil service of the United States, presented to the Thirty-ninth Congress by the Hon. Thomas A. Jenckes, from the Joint Committee on Retrenchment, and the last report of the Commissioner of Internal Revenue, discuss so fully the leading features of the machinery of civil administration which has been found effective in different countries, that any further detailed reference to the subject is here unnecessary.

As, however, some objection to the enactment of a civil service bill of the character referred to may arise from an apprehension that the test of examination, as a condition precedent for appointment to and promotion in office, will greatly interfere with or entirely destroy the power of political patronage, the Commissioner would call attention to the fact that the experience of Great Britain in this matter does not confirm any such anticipation. In that country, as in the United States, the use of political patronage for the support of an administration is considered as entirely legitimate, and the distribution of offices required to fill vacancies is substantially placed at the disposal of members of Parliament belonging to the dominant party. The method of procedure, however, is as follows:—The member of Parliament applies, in the first instance, to the Parliamentary Secretary of the Treasury, who has the distribution of patronage, or to the political head of some department. If the official in question is willing and able to accede to the member's request, he presents the applicant with what is called a "nomination" to one of the offices in his gift. The person nominated does not, however, as a matter of course enter the public service; for no interest, however powerful, can confirm an appointment unless the nominee is able to obtain a certificate of fitness from the Commissioners of the Civil Service, appointed by the Crown. In order to obtain this certificate the applicant for office is required, in the first instance, to execute an affidavit respecting his age, physical capacity, moral character and exemption from debt. If this affidavit is approved he is next subjected to an examination, the satisfactory result of which is followed by an appointment to office. Experience now has shown that a large proportion of the applicants for office not only fail to sustain the examination, but even do not press their application for office so far as to submit themselves to the required test; the result of which is that the number of persons whom a member of Parliament is able to gratify, or compliment, by nomination to office is rendered much greater than it would be were the nomination, in the first instance, made entirely absolute.

But, irrespective of the merits of any particular plan for reforming the civil service, one thing ought clearly to be understood, and that is that the present system of political patronage is, for the people of the United States, a most expensive national luxury. That the Commissioner may not expose himself to the charge of indulging in mere generalities in making such statements, he submits an actual case drawn from the records of the department, merely suppressing the names of persons and localities.

There were established at the inauguration of the Internal Revenue system two collection districts (which may be designated respectively as A and B) remarkably similar as respects population, wealth and the character of their business transactions—more so, perhaps, than any other two districts in the whole country. In both of these districts the principal revenue officers from 1862 to 1866 were men of unusual capacity and energy, who manifested a pride as well as an interest in the discharge of their duties; and so closely did the revenue receipts in the two districts approximate that those of A differed from those of B in the first three years of the internal revenue system to the extent of only $13,308 in an aggregate of over four millions, the receipts from A from 1862 to 1865 having been $4,092,648, and from B $4,085,334.

In 1866 a partial public, but political, sentiment in A demanded a change in the revenue office. The member of Congress from the district acquiesced, as did also the Executive and Secretary of the Treasury, while the Senate ultimately confirmed a new appointment. In district B the official was left undisturbed, although great efforts were also made to effect his removal. Since the removal in question was effected the result of inquiry on the part of the Commissioner has shown that there has been but little change, either as regards the business transacted or the taxes removed or abated in the one district which has not apparently affected the other in a nearly equal degree; and yet the receipts of district A as compared with district B fell off during the year succeeding the removal in question about $300,000 more than the difference between the receipts of the two districts for the preceding year—a result mainly attributable to the inexperience of the new official in district A and the new subordinates which he appointed. In this case, therefore, we have the data for approximately estimating what it cost the Treasury, and consequently the people of the country, for the privilege of making a removal of one efficient revenue officer for political reasons and substituting in his place a person entirely inexperienced.

In default of any reform in the administration of the revenue through the passage of a civil service bill regulating the selection, appointment and promotion of officers, the Commissioner would suggest the expediency of detailing, by act of Congress, to the administration of the revenue—as revenue agents, assessors, collectors or inspectors—officers of the regular army and navy, who through a reduction of the active forces, and the necessity of keeping up a large "skeleton organization," may hereafter be unemployed. The fidelity, education and practical intelligence of these officers have already been tested; and in case of any dereliction of duty or violation of trust, the rules of their respective organizations provide a means for prompt inquiry and speedy punishment.

The Commissioner is also of the opinion that even with continuance of the present system a great gain would accrue to the revenue if the large cities of the country could be consolidated into single collection districts and placed under the charge of one assessor and one collector, in place of the numerous divisions of a limited territory and consequent multiplicity of officers which are now recognized.

The experience of every State in which the existence of a heavy debt and the requirements for large expenditures necessitate the raising of large revenues is to the effect that there is no department in which it is more essential that a nation should be wisely as well as honestly served as in that of the Department of Finance; and that the relations of this department are, moreover, so closely interwoven with every form of the industry and capital of a country that good management on the part of the one is a prerequisite to prosperity on the part of the other. A reform of the civil service by which a greater degree of faithfulness and efficiency is secured in officers whose duties are purely administrative, essential as this may be, will not, therefore, of itself be sufficient to ensure for our revenue system all that may be desired for the future; but it would seem to be desirable that there should be provided for the department as a whole some better form of machinery for organizing, inquiring, directing and adjudicating than is now in existence.

Important and responsible as are the two offices of Secretary of the Treasury and Commissioner of Internal Revenue, the duties of their incumbents at the present time are necessarily to a great degree clerical, and the mere routine work which daily accumulates upon them is sufficient to almost entirely engross their whole time and attention. In fact, with the exception of the Special Commissioner of the Revenue, whose office is a temporary one, there is no responsible officer attached to the Treasury Department but is so completely occupied with a routine of daily administrative duty as to preclude the possibility of his instituting and prosecuting any original inquiry whatever in respect to the industry and developments of the country, or the influence which the adoption of any given line of policy may exercise upon them.

The tendency, therefore, of the country, so far as the financial department of the government is concerned, is rather to drift with the current of events, instead of controlling it.

Profiting by the experience of Great Britain in such matters, the most efficient remedy for this state of things will, in the opinion of the Commissioner, be found in the creation of a Board of Commissioners of the Revenue, and in transferring to the same the whole business of collecting the revenue, both customs and internal, subject only to the general supervision of the Secretary of the Treasury.

The Commissioner would further propose that the board be constituted of five members: a chairman, who might be at the same time a Deputy or Assistant Secretary of the Treasury; a Commissioner of Internal Revenue, a Commissioner of Customs, and two Solicitors; and that sufficient inducements, in respect to salary and permanence in office, should be offered to secure for these positions the very best talent in the country. To this board might be referred the determination of all rules and regulations relating to the collection of the revenue; the expenditures to be incurred in respect to the same; the management of all revenue processes at law, and the distribution of all moieties received from forfeitures and penalties, in reward for good service and for valuable information. It should also be an essential feature of this new system that no officer of the revenue should receive a commission, or be promoted, until his qualifications for the proper discharge of his duties had been examined into and approved of by the Board of Commissioners.

CONCLUSION.

It was originally the intention of the Commissioner to discuss, in connection with this report, the relations of the present tariff to revenue and domestic industry; the practicability of converting duties now ad valorem into specific, and the results of a comparison of the prices of labor and of raw material, and of the conditions of production in the United States and in Europe. So much space has, however, been occupied by the topics already presented that he has thought it expedient to make the subjects now passed over the basis of a subsequent report, especially as some further time is necessary to render their exhibit more complete and satisfactory.

DAVID A. WELLS,
Special Commissioner of the Revenue.

NAVAL INTELLIGENCE.

Trial Trip of the Wampanoag.

This man-of-war, recently completed, left the Navy Yard on the 28th of December, at eight o'clock A. M., and steamed along the coast to test her engines, but after an absence of twenty-three hours returned to Staten Island to obtain additional supplies for the engine department. During this time the vessel averaged thirteen knots per hour, with an average pressure of thirty-four pounds of steam. Obtaining the supplies desired the vessel went to sea again, running between lighthouses to further test her machinery. From noon of 2d to eight P. M. of the 3d inst., a period of twenty hours, the vessel logged fifteen knots per hour with an average of forty pounds of steam. The whole number of furnaces—fifty-eight—were in operation and particular attention was paid to the character of the fires. The engineers in charge assert that the machinery worked satisfactorily. The weather was extremely pleasant during the trip, with favoring winds