

that American vessels on the high seas in the time of peace, bearing the American flag, remain under the jurisdiction of the country to which they belong, and therefore any visitation, molestation or interference with such vessels by force on the part of a foreign power, is in derogation of the sovereignty of the U. S. In accordance with this principle, the restoration of the *Virginian* and the surrender of the survivors of her passengers and crew, due reparation to the flag, and the punishment of the authorities who had been guilty of the illegal acts of violence, were demanded. The Spanish government has recognized the justice of the demand, and has arranged for the immediate delivery of the vessel and for the surrender of the survivors of the passengers and crew, and for a salute to the flag, and for proceedings looking to the punishment of those who may be proved to have been guilty of illegal acts of violence towards citizens of the United States; and also towards indemnifying those who may be shown to be entitled to indemnity. A copy of a protocol of a conference between the Secretary of State and the Spanish minister, in which the terms of this arrangement were agreed to, is transmitted herewith. The correspondence on this subject with the legation of the U. S. in cypher and by cable, needs the verification of the actual text of the correspondence. It has seemed to me to be due to the importance of the case not to submit this correspondence until the accurate text can be received by mail. It is expected shortly, and will be submitted when received. It taking leave of this subject for the present I wish to renew the expression, in my conviction, that the existence of African slavery in Cuba is a principal cause of the lamentable condition of the Island. I do not doubt that Congress shares with me in the hope that it will be soon made to disappear, and that peace and prosperity may follow its abolition. The embargoing of American estates in Cuba, cruelty to American citizens detected in no act of hostility to the Spanish government, the murdering of prisoners taken without arms in their hands, and finally the capture upon the high seas of a vessel sailing under the U. S. flag, and bearing the U. S. register, have culminated in an outburst of indignation that has seemed for a time to threaten war. Pending the negotiations between the U. S. and the government of Spain on the subject of this capture, I have authorized the Secretary of the Navy to put our navy on a war footing to the extent at least of the entire annual appropriation of that branch of the service, trusting to Congress and the public opinion of the American people to justify my action.

Constitutional Amendments Suggested.

Assuming from the action of last Congress in appointing a committee on privileges and elections to prepare and report to this Congress a constitutional amendment to provide a better method of electing the President and Vice President of the United States, and also from the necessity for such an amendment, that there will be submitted to the State legislatures for ratification, such an improvement in our condition, I suggest two others for your consideration. First, to authorize the Executive to approve of so much of any measure passing the two houses of Congress as his judgment may dictate without approving the whole, the disapproved portion or portions to be subjected to the same rules as now, to wit, to be referred back to the house in which the measures originated and passed by two-thirds of the votes of the two houses, then to become the law without the approval of the President. I would add to this a provision, that there should be no legislation by Congress during the last twenty-four hours of its sitting, except upon veto, and in order to give the Executive an opportunity to examine and approve or disapprove understandingly. Second, to provide, by amendment, that when an extra session of Congress is convened by executive proclamation, the legislature during the continuance of such extra session shall be confined to such subjects as the Executive may bring before it from time to time in the sitting. The advantages to be gained by these two amendments are obvious. One session in each year is provided for by

the constitution, on which there are no restrictions as to subjects of legislation by Congress. If more are required, it is always in the power of Congress, during its term of office, to provide for sessions at any time. The first of these amendments would protect the public against the many abuses and waste of public moneys which creep into the appropriation bills, and other important measures passing during the expiring hours of Congress, to which otherwise due consideration might be given.

The Revenue.

The receipts of the government from all sources for the last fiscal year were \$333,738,204, and the expenditures for all accounts \$290,340,245, thus showing an excess of receipts over expenditures of \$43,397,959. But it is not probable that this favorable exhibit will be shown for the present fiscal year; indeed it is very doubtful whether, except with great economy on the part of Congress in making appropriations, and the same economy in the administration of the various departments of the government, the revenue will not fall short of meeting the annual expenses, including the interest on the public debt.

Economy Urged.

I commend to Congress such economy, and point out two sources where it seems to me it might commence, to wit, appropriations for public buildings in the many cities where work has not been commenced and in the appropriations for river and harbor improvements in those localities where the improvements are of but little benefit to general commerce, and the fortifications. There is a still more fruitful source of expenditures which I will point out later in this message. I refer to the easy method of manufacturing claims for losses incurred during the late rebellion.

I would not be understood here as opposing the erection of good, substantial, and even ornamental, buildings by the Government wherever such buildings are needed. In fact, I approve of the Government owning its own buildings in all sections of the country, and I hope the day is not far distant when it will not only possess them, but will erect, in the capital, suitable residences for all persons who now receive commutation for quarters, or rental at the Government expense, and for the Cabinet, thus setting an example to the States, which may induce them to erect buildings for their senators. But I would have this work conducted at a time when the revenues of the country would abundantly justify it. The revenues have materially fallen off for the last five months of the present fiscal year from what they were expected to produce, owing to the general panic now prevailing, which commenced about the middle of September last. The full effect of this disaster, if it should not prove to be a blessing in disguise, is yet to be demonstrated. In either event it is your duty to heed the lesson and to provide, by wise and well considered legislation, as far as it lies in your power, against its recurrence, and to take advantage of all benefits that may have accrued. My own judgment is that, however much individuals may have suffered, one long step has been taken towards specie payments, and that we will never have permanent property until an entire new basis is reached, and a specie basis cannot be reached and maintained till our exports, exclusive of gold, pay for our imports. The interest due abroad, and other speculations are so heavy as to leave no appreciable accumulation of those metals in the country from the products of our mines.

Development of Mines—Specie Resumption.

The development of mines of precious metals during the past year, and the prospective development of them for the years to come are gratifying in the extreme. Could but one half of the gold extracted from the mines be retained at home our advance towards specie payments would be rapid. To increase our exports sufficient currency is required to keep all the industries of the country employed; without this national, as well as individual, bankruptcy must ensue. Undue inflation, on the other hand, while it might give temporary relief, would tend only to inflation of prices. To give elasticity to our circulating medium therefore, and

enough of it to transact the legitimate business of the country and to keep industries employed, is what is most desired. The exact medium for this is specie—the recognized medium of exchange all the world over. That obtained we shall have currency of an exact degree of elasticity. If there be too much of it for the legitimate purpose of trade and commerce, it will flow out of the country; if too little, the reverse will result. To hold what we have and to appreciate our currency to that standard is a problem deserving the most serious consideration of Congress. The experience of the present panic has proven that the currency of the country, based as it is upon the credit of the country, is the best that has ever been devised. Usually, in times of such trials, the currency has become worthless, or so much depreciated in value as to inflate the values of all the necessities of life as compared with the currency. Everyone holding it has been anxious to dispose of it on any terms. Now we witness the reverse, the holders of currency hoard it as they did gold in a former condition of a like nature. It is patent to the most casual observers that much more currency or money is required to transact the legitimate trade of the country during the Fall and Winter months when the vast crops are being removed, than during the balance of the year. Without the present system the amount in the country remains the same throughout the year, resulting in an accumulation of all the surplus capital of the country, which, when not employed in moving the crops, is tempted by offers of interest on loans being paid. This surplus capital must earn this interest paid with profit. Being subject to call it cannot be loaned, or can only be loaned in part, and at the best to the merchant or manufacturer for an affixed term. No matter how much currency there might be in the country, it would be absorbed, prices keeping pace with the volume, and prices, stringency and disasters would ever be recurring with the elasticity in our money system. This is the object to be obtained first, and next, as far as possible, a prevention of the use of money in stock and other species of speculation.

To prevent the latter it seems to me that a great step would be taken by prohibiting the national banks from paying interest on deposits, by requiring them to hold their reserve in their own hands, and by forcing them into resumption, though it would be only in legal tender notes. For this purpose I would suggest the establishment of clearing houses for your consideration. To start the former many plans have been suggested, the most of which look to me like inflation on the one hand, or compelling the government, on the other, to pay interest without corresponding benefits upon the surplus funds of the country during the seasons when they would be otherwise unemployed. I submit for your consideration whether this difficulty might not be overcome by authorizing the Secretary of the Treasury to issue at any time, to the national banks of issue, any amount of their notes below a fixed percentage of their issue, say forty per cent., upon the bank depositing with the Treasurer of the United States an amount of government bonds equal to the amount of notes demanded, the banks to forfeit to the government say four per cent. on the interest accruing on the bonds so pledged during the time, the remainder to be left with the Treasury as security for the increasing circulation, the bonds pledged to be redeemable by the banks at their pleasure, either in whole or in part, by returning their own bills for cancellation to the amount equal in the face of the bonds withdrawn. I would further suggest for your consideration the propriety of authorizing the national banks to diminish this outstanding issue at pleasure, by returning, for cancellation, their own bills, and withdrawing so many United States bonds as are pledged for the same.

Contraction of the Currency.

In view of the great actual contraction that has taken place in the currency, and the comparative contraction constantly going on, due to the increase of manufactures and all the industries, I do not believe that there is too much of it now for the dullest period of the year. Indeed, if clearing houses should be established, thus forcing redemp-

tion, it is a question for consideration whether banking should not be made free, retaining all the safeguards now required to secure bill holders in any modification of the present laws regulating national banks. As a further step toward paying for the resumption of specie payment, I invite your attention to a consideration of the propriety of exacting from the banks, as part of their reserve, either the whole or part of the gold interest, accruing upon the bonds pledged as security for their issue. I have not reflected enough upon the bearing this might have in producing a scarcity of coin with which to pay the duties on imports to give it my positive recommendation, but your attention is invited to the subject.

During the last four years the currency has been contracted decidedly by the withdrawal of the three per cent. certificates, compound interest notes, and the 7.30 bonds outstanding on the 4th of March, 1869, all of which took the place of legal tenders in the bank reserves to the extent of sixty-three millions of dollars. During the same period there has been a much larger comparative contraction of currency. The population of the country has largely increased; more than twenty-five thousand miles of railroad have been built, requiring the active use of capital to operate them; millions of acres of land have been opened to cultivation, requiring capital to remove the products; manufactories have multiplied beyond all precedent in the same period of time, requiring capital weekly, for the payment of wages and for the purchase of material; and probably the largest of all the comparative contraction has arisen from the organization of free labor in the South. Now every laborer there receives his wages, and for want of savings banks the greater part of such wages is carried in the pocket or hoarded till required for use. These suggestions are thrown out for your consideration, without any recommendation that they shall be adopted literally, but hoping that the best method may be arrived at to secure such an elasticity of the currency as will keep employed all the industries of the country. To prevent such inflation as will put off indefinitely the resumption of specie payments, an object devoutly to be wished for by all, and by none more earnestly than the class of people most directly interested—those who earn their bread by the sweat of the brow. The decisions of Congress on this subject will have the hearty support of the Executive.

Postal Service.

A complete exhibit is presented in the accompanying report of the Postmaster General of the operations of the Post Office department during the year. The ordinary postal revenues for the fiscal year ending June 30th, 1873, amounted to \$22,996,741 57, and the expenditures of all kinds to \$29,084,905 67. The increase in the revenues over 1872 was \$1,081,315 20, and the increase in expenditure \$2,465,733 06. Independent of the payments made from the special appropriations for the mail steamship lines, the amount drawn from the general treasury to meet the deficiencies was \$526,547. The constant and rapid extension of our postal service, particularly upon railways, and the improved facilities for the collection, transmission, distribution and delivery of mails, which are constantly being provided, account for the increased expenditure of this popular branch of the public service. The total number of post-offices in operation on the 30th of June, 1873, was 44,244, a net increase of 1,381 over the number reported the preceding year. The number of presidential offices was 1,363, being an increase of 162 during the year. The total length of the railroad mail routes at the close of the year was 63,455 miles, being an increase of 5,546 miles over the year 1872. Fifty-nine railroad post-office lines were in operation on the 30th of June, 1873, extending over 14,866 miles of railroad routes, and performing an aggregate service of 34,925 miles daily, and the number of letters exchanged with foreign countries was 27,459,185, an increase of 3,096,685 over the previous year; the postage thereon amounted to \$2,021,810.86. The total weight of the correspondence exchanged in mails with European countries exceeded 912 tons, an increase of 92 tons over the previous year. The total cost of the United States Ocean mail

steamship service, including \$735,000 paid from the special appropriation to subsidized lines of mail steamers, was \$10,477,713.05. New additional postal conventions have been concluded with Sweden, Norway, Belgium, Germany, Canada, Newfoundland and Japan, reducing the postage rates on correspondence exchanged with those countries, and further efforts have been made to conclude a satisfactory postal convention with France, but without success.

Bankruptcy Law.

I have become impressed with the belief that the act, approved March 2nd, 1867, entitled, "An act to establish a uniform system of bankruptcy throughout the United States," is productive of more evil than good. At this time, many considerations might be urged for its total repeal, but if this is not considered advisable, I think it will not be seriously questioned that those portions of said act providing for what is called involuntary bankruptcy operate to increase the financial embarrassment of careful and prudent men, who very often become involved in debt in the transaction of their business, and though they may possess ample property, if it could be made available for that purpose, to meet all their liabilities, yet, on account of the extraordinary scarcity of money they may be unable to meet all the pecuniary obligations as they become due, in consequence of which they are liable to be prostrated in their business by proceedings in bankruptcy at the instance of unrelenting creditors. People are now so easily alarmed as to monetary matters that the mere filing of a petition in bankruptcy by an unfriendly creditor will necessarily embarrass and oftentimes accomplish the financial ruin of responsible business men, those who otherwise might make lawful and just arrangements to retrieve themselves from the difficulties produced by the present stringency in money, and they are prevented by their constant exposure to attack and disappointment by proceedings against them in bankruptcy; and besides, the law is made use of in many cases by obdurate creditors to frighten or force debtors into compliance with their wishes, and into acts of injustice to other creditors and to themselves. I recommend that so much of the said act as provides for involuntary bankruptcy, on account of suspension of payment, be repealed.

Claims against the Government.

Your careful attention is invited to the subject of claims against the Government and the facilities afforded by existing laws for their prosecution. Each of the departments of the State, Treasury and War, have demands for many millions of dollars upon their files, and they are rapidly accumulating. To these may be added those now pending before Congress, the Court of Claims, and the Southern Claims Commission, making in the aggregate an immense sum. Most of these grew out of the Rebellion, and are intended to indemnify persons on both sides for their losses during the war, and not a few of them are fabricated and supported by false testimony. Projects are on foot, it is believed, to induce Congress to provide for new classes of claims and to revise old ones, through the repeal or modification of the statutes of limitation, by which they are now barred. I presume these schemes, if proposed, will be received with little favor by Congress, and I recommend that persons having claims against the United States, cognizable by any tribunal or department thereof, be required to present them at an early day, and that legislation be directed, as far as practicable, to the defeat of unfounded and unjust demands upon the government. I would suggest, as a means for preventing fraud, that witnesses be called upon to appear in person to testify before these tribunals, having said claims before them for adjudication. Probably the largest saving to the national treasury can be secured by timely legislation on these subjects of any of the economic measures that will be proposed.

Department of Justice.

You will be advised of the operations of the department of Justice by the report of the attorney general, and I invite your attention to the amendments of existing laws suggested by him, with a view of reducing the expenses of that department.