

invited to the necessity of a thorough revision of our revenue system. Our internal revenue laws and impost system should be so adjusted as to bear the most heavily on articles of luxury, leaving the necessities of life as free from taxation as may be consistent with the real wants of Government economically administered. Taxation would not then fall unduly on the man of moderate means, and while none would be entirely exempt from assessment, all, in proportion to their pecuniary abilities, would contribute towards the support of the State. A modification of the internal revenue system, by a large reduction in the number of articles now subject to taxation, would be followed by results equally advantageous to the citizen and Government. It would render the law less expensive and more certain, remove obstructions to industry, lessen temptations to evade the law, diminish violations and frauds perpetrated upon its provisions, make its operations less inquisitorial, and greatly reduce in numbers the army of tax gatherers created by the system, who take from the mouth of honest labor the bread it has earned. Retrenchment, reform and economy should be carried into every branch of the public service, that the expenditures of Government may be reduced, and the people relieved from oppressive taxation. A sound currency should be restored, and the public faith in regard to the national debt, sacredly observed. The accomplishment of these important results, together with the restoration of the Union of the States upon the principles of the Constitution, would inspire confidence at home and abroad in the stability of our institutions, and bring to the nation prosperity, peace and good will.

The report of the Secretary of War *ad interim*, exhibits the operations of the army, and of the several Bureaus of the War Department. The aggregate strength of our military force, on the 30th September last, was 56,315. The total estimate for military appropriations is \$77,121,707, including a deficiency in last year's appropriation of \$12,600,000. The payments at the Treasury on account of the service of the war Department, from Jan. 1 to Oct. 29, 1867, a period of ten months, amounted to \$109,807,000. The expenses of the military establishment, as well as the numbers of the army, are now three times as great as they have ever been in time of peace; while discretionary power is vested in the Executive, to add millions to this expenditure by our increase of the army to the maximum strength allowed by law.

The menacing attitude of some of the warlike bands of Indians, inhabiting the district of country between the Arkansas and Platte Rivers, and portions of Dakota Territory, required the presence of a large military force in that region. Instigated by real or imaginary grievances, the Indians have occasionally committed acts of barbarous violence on emigrants and our frontier settlements; but a general Indian war has been providentially averted. The Commissioners, under the Act of the 20th July, 1867, were invested with full power to adjust existing difficulties, negotiate treaties with the disaffected bands, and select for them reservations remote from traveled routes, between the Mississippi and the Pacific. They entered without delay upon the execution of their trust, but have not yet made any official report of their proceedings. It is of vital importance that our distant Territories should be exempt from Indian outbreaks, and that the construction of the Pacific Railroad, an object of national importance, should not be interrupted by hostile tribes. These objects, as well as the material interests, and the moral and intellectual improvement of the Indians, can be most effectually secured by concentrating them upon a portion of country set apart for their exclusive use, and located at points remote from our highways and encroaching white settlements.

Since the commencement of the 3d Session of the 39th Congress, 510 miles of road have been constructed on the main line and branches of the Pacific Railway. The line from Omaha is rapidly approaching the eastern base of the Rocky Mountains; whilst the terminus of the last section of constructed road in California, accepted by Government on the 24th day of October last, was but 11 miles distant from the summit of the Sierra Nevada. The remarkable energy evinced by the companies offers the strongest assurance that the completion of the road from Sacramento to Omaha will not be long deferred.

During the last fiscal year 7,041,114

acres of public land were disposed of, and the cash receipts from the sales and fees exceeded by one half million dollars the sum realized from those sources during the preceding year. The amount paid to pensioners, including the expenses of disbursements, was \$18,619,956 and 36,482 names were added to the rolls. The entire number of pensioners on the 30th of June last, was 155,474. 11,655 patents and designs were issued during the year ending September 30th, 1867, and at that date the balance in the Treasury to the credit of the Patent funds was \$286,607.

The report of the Secretary of the Navy states that we have seven squadrons actively and judiciously employed, under efficient and able commanders, in protecting the persons and property of American citizens, maintaining the dignity and power of the Government, and promoting commerce and the business interests of our countrymen in every part of the world. Of the 238 vessels composing the present navy of the United States, 56 carrying 507 guns, are in squadron service. During the year, the number of vessels in commission has been reduced 12, and there are 18 less on squadron duty than there were at the date of last report. A large number of vessels were commenced and in course of construction when the war terminated, and although Congress had made the necessary appropriations for their completion, the Department has either suspended work upon them, or limited it to a slow completion of steam vessels, so as to meet the contracts for machinery made with private establishments. The total expenditures of the Navy Department for the fiscal year ending June 30, 1867, were \$31,034,011. No appropriations have been made or required since the close of the war for the construction and repair of vessels for steam machinery, ordnance, provisions, clothing, fuel, hemp, &c., the balances under these several heads having been more than sufficient for the current expenditures. It should also be stated to the credit of the Department, that besides asking no appropriations for the above objects for the last two years, the Secretary of the Navy, on the 30th of September last, in accordance with the Act of May 1st, 1860, requested the Secretary of the Treasury to carry to the surplus fund the sum of \$65,000,000 believing the amount received from the sales of vessels and other war property, and remnants of former appropriations.

The report of the P. M. general shows the business of the Post Office Department and the condition of the postal service in a very favorable light; and the attention of Congress is called to its practical recommendations. The receipts of the Department for the year ending June 30, 1867, including all special appropriations for force and land service, and for free mail matter were \$19,978,693. The expenditures for all purposes were \$19,235,483, leaving an unexpended balance in favor of the Department, of \$743,210, which can be applied towards the expenses of the Dept. for the current year. The increase of postal revenue, independent of specific appropriations, for the year 1867, over that of 1866, was \$850,040. The increase of revenue from the sale of stamps and stamped envelopes, was \$782,404. The increase of expenditures for 1867, over those of the previous year, was owing chiefly to the extension of the land and ocean mail service. During the past year new postal conventions have been ratified and exchanged with the United Kingdom of Great Britain and Ireland, Belgium, the Netherlands, Switzerland, the North German Union, Italy, and the Colonial Government at Hongkong, reducing very largely the rates of ocean and land postages to and from and within those countries.

The report of the Acting Commissioner of Agriculture concisely presents the condition, wants and progress of an interest eminently worthy of the fostering care of Congress, and exhibits a large measure of useful results achieved during the year to which it refers.

The re-establishment of peace at home, and the resumption of interrupted trade, travel and commerce abroad, have served to increase the number and variety of questions in the Department for Foreign Affairs. None of the questions, however, have seriously disturbed our relations with other States. The Republic of Mexico, having been relieved from foreign intervention, is earnestly engaged in efforts for the re-establishment of her constitutional system of government. A good understanding continues to exist between our Government and the Republics of Hayti and San Domingo, and our cordial relations with the Central and

South American States remain unchanged.

The tender made, in conformity with a resolution of Congress, of the good offices of the Government with a view to an amicable adjustment of peace between Brazil and her Allies on the one side, and Paraguay on the other, and between Chili and her Allies on the one side, and Spain on the other, though kindly received, has in neither case been fully accepted by the belligerents. The war in the valley of the Parana is still vigorously maintained. On the other hand, actual hostilities between the Pacific States and Spain have been more than a year suspended. I shall on any proper occasion that may occur, renew the conciliatory recommendations which have been made. Brazil, with enlightened sagacity and comprehensive statesmanship, has opened the great channels of the Amazon and its tributaries to universal commerce. Nothing more seems needful to assure a rapid and cheerful progress in South America. I refer to those peaceful habits without which states and nations cannot in this age well expect material prosperity or social advancement.

The Exposition of Universal Industry at Paris has passed, and seems to have fully realized the high expectations of the French Government. If due allowance be made for the recent political derangement of industry here, the part which the United States has borne in this Exhibition of invention and art may be regarded with very high satisfaction. During the Exposition a conference was held of delegates from several nations, the United States being one, in which the inconveniences of commerce and social intercourse, resulting from the diverse standards of money value, were very fully discussed, and plans were developed for establishing, by universal consent, a common principle for the coinage of gold. These conferences are expected to be renewed with the attendance of many foreign states not hitherto represented. A report of these interesting proceedings will be submitted to Congress, which will no doubt justly appreciate the great object, and be ready to adopt any measure which may tend to facilitate its ultimate accomplishment.

On the 25th of February, 1862, Congress declared, by law, that treasury notes without interest, authorized by that Act, should be legal tender for the payment of all debts, public and private, within the United States. An annual remittance of \$30,000, less stipulated expenses, accrues to claimants under the convention with Spain in 1834. These remittances, since the passage of that Act, have been paid in such notes. The claimants insist that the Government ought to require payment in coin. The subject may be deemed worthy of your attention.

No arrangement has as yet been reached for the settlement of our claims for British depredations upon the commerce of the United States. I have felt it my duty to decline the proposition of arbitration made by her Majesty's Government, because it has hitherto been accompanied by reservations and limitations incompatible with the rights, interest and honor of our country. It is not to be apprehended that Great Britain will persist in her refusal to satisfy these just and reasonable claims, which involve the sacred principle of non-intervention, — a principle henceforth not more important to the United States than to all other commercial nations.

The West India Islands were settled and colonized by European States, simultaneously with the settlement and colonization of the American Continent. Most of the colonies planted here became independent nations in the close of the last and the beginning of the present century. Our own country embraces communities which at one period were colonies of Great Britain, France, Spain, Holland, Sweden and Russia. The people in the West Indies, with the exception of those of the Island of Hayti, have neither attained nor aspired to independence, nor have they become prepared for self-defense. Although possessing considerable commercial value, they have been held by the several European States which colonized or at some time conquered them, chiefly for purposes of military and naval strategy. In carrying out European policy and designs in regard to this Continent, in our revolutionary war ports and harbors in the West India Islands were used by our enemy to the great injury and embarrassment of the United States. We had the same experience in our second war with Great Britain. The same European policy for a long time excluded us even from trade with

the West Indies, while we were at peace with all nations. In our recent civil war, the rebels and their piratical and blockade-breaking allies found facilities in the same ports for their work, which they too successfully accomplished, of injuring and devastating the commerce which we are now engaged in rebuilding. We labored especially under this disadvantage, that European steam vessels, employed by our enemies, found friendly shelter, protection and supplies in West Indian ports, while our own naval operations were necessarily carried on from our own distant shores. There was then an universal feeling of an advanced naval outpost, between the Atlantic coast and Europe. The duty of obtaining such an outpost, peacefully and lawfully, while neither doing nor meaning injury to other States, earnestly engaged the attention of the Executive Department before the close of the war; and it has not been lost sight of since that time.

A not entirely dissimilar naval war, revealed itself during the same period on the Pacific coast. The required foothold there was fortunately secured by our late treaty with the Emperor of Russia, and it now seems imperative that the more obvious necessities of the Atlantic coast should be as carefully provided for. A good and convenient port and harbor, capable of easy defence, will supply that want. With the possession of such a station by the United States, neither we nor any other American nation need longer apprehend injury or offence from any trans-atlantic enemy. I agree with our early statement, that the West Indies naturally gravitate to, and may be expected ultimately to be absorbed by, the Continental States, including our own. I agree with them, also, that it is wise to leave the question of such absorption to the process of natural political gravitation. The islands of St. Thomas and St. John's, which constitute a part of the group called the Virgin Islands, seemed to offer no advantages immediately desirable, while their acquisition could be secured in harmony with the principles to which I have alluded. A treaty has, therefore, been concluded with the King of Denmark for the cession of those islands, and will be submitted to the Senate for consideration.

It will hardly be necessary to call the attention of Congress to the subject of providing for the payment to Russia, of the sum stipulated in the treaty for the cession of Alaska. Possession having been formally delivered to our Commissioner, the Territory remains for the present in care of a military force, awaiting such civil organization as shall be directed by Congress.

The annexation of many small German States to Prussia, and the re-organization of that country under a new and liberal Constitution, have induced me to renew the effort to obtain a just and prompt settlement of the long vexed question concerning the claims of foreign States for military service from their subjects naturalized in the United States. In connection with this subject the attention of Congress is respectfully called to a singular and embarrassing conflict of laws. The Executive Department of this Government has hitherto uniformly held, as it now holds, that naturalization in conformity with the Constitution and laws of the United States, absolves the recipient from allegiance to the British Crown, while another theory is held that it is indefeasible, and that the recipient is not absolved by our laws of naturalization. British Judges cite courts and law authorities of the United States in support of that theory, against the position held by the Executive authority of the United States. This conflict perplexes the public mind, concerning the rights of naturalized citizens, and impairs the national authority abroad. I called attention to this subject in my last annual Message, and now, again, respectfully appeal to Congress to declare the national will unmistakably upon this important question.

The abuse of our laws, by the clandestine prosecution of the African slave trade, from American ports or by American citizens, has altogether ceased; and under existing circumstances no apprehensions of its renewal in this part of the world are entertained. Under these circumstances, it becomes a question whether we shall not propose to her Majesty's Government a suspension or discontinuance of the stipulations for maintaining a naval force for the suppression of that trade.

ANDREW JOHNSON,
Washington, December 3rd., 1867.

SHYLOCK at the Theatre to-Morrow Evening. Go and See Him!