37TH CONGRESS, 2d Session. } HOUSE OF REPRESENTATIVES. { MIS. DOC. No. 81.

DEMAND TREASURY NOTES.

[To accompany bill H. R. No. 187.]

LETTER

FROM

THE SECRETARY OF THE TREASURY,

IN RELATION TO

The issue of an additional amount of United States treasury notes.

JUNE 11, 1862.—Ordered to be printed.

TREASURY DEPARTMENT,
April 7, 1862.

SIR: The act of July 17, 1861, authorized the issue of $50,000,000 in United States notes, payable on demand and receivable for customs. This authority was enlarged, under the act of February 12, 1862, by the addition of $10,000,000; making $60,000,000 in all.

The acts of February 25, and March 17, 1862, authorized temporary deposits in the treasury, at rates of interest not exceeding five per cent., nor for a greater aggregate sum than $50,000,000.

The act of February 25, 1862, authorized the issue of $150,000,000 in United States notes, provided, however, that the demand notes issued under former acts should be retired and cancelled as rapidly as practicable, and that the aggregate of such notes and of the United States notes to be issued under this act should at no time exceed $150,000,000. All the notes to be issued were made a legal tender, but none except the demand notes were made receivable for customs.

Under these laws, $60,000,000 in demand notes receivable for customs have been issued, and $90,000,000 in notes not so receivable.

The aggregate now outstanding is, therefore, $150,000,000, being the whole amount authorized by law.

Of this aggregate, about $56,500,000 in demand notes are held by banks and capitalists, and not used as circulation; being held at a premium, in consequence of their receivability for customs, of from $\frac{3}{4}$ to $1\frac{1}{4}$ per cent., and about $3,500,000 are held in the Treasury for cancellation. The whole issue of $60,000,000 in demand notes may thus be regarded as practically withdrawn from circulation.

This withdrawal leaves only the issue of $90,000,000 of United

States notes not receivable for customs, increased gradually by the substitution of these notes for the demand notes cancelled, from which conversions into bonds redeemable after five years and payable in twenty years, (called, for convenience, *five-twenties*,) can be expected to be made.

The limit of temporary deposits is now reached, and nothing further can be expected from that source ; for, so long as the limit shall be maintained, current receipts of such deposits can only equal the payments.

It is, therefore, upon the conversion of the United States notes into five-twenties—now practically limited to the $90,000,000 of legal tender notes—and upon receipts from customs, that the treasury must depend, under existing legislation, for means to meet current expenditures.

No safe reliance can be placed on conversions, so far as experience has afforded any grounds of estimate, for more than $150,000 daily ; and the daily average revenue from customs, during the past month, has been about $230,000.

The aggregate daily receipts from both these sources, therefore, cannot be estimated at more than $380,000, and may very possibly fall short of that sum; while the average daily expenditure cannot be estimated at less than $1,000,000, and will, probably, unless very considerable retrenchments are made, exceed that sum.

I therefore propose the removal of the restriction upon temporary deposits. The plan of receiving them has worked well, and is likely to continue to work well in practice. The rate of interest, limited to five per cent. by law, has been reduced to four by my direction, and it is not proposed to increase it unless some exigency shall make the increase necessary. The amount of deposits at four per cent. now exceeds $9,000,000, and it will become steadily larger if the restriction be removed. Payments will, of course, be frequently required, but the pressure must be very great which will reduce receipts below them; while, in ordinary times, the latter will constantly exceed the former. It may, indeed, become practicable to reduce the rate of interest even below four per cent. with advantage. Whatever the rate allowed, the average excess of deposits above reimbursements will constitute a loan to the government at that rate.

In order to retain this average excess at its maximum, it may be well to provide by law that, of the United States notes hereafter authorized to be issued, there shall be always reserved in the treasury, or from issue, an amount not less than one-third the amount deposited. Such a provision would make the treasury the best of savings banks, and, by its guarantee of prompt payment under all circumstances, inspire the highest confidence, and augment to its maximum the flow of deposits. I estimate the amount of loan likely to be made to the government at four per cent. or less, in this form, at not less than $30,000,000, in addition to the $50,000,000 already deposited.

I propose, also, that authority be given to the Secretary of the Treasury to issue $150,000,000 in United States notes, in addition to the issue already authorized, and that these be made a legal tender for debts, except interest on loans, and receivable in payment of all loans to the United States, and for all government dues except duties on imports and interest.

If this authority be given, the proposed reserve of an amount (say $34,000,000) not less than one-third the temporary deposits, and the replacement of that portion of the $60,000,000 of demand notes (say $56,500,000) now practically withdrawn from circulation and held for payment of customs, will require, for the present, at least, say $90,500,000 of the proposed additional issue ; leaving as an actual present addition to the resources of the government only $59,500,000. This amount, however, gradually increased, as it will be, by the retirement of the demand notes paid in for public dues, and the replacement of them by other United States notes, will, probably, suffice for all demands which cannot be met from conversions and from customs.

If Congress shall see fit to authorize the additional emission proposed, it seems highly expedient that such part as the public convenience shall require be issued in denominations less than five dollars.

I am aware of the general objections to the issue of notes under five dollars, and concede their cogency. Indeed, under ordinary circumstances, they are unanswerable. But in the existing circumstances of the country they lose most, if not all, their force.

The country is involved in the expenditures of a contest for national existence, and it is highly desirable that the burdens of the people be made as tolerable as possible. If the restriction on the issue of small denominations be removed, the wants of the country will absorb a circulation of $25,000,000, and perhaps more. The interest on this circulation, say $1,500,000 a year, will be saved to the taxpayers.

Payments to public creditors, and especially to soldiers, now require large amounts of coin to satisfy fractional demands less than five dollars. Great inconveniences in payment of the troops are thus occasioned. With every effort on the part of the treasury to provide the necessary amount of coin, it is found impracticable always to satisfy the demand. When the amount required is furnished, the temptation to disbursing officers to exchange it for any small bank notes that the soldiers or the public creditors will take, is too great to be always resisted. And even when the coin reaches the creditors it is seldom held, but passes, in general, immediately into the hands of sutlers and others, and disappears at once from circulation. The inconveniences, therefore, to the government and creditors, from the absence of United States notes of small denominations, are not compensated by benefits to anybody.

It may properly be further observed that since the United States notes are made a legal tender, and maintained nearly at the par of gold by the provision for their conversion into bonds bearing six per cent. interest, payable in coin, it is not easy to see why small notes may not be issued as wisely as large ones. The notes made a legal tender circulate as money; and the government may authenticate, by device and imprint, small notes as well as small coins. The limit is to be found only in public convenience, which indicates denominations in notes similar to denominations in gold, leaving the smaller circulation of silver (less valuable than gold) as before.

Another consideration which deserves to be taken into the account is this: that resumption of payments in specie can be more certainly and easily effected, and with far less of inconvenience and loss to the community, if the currency, small as well as large, is of United States notes, than if the channels of circulation are left to be filled up by the emissions of non-specie-paying corporations, solvent and insolvent.

These considerations of economy, of public advantage, and of private convenience, seem to me to justify fully the removal of the restriction upon the issue of small notes.

I propose, further, to make arrangements for the necessary engraving and other work for the printing and preparation for issue of these notes in the Treasury Department at Washington. I am led to believe that a very considerable reduction of expense can be thus effected. The prospect, in my judgment, certainly warrants the trial.

With these objects I have prepared a bill, which I herewith submit to the consideration of the committee. The condition of the treasury renders prompt action highly desirable; and I trust it is not necessary to assure the committee or Congress that, should the powers asked for be granted, they will be exercised only with the most careful reference to the requirements of the public interests. Whatever the authority granted may be, no issue of notes will be made except to replace notes withdrawn and cancelled, and to meet the current expenditures authorized by Congress, which cannot be met from the receipts of revenue, from the increase of deposits, and from the proceeds of the conversion into five-twenties.

With great respect,

S. P. CHASE,
Secretary of the Treasury.

Hon. THADDEUS STEVENS,
Chairman Committee of Ways and Means.