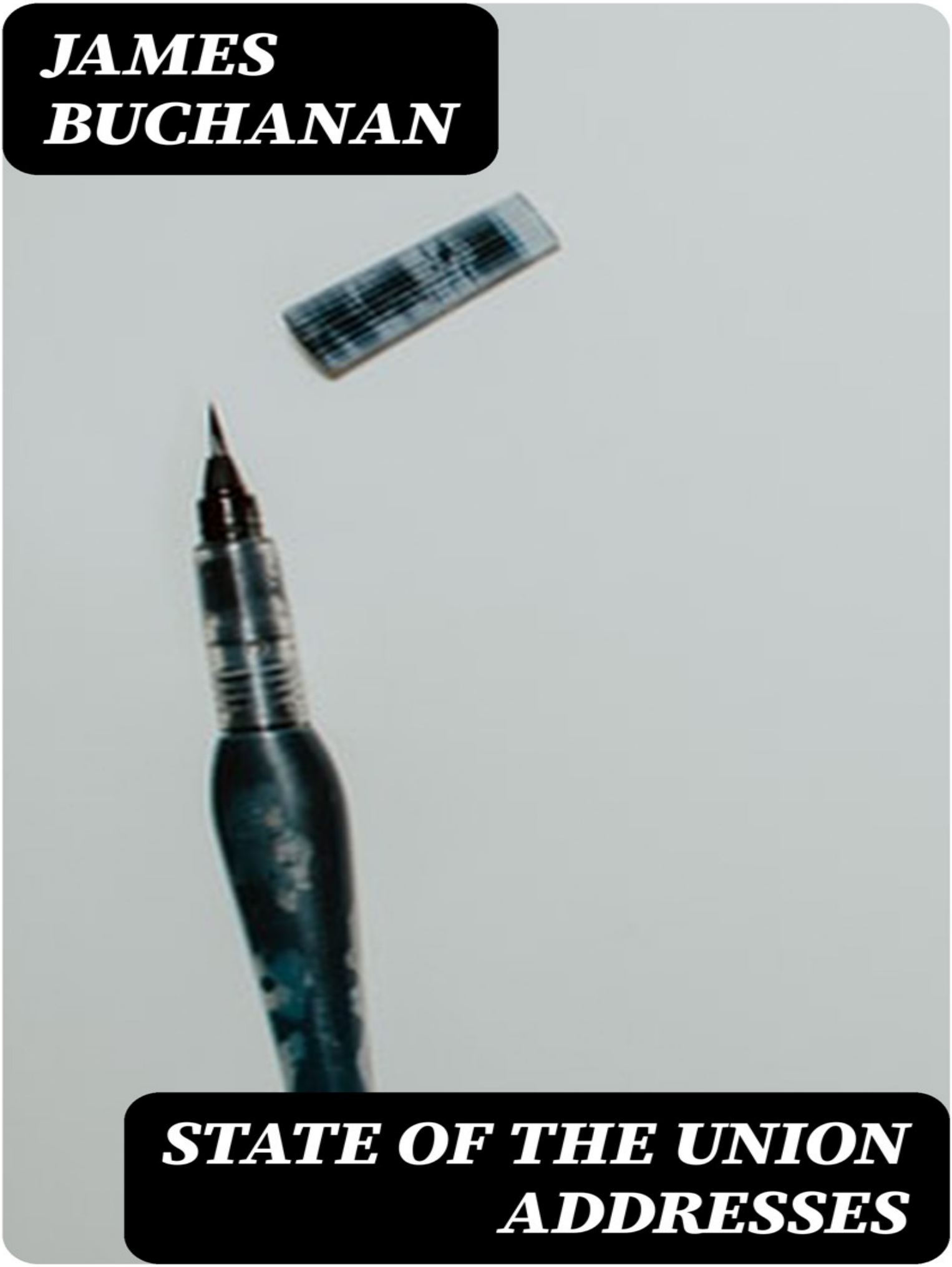
JAMES BUCHANAN



STATE OF THE UNION ADDRESSES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Fellow-Citizens of the Senate and House of Representatives:

In obedience to the command of the Constitution, it has now become my duty "to give to Congress information of the state of the Union and recommend to their consideration such measures" as I judge to be "necessary and expedient."

But first and above all, our thanks are due to Almighty God for the numerous benefits which He has bestowed upon this people, and our united prayers ought to ascend to Him that He would continue to bless our great Republic in time to come as He has blessed it in time past. Since the adjournment of the last Congress our constituents have enjoyed an unusual degree of health. The earth has yielded her fruits abundantly and has bountifully rewarded the toil of the husbandman. Our great staples have commanded high prices, and up till within a brief period our manufacturing, mineral, and mechanical occupations have largely partaken of the general prosperity. We have possessed all the elements of material wealth in rich abundance, and yet, notwithstanding all these advantages, our country in its monetary interests is at the present moment in a deplorable condition. In the midst of unsurpassed plenty in all the productions of agriculture and in all the elements of national wealth, we find our manufactures suspended, our public works retarded, our private enterprises of different kinds abandoned, and thousands of useful laborers thrown out of employment and reduced to want. The revenue of the Government, which is chiefly derived from duties on imports from abroad, has been greatly reduced, whilst the appropriations made by

Congress at its last session for the current fiscal year are very large in amount.

Under these circumstances a loan may be required before the close of your present session; but this, although deeply to be regretted, would prove to be only a slight misfortune when compared with the suffering and distress prevailing among the people. With this the Government can not fail deeply to sympathize, though it may be without the power to extend relief.

It is our duty to inquire what has produced such unfortunate results and whether their recurrence can be prevented. In all former revulsions the blame might have been fairly attributed to a variety of cooperating causes, but not so upon the present occasion. It is apparent that our existing misfortunes have proceeded solely from our extravagant and vicious system of paper currency and bank credits, exciting the people to wild speculations and gambling in stocks. These revulsions must continue to recur at successive intervals so long as the amount of the paper currency and bank loans and discounts of the country shall be left to the discretion of 1,400 irresponsible banking institutions, which from the very law of their nature will consult the interest of their stockholders rather than the public welfare.

The framers of the Constitution, when they gave to Congress the power "to coin money and to regulate the value thereof" and prohibited the States from coining money, emitting bills of credit, or making anything but gold and silver coin a tender in payment of debts, supposed they had protected the people against the evils of an excessive

and irredeemable paper currency. They are not responsible for the existing anomaly that a Government endowed with the sovereign attribute of coining money and regulating the value thereof should have no power to prevent others from driving this coin out of the country and filling up the channels of circulation with paper which does not represent gold and silver.

It is one of the highest and most responsible duties of Government to insure to the people a sound circulating medium, the amount of which ought to be adapted with the utmost possible wisdom and skill to the wants of internal trade and foreign exchanges. If this be either greatly above or greatly below the proper standard, the marketable value of every man's property is increased or diminished in the same proportion, and injustice to individuals as well as incalculable evils to the community are the consequence.

Unfortunately, under the construction of the Federal Constitution which has now prevailed too long to be changed this important and delicate duty has been dissevered from the coining power and virtually transferred to more than 1,400 State banks acting independently of each other and regulating their paper issues almost exclusively by a regard to the present interest of their stockholders. Exercising the sovereign power of providing a paper currency instead of coin for the country, the first duty which these banks owe to the public is to keep in their vaults a sufficient amount of gold and silver to insure the convertibility of their notes into coin at all times and under all circumstances. No bank ought ever to be chartered without such restrictions on its business as to secure this

result. All other restrictions are comparatively vain. This is the only true touchstone, the only efficient regulator of a paper currency--the only one which can guard the public against overissues and bank suspensions. As a collateral and eventual security, it is doubtless wise, and in all cases ought to be required, that banks shall hold an amount of United States or State securities equal to their notes in circulation and pledged for their redemption. This, however, furnishes no adequate security against overissue. On the contrary, it may be perverted to inflate the currency. Indeed, it is possible by this means to convert all the debts of the United States and State Governments into bank notes, without reference to the specie required to redeem them. However valuable these securities may be in themselves, they can not be converted into gold and silver at the moment of pressure, as our experience teaches, in sufficient time to prevent bank suspensions and the depreciation of bank notes. In England, which is to a considerable extent a paper-money country, though vastly behind our own in this respect, it was deemed advisable, anterior to the act of Parliament of 1844, which wisely separated the issue of notes from the banking department, for the Bank of England always to keep on hand gold and silver equal to one-third of its combined circulation and deposits. If this proportion was no more than sufficient to secure the convertibility of its notes with the whole of Great Britain and to some extent the continent of Europe as a field for its circulation, rendering it almost impossible that a sudden and immediate run to a dangerous amount should be made upon it, the same proportion would certainly be insufficient under our banking

system. Each of our 1,400 banks has but a limited circumference for its circulation, and in the course of a very few days the depositors and note holders might demand from such a bank a sufficient amount in specie to compel it to suspend, even although it had coin in its vaults equal to one-third of its immediate liabilities. And yet I am not aware, with the exception of the banks of Louisiana, that any State bank throughout the Union has been required by its charter to keep this or any other proportion of gold and silver compared with the amount of its combined circulation and deposits. What has been the consequence? In a recent report made by the Treasury Department on the condition of the banks throughout the different States, according to returns dated nearest to January, 1857, the aggregate amount of actual specie in their vaults is $58,349,838, of their circulation $214,778,822, and of their deposits $230,351,352. Thus it appears that these banks in the aggregate have considerably less than one dollar in seven of gold and silver compared with their circulation and deposits. It was palpable, therefore, that the very first pressure must drive them to suspension and deprive the people of a convertible currency, with all its disastrous consequences. It is truly wonderful that they should have so long continued to preserve their credit when a demand for the payment of one-seventh of their immediate liabilities would have driven them into insolvency. And this is the condition of the banks, notwithstanding that four hundred millions of gold from California have flowed in upon us within the last eight years, and the tide still continues to flow. Indeed, such has been the extravagance of bank

credits that the banks now hold a considerably less amount of specie, either in proportion to their capital or to their circulation and deposits combined, than they did before the discovery of gold in California. Whilst in the year 1848 their specie in proportion to their capital was more than equal to one dollar for four and a half, in 1857 it does not amount to one dollar for every six dollars and thirty-three cents of their capital. In the year 1848 the specie was equal within a very small fraction to one dollar in five of their circulation and deposits; in 1857 it is not equal to one dollar in seven and a half of their circulation and deposits.

From this statement it is easy to account for our financial history for the last forty years. It has been a history of extravagant expansions in the business of the country, followed by ruinous contractions. At successive intervals the best and most enterprising men have been tempted to their ruin by excessive bank loans of mere paper credit, exciting them to extravagant importations of foreign goods, wild speculations, and ruinous and demoralizing stock gambling. When the crisis arrives, as arrive it must, the banks can extend no relief to the people. In a vain struggle to redeem their liabilities in specie they are compelled to contract their loans and their issues, and at last, in the hour of distress, when their assistance is most needed, they and their debtors together sink into insolvency.

It is this paper system of extravagant expansion, raising the nominal price of every article far beyond its real value when compared with the cost of similar articles in countries whose circulation is wisely regulated, which has prevented us from competing in our own markets with foreign

manufacturers, has produced extravagant importations, and has counteracted the effect of the large incidental protection afforded to our domestic manufactures by the present revenue tariff. But for this the branches of our manufactures composed of raw materials, the production of our own country--such as cotton, iron, and woolen fabrics--would not only have acquired almost exclusive possession of the home market, but would have created for themselves a foreign market throughout the world.

Deplorable, however, as may be our present financial condition, we may yet indulge in bright hopes for the future. No other nation has ever existed which could have endured such violent expansions and contractions of paper credits without lasting injury; yet the buoyancy of youth, the energies of our population, and the spirit which never quails before difficulties will enable us soon to recover from our present financial embarrassments, and may even occasion us speedily to forget the lesson which they have taught. In the meantime it is the duty of the Government, by all proper means within its power, to aid in alleviating the sufferings of the people occasioned by the suspension of the banks and to provide against a recurrence of the same calamity. Unfortunately, in either aspect of the case it can do but little. Thanks to the independent treasury, the Government has not suspended payment, as it was compelled to do by the failure of the banks in 1837. It will continue to discharge its liabilities to the people in gold and silver. Its disbursements in coin will pass into circulation and materially assist in restoring a sound currency. From its high credit, should we be compelled to make a temporary loan, it

can be effected on advantageous terms. This, however, shall if possible be avoided, but if not, then the amount shall be limited to the lowest practicable sum.

I have therefore determined that whilst no useful Government works already in progress shall be suspended, new works not already commenced will be postponed if this can be done without injury to the country. Those necessary for its defense shall proceed as though there had been no crisis in our monetary affairs.

But the Federal Government can not do much to provide against a recurrence of existing evils. Even if insurmountable constitutional objections did not exist against the creation of a national bank, this would furnish no adequate preventive security. The history of the last Bank of the United States abundantly proves the truth of this assertion. Such a bank could not, if it would, regulate the issues and credits of 1,400 State banks in such a manner as to prevent the ruinous expansions and contractions in our currency which afflicted the country throughout the existence of the late bank, or secure us against future suspensions. In 1825 an effort was made by the Bank of England to curtail the issues of the country banks under the most favorable circumstances. The paper currency had been expanded to a ruinous extent, and the bank put forth all its power to contract it in order to reduce prices and restore the equilibrium of the foreign exchanges. It accordingly commenced a system of curtailment of its loans and issues, in the vain hope that the joint stock and private banks of the Kingdom would be compelled to follow its example. It found, however, that as it contracted they expanded, and at the

end of the process, to employ the language of a very high official authority, "whatever reduction of the paper circulation was effected by the Bank of England (in 1825) was more than made up by the issues of the country banks."

But a bank of the United States would not, if it could, restrain the issues and loans of the State banks, because its duty as a regulator of the currency must often be in direct conflict with the immediate interest of its stockholders. If we expect one agent to restrain or control another, their interests must, at least in some degree, be antagonistic. But the directors of a bank of the United States would feel the same interest and the same inclination with the directors of the State banks to expand the currency, to accommodate their favorites and friends with loans, and to declare large dividends. Such has been our experience in regard to the last bank.

After all, we must mainly rely upon the patriotism and wisdom of the States for the prevention and redress of the evil. If they will afford us a real specie basis for our paper circulation by increasing the denomination of bank notes, first to twenty and afterwards to fifty dollars; if they will require that the banks shall at all times keep on hand at least one dollar of gold and silver for every three dollars of their circulation and deposits, and if they will provide by a self-executing enactment, which nothing can arrest, that the moment they suspend they shall go into liquidation, I believe that such provisions, with a weekly publication by each bank of a statement of its condition, would go far to secure us against future suspensions of specie payments.

Congress, in my opinion, possess the power to pass a uniform bankrupt law applicable to all banking institutions throughout the United States, and I strongly recommend its exercise. This would make it the irreversible organic law of each bank's existence that a suspension of specie payments shall produce its civil death. The instinct of self-preservation would then compel it to perform its duties in such a manner as to escape the penalty and preserve its life.

The existence of banks and the circulation of bank paper are so identified with the habits of our people that they can not at this day be suddenly abolished without much immediate injury to the country. If we could confine them to their appropriate sphere and prevent them from administering to the spirit of wild and reckless speculation by extravagant loans and issues, they might be continued with advantage to the public.

But this I say, after long and much reflection: If experience shall prove it to be impossible to enjoy the facilities which well-regulated banks might afford without at the same time suffering the calamities which the excesses of the banks have hitherto inflicted upon the country, it would then be far the lesser evil to deprive them altogether of the power to issue a paper currency and confine them to the functions of banks of deposit and discount.

Our relations with foreign governments are upon the whole in a satisfactory condition.

The diplomatic difficulties which existed between the Government of the United States and that of Great Britain at the adjournment of the last Congress have been happily terminated by the appointment of a British minister to this

country, who has been cordially received. Whilst it is greatly to the interest, as I am convinced it is the sincere desire, of the Governments and people of the two countries to be on terms of intimate friendship with each other, it has been our misfortune almost always to have had some irritating, if not dangerous, outstanding question with Great Britain.

Since the origin of the Government we have been employed in negotiating treaties with that power, and afterwards in discussing their true intent and meaning. In this respect the convention of April 19, 1850, commonly called the Clayton and Bulwer treaty, has been the most unfortunate of all, because the two Governments place directly opposite and contradictory constructions upon its first and most important article. Whilst in the United States we believed that this treaty would place both powers upon an exact equality by the stipulation that neither will ever "occupy, or fortify, or colonize, or assume, or exercise any dominion" over any part of Central America, it is contended by the British Government that the true construction of this language has left them in the rightful possession of all that portion of Central America which was in their occupancy at the date of the treaty; in fact, that the treaty is a virtual recognition on the part of the United States of the right of Great Britain, either as owner or protector, to the whole extensive coast of Central America, sweeping round from the Rio Hondo to the port and harbor of San Juan de Nicaragua, together with the adjacent Bay Islands, except the comparatively small portion of this between the Sarstoon and Cape Honduras. According to their construction, the treaty does no more than simply prohibit

them from extending their possessions in Central America beyond the present limits. It is not too much to assert that if in the United States the treaty had been considered susceptible of such a construction it never would have been negotiated under the authority of the President, nor would it have received the approbation of the Senate. The universal conviction in the United States was that when our Government consented to violate its traditional and time-honored policy and to stipulate with a foreign government never to occupy or acquire territory in the Central American portion of our own continent, the consideration for this sacrifice was that Great Britain should, in this respect at least, be placed in the same position with ourselves. Whilst we have no right to doubt the sincerity of the British Government in their construction of the treaty, it is at the same time my deliberate conviction that this construction is in opposition both to its letter and its spirit.

Under the late Administration negotiations were instituted between the two Governments for the purpose, if possible, of removing these difficulties, and a treaty having this laudable object in view was signed at London on the 17th October, 1856, and was submitted by the President to the Senate on the following 10th of December. Whether this treaty, either in its original or amended form, would have accomplished the object intended without giving birth to new and embarrassing complications between the two Governments, may perhaps be well questioned. Certain it is, however, it was rendered much less objectionable by the different amendments made to it by the Senate. The treaty as amended was ratified by me on the 12th March, 1857,

and was transmitted to London for ratification by the British Government. That Government expressed its willingness to concur in all the amendments made by the Senate with the single exception of the clause relating to Ruatan and the other islands in the Bay of Honduras. The article in the original treaty as submitted to the Senate, after reciting that these islands and their inhabitants "having been, by a convention bearing date the 27th day of August, 1856, between Her Britannic Majesty and the Republic of Honduras, constituted and declared a free territory under the sovereignty of the said Republic of Honduras," stipulated that "the two contracting parties do hereby mutually engage to recognize and respect in all future time the independence and rights of the said free territory as a part of the Republic of Honduras."

Upon an examination of this convention between Great Britain and Honduras of the 27th August, 1856, it was found that whilst declaring the Bay Islands to be "a free territory under the sovereignty of the Republic of Honduras" it deprived that Republic of rights without which its sovereignty over them could scarcely be said to exist. It divided them from the remainder of Honduras and gave to their inhabitants a separate government of their own, with legislative, executive, and judicial officers elected by themselves. It deprived the Government of Honduras of the taxing power in every form and exempted the people of the islands from the performance of military duty except for their own exclusive defense. It also prohibited that Republic from erecting fortifications upon them for their protection, thus leaving them open to invasion from any quarter; and,

finally, it provided "that slavery shall not at any time hereafter be permitted to exist therein."

Had Honduras ratified this convention, she would have ratified the establishment of a state substantially independent within her own limits, and a state at all times subject to British influence and control. Moreover, had the United States ratified the treaty with Great Britain in its original form, we should have been bound "to recognize and respect in all future time" these stipulations to the prejudice of Honduras. Being in direct opposition to the spirit and meaning of the Clayton and Bulwer treaty as understood in the United States, the Senate rejected the entire clause, and substituted in its stead a simple recognition of the sovereign right of Honduras to these islands in the following language: The two contracting parties do hereby mutually engage to recognize and respect the islands of Ruatan, Bonaco, Utila, Barbaretta, Helena, and Moral, situate in the Bay of Honduras and off the coast of the Republic of Honduras, as under the sovereignty and as part of the said Republic of Honduras.

Great Britain rejected this amendment, assigning as the only reason that the ratifications of the convention of the 27th August, 1856, between her and Honduras had not been "exchanged, owing to the hesitation of that Government." Had this been done, it is stated that "Her Majesty's Government would have had little difficulty in agreeing to the modification proposed by the Senate, which then would have had in effect the same signification as the original wording." Whether this would have been the effect, whether the mere circumstance of the exchange of the ratifications

of the British convention with Honduras prior in point of time to the ratification of our treaty with Great Britain would "in effect" have had "the same signification as the original wording," and thus have nullified the amendment of the Senate, may well be doubted. It is, perhaps, fortunate that the question has never arisen.

The British Government, immediately after rejecting the treaty as amended, proposed to enter into a new treaty with the United States, similar in all respects to the treaty which they had just refused to ratify, if the United States would consent to add to the Senate's clear and unqualified recognition of the sovereignty of Honduras over the Bay Islands the following conditional stipulation: Whenever and so soon as the Republic of Honduras shall have concluded and ratified a treaty with Great Britain by which Great Britain shall have ceded and the Republic of Honduras shall have accepted the said islands, subject to the provisions and conditions contained in such treaty.

This proposition was, of course, rejected. After the Senate had refused to recognize the British convention with Honduras of the 27th August, 1856, with full knowledge of its contents, it was impossible for me, necessarily ignorant of "the provisions and conditions" which might be contained in a future convention between the same parties, to sanction them in advance.

The fact is that when two nations like Great Britain and the United States, mutually desirous, as they are, and I trust ever may be, of maintaining the most friendly relations with each other, have unfortunately concluded a treaty which they understand in senses directly opposite, the wisest

course is to abrogate such a treaty by mutual consent and to commence anew. Had this been done promptly, all difficulties in Central America would most probably ere this have been adjusted to the satisfaction of both parties. The time spent in discussing the meaning of the Clayton and Bulwer treaty would have been devoted to this praiseworthy purpose, and the task would have been the more easily accomplished because the interest of the two countries in Central America is identical, being confined to securing safe transits over all the routes across the Isthmus.

Whilst entertaining these sentiments, I shall, nevertheless, not refuse to contribute to any reasonable adjustment of the Central American questions which is not practically inconsistent with the American interpretation of the treaty. Overtures for this purpose have been recently made by the British Government in a friendly spirit, which I cordially reciprocate, but whether this renewed effort will result in success I am not yet prepared to express an opinion. A brief period will determine.

With France our ancient relations of friendship still continue to exist. The French Government have in several recent instances, which need not be enumerated, evinced a spirit of good will and kindness toward our country, which I heartily reciprocate. It is, notwithstanding, much to be regretted that two nations whose productions are of such a character as to invite the most extensive exchanges and freest commercial intercourse should continue to enforce ancient and obsolete restrictions of trade against each other. Our commercial treaty with France is in this respect an exception from our treaties with all other commercial